



# 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))

(根據香港法例第571章證券及期貨條例第104條獲認可之香港集體投資計劃)

(Stock Code 股份代號 : 1881)

## A N N U A L R E P O R T 2 0 0 7 年 報



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

#### *Executive Director*

Kai Ole Ringenson (Chief Executive Officer)

#### *Independent Non-Executive Directors*

John William Crawford, J.P.  
Alvin Lam Kwing Wai  
Abraham Shek Lai Him, J.P.

### AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, J.P. (Chairman)  
Alvin Lam Kwing Wai  
Abraham Shek Lai Him, J.P.

### 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

CB Richard Ellis Limited

### PRINCIPAL BANKERS

ABN AMRO Bank, N.V.  
Bank of China Limited, Macau Branch  
The Bank of East Asia, Limited  
Calyon, 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  
Standard Chartered Bank (Hong Kong) Limited  
Sumitomo Mitsui Banking Corporation  
Wing Hang Bank Limited

### LEGAL ADVISERS

Baker & McKenzie

### UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 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](http://www.RegalREIT.com)


## CHAIRMAN'S STATEMENT



Dear Unitholders,

I am pleased to present to Unitholders the first Annual Report of Regal Real Estate Investment Trust ("Regal REIT") on behalf of the Board of Directors of Regal Portfolio Management Limited as the manager of Regal REIT (the "REIT Manager").

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007, Regal REIT achieved a consolidated net profit before distributions to Unitholders of approximately HK\$2,850.2 million. This included a gain of HK\$2,044.4 million which originated from the acquisition of the five Regal Hotels in Hong Kong (collectively, the "Initial Hotels") from Regal Hotels International Holdings Limited at a discount to their appraised values and a gain of HK\$591.8 million arising from the change in the fair value of the Initial Hotels being held as investment properties.



Total distributable income for the period from the date of listing of Regal REIT on 30th March, 2007 to 31st December, 2007 (the "Operating Period"), as adjusted for mainly the non-cash items included in the profit achieved, amounted to approximately HK\$421.5 million. Based on distributing 100% of the total distributable income, the Directors of the REIT Manager have declared a final distribution of HK\$0.09627 per Unit for the period ended 31st December, 2007. Both the total distributable income and the total distribution per Unit slightly exceed the profit forecast as stated in Regal REIT's Offering Circular. As the market valuations of the Initial Hotels have appreciated since their acquisition by Regal REIT, the net asset value per Unit has increased to HK\$3.503 as at 31st December, 2007, as compared to HK\$3.300 per Unit at the time of listing Regal REIT.


Overall, the Initial Hotels performed well during the Operating Period, achieving an increase of 4.3% in occupancy rate and 13.6% in average room rate compared with the same period in 2006. For the same period, the Initial Hotels achieved a RevPAR growth of 18.5% which is significantly higher as compared with overall market performances in Hong Kong.

Over the past year, management has been actively reviewing numerous hotel investment proposals in Mainland China. However, faced with challenges arising from keen competition from other potential investors and the high expectations on property prices among sellers, driven by the Olympic fervour, the REIT Manager has taken a prudent view and remained disciplined with the set investment criteria. Moreover, in view of the tightening measures on bank lending policies imposed by the Central Government, it is expected that there could be short term market fluctuations and volatility, and such challenging environment will present potential acquisition opportunities in the future.

The sub-prime loan crisis in the United States has triggered off substantial disruptions to the capital and financial markets globally and there could be risk of further deterioration in the global economy in the near future. However, the rapid social changes taking place in Mainland China, with large numbers of new travellers entering the market, the rising disposable incomes as well as the underlying strength of the Mainland China economy are providing firm support for a resilient tourism travel market in the region and the continuing strong hotel demand in Hong Kong.

The Hong Kong Government has recently announced various tourism related proposals with a view to strengthening the competitiveness of the local tourism and hotel sector, including the waiver of the hotel accommodation tax, the exemption of import duties on wine and the plan to include land sites in the application list for government land auctions that will be restricted to hotel use. Furthermore, the government has also started the process to select the developer for the new cruise terminal in East Kowloon and, more importantly, has also made the commitment to proceed with the Hong Kong-Zhuhai-Macao Bridge project. The construction of this new bridge will promote closer ties and co-operation among the three areas and will also help fostering the formation of a large economic region that provides new business and expansion opportunities for all concerned.

Amid some intense competition, Hong Kong has won the Best MICE (meetings, incentives, conventions and exhibitions) City Award in the 2008 Industry Awards organised by CEI Asia Pacific Magazine. Hong Kong has the appropriate infrastructure and resources to further develop as a prime city for conferences and exhibitions, and the Hong Kong Government is also allocating additional resources to further promote the development of the MICE industry. With the enhanced facilities and services, the Initial Hotels are well-equipped to benefit from this growing high yield market.



In the first two months of 2008, business operations at the Initial Hotels in Hong Kong have been encouraging, with RevPAR and gross operating profits both enjoying healthy growth over the comparable period in 2007. Being the year of the Beijing Olympics and with Hong Kong hosting the Olympic Equestrian Events, the Initial Hotels on the whole are expected to yield better results in 2008 than those attained in the year under review.

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotel and hospitality-related properties. The REIT Manager's objectives are to attain stable and long-term growth in the distributions and the net asset value of the Units, to be achieved through a combination of pro-active asset management and selective acquisitions of additional properties that meet the REIT Manager's investment criteria.

Overall, the Directors are optimistic on the continuing growth and prosperity of Regal REIT and are committed to accomplishing its missions to build up the existing hotel portfolio and to become a pre-eminent owner of four and five star hotels as well as to reinforce Regal REIT's status as an ever-growing attractive option to investors in the years to come.

Taking this opportunity, I would also like to express my gratitude to my fellow Directors for their valuable advice and all the management and staff for their efforts and dedication.

**Lo Yuk Sui**

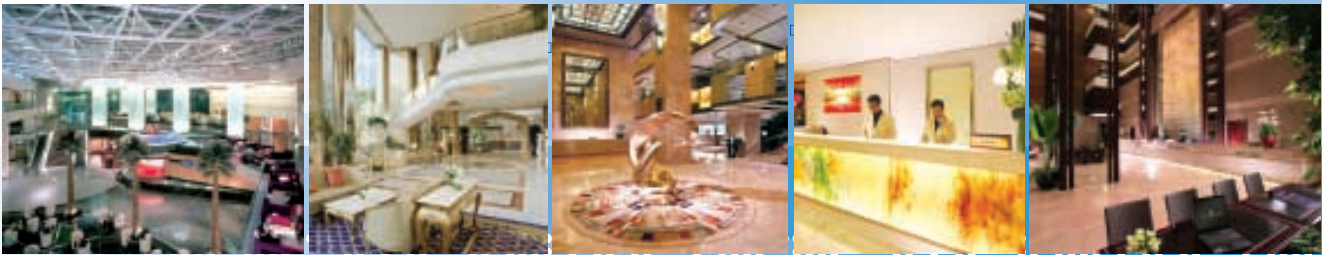
*Chairman*

**Regal Portfolio Management Limited**

(as the REIT Manger of Regal REIT)

Hong Kong, 26th March, 2008

# INVESTMENT PROPERTIES PORTFOLIO















## Location of the Initial Hotels in Hong Kong



- 1 Regal Airport Hotel
- 2 Regal Hongkong Hotel
- 3 Regal Kowloon Hotel
- 4 Regal Oriental Hotel
- 5 Regal Riverside Hotel

## Key to Hotel Facility Icons

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

# Regal Airport Hotel

■ Ballroom



■ OM Spa



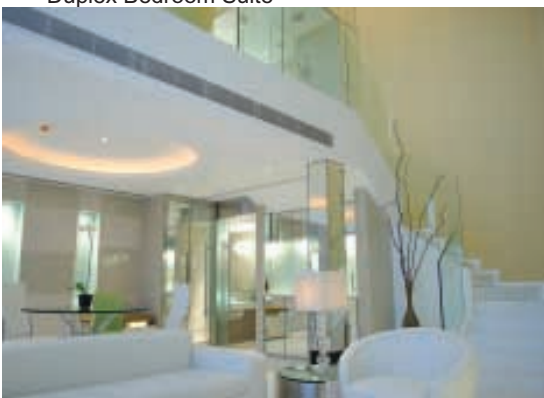
9 Cheong Tat Road, Hong Kong International Airport,  
Chek Lap Kok, Hong Kong.

Tel: (852) 2286 8888 Fax: (852) 2286 8686

Email: rah.info@RegalHotel.com Website: <http://RegalHotel.com>















■ Duplex Bedroom Suite



- Conveniently connected to the airport passenger terminals
- 36,000 sq. ft. state of the art conference and meeting centre
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific for seven consecutive years (2001-2007)
- Best Airport Hotel in Asia-Pacific by TTG Asia for three consecutive years (2005-2007)
- Best Airport Hotel in Asia by Travel Weekly (Asia) (2007)
- The Best Conference Hotel by Capital CEO (2007)
- 1st runner-up for the World's Best Airport Hotel by Business Traveller UK (2007)
- One of the World's Best Airport Hotels listed on Forbes Traveller.com (2007)
- The Top 10 Convention & Exhibition Hotels of China of The 3rd Starlight Award of China Hotels (2007)
- The Best International Airport Hotel of China of The 3rd Starlight Award of China Hotels (2007)
- OM Spa - One of the Best Airport Facilities in the world selected by Travel+Leisure Magazine (2008)
- 67 new rooms added in 4Q 2007

■ Regala Café & Dessert Bar



 1,171	 10,333 sq. ft.
 1999	 25
 897,545 sq. ft.	 1
 774,880 sq. ft.	 2
 5	 1
 2	 1



# Regal Hongkong Hotel

■ Regal Royale Lounge Reception



■ Regal Royale Guest Room



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














■ Ballroom



- Located in the heart of Causeway Bay and within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Seven Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention & Exhibition Centre
- Full range of facilities catering to the needs of business travellers and meeting and exhibition delegates
- 50 new Regal Royale guest rooms and lounge added in 4Q 2007
- A new roof top swimming pool was launched in early 2008

■ Swimming Pool



 474	 2,560 sq. ft.
 1993	 10
 343,864 sq. ft.	 1
 270,016 sq. ft.	 1
 3	 1
 2	

# Regal Kowloon Hotel

■ Zeffirino Ristorante



■ Guest Room



71 Mody Road, Tsimshatsui, Kowloon, Hong Kong.

Tel: (852) 2722 1818 Fax: (852) 2369 6950

Email: [rkh.info@RegalHotel.com](mailto:rkh.info@RegalHotel.com) Website: <http://RegalHotel.com>













■ Function Room



- Located in Tsimshatsui (TST) East, a commercial and tourist district
- Within walking distance from MTR's TST East station connecting to Shenzhen
- Close to TST's shopping centres (including Ocean Centre and Harbour City) and entertainment area
- Close to waterfront with promenade and "Avenue of Stars"
- Several museums including Hong Kong Space Museum, Hong Kong Science Museum and Hong Kong Museum of History

■ Regala Café & Dessert Bar



 600	 3,761 sq. ft.
 1982	 12
 468,355 sq. ft.	 1
 341,714 sq. ft.	 1
 5	
 2	

# Regal Oriental Hotel

■ Regal i-Club Lounge



■ Regal i-Club Guest Room



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 i-Club Meeting Room



- Located in Kowloon City, facing the 328 hectare (810 acre) Kai Tak development site planned for 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
- Renovation of all hotel rooms completed in June 2007
- 49 new Regal i-club rooms added in September 2007 attracting business and leisure travellers

■ La Plantation



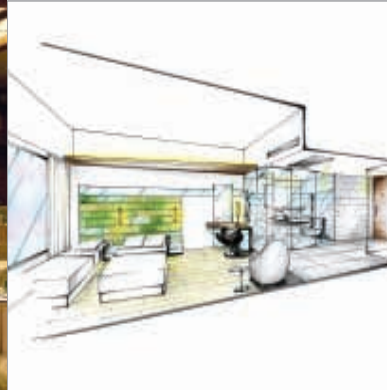
 439	 3,696 sq. ft.
 1982	 13
 294,154 sq. ft.	 1
 243,273 sq. ft.	 1
 3	
 2	

# Regal Riverside Hotel

■ Ballroom



■ Rendering of New Guest Room



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>














■ Guest Room



- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and Shenzhen
- Appointed as one of the official hotels for the Equestrian Events of the 2008 Olympic Games to be held in Shatin
- Close to Chinese University of Hong Kong, Hong Kong Science & Technology Parks and Ten Thousand Buddhas Monastery
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- 28 new rooms added in October 2007
- 274 new rooms expected to be added by winter 2008

■ Avanti Ristorante



 858	 5,104 sq. ft.
 1986	 13*
 662,123 sq. ft.	 1
 519,046 sq. ft.	 1
 5	 1
 2	

\* 1 meeting room added in January 2008

## REPORT OF THE REIT MANAGER



The Directors of the REIT Manager herein present their report together with the audited financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively, the "Group") for the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007.

### LONG-TERM OBJECTIVES AND MISSION 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 mission is to build up the existing portfolio of initial hotel properties comprising Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels") in Hong Kong and to become a pre-eminent owner of 4 and 5 star-rated hotels in Greater China, focusing on Hong Kong, Macao and Mainland China as well as to reinforce Regal REIT's status as an ever-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 a supplemental deed dated 2nd March, 2007)

(together, the "Trust Deed") entered into between Regal Portfolio Management Limited as the manager of Regal REIT (the "REIT Manager") and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT (the "Trustee"). Regal REIT is a collective investment scheme established in the form of a unit trust under Hong Kong laws to invest primarily in income-producing hotel and hospitality-related properties.

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 Initial Hotels were acquired from Regal International (BVI) Holdings Limited (the "Vendor") pursuant to a sale and purchase agreement entered on 2nd March, 2007 (the "Sale and Purchase Agreement"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), 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").

### The REIT Manager

The REIT Manager was appointed as the asset manager of Regal REIT on the Listing Date. 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 directly. The Initial Hotels are leased with escalating base rents (the "Base Rent") and sharing of upside performance to Regal REIT through a variable rent (the "Variable Rent") structure.

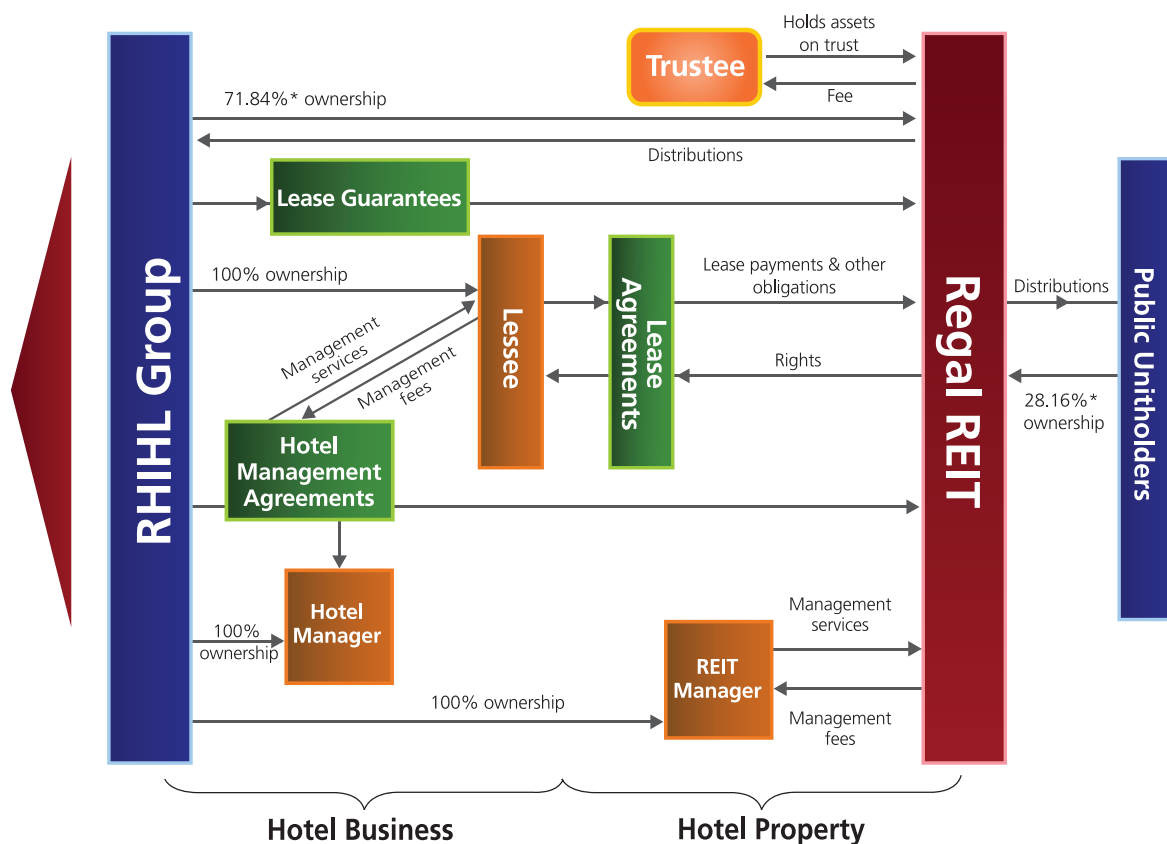
## The Lessee and the Hotel Manager

Concurrent with the acquisition of the Initial Hotels on 30th March, 2007, the Initial Hotels were leased back to Favour Link International Limited (the "Lessee"), a wholly-owned subsidiary of RHIHL, under long-term lease agreements (the "Lease Agreements"). The 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, as the hotel manager (the "Hotel Manager") under long-term hotel management agreements (the "Hotel Management Agreements") (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group").

## The Trustee

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.

**Chart of Organisation and Structure of Regal REIT**

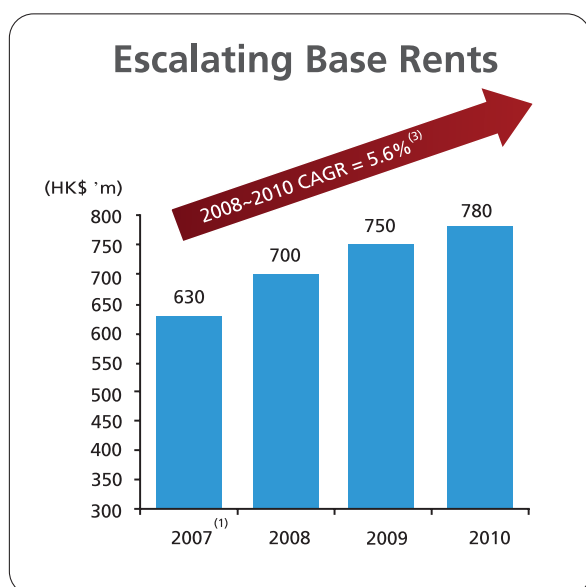


\* as at 31st December, 2007

Reference can be made to the offering circular dated 19th March, 2007 issued in connection with the listing of Units (the "Offering Circular") for more details on the organisation and structure of Regal REIT.

## RENTAL STRUCTURE

Regal REIT receives rent in the form of a pre-determined fixed cash Base Rent for each Initial Hotel and Variable Rent through sharing of aggregate profits from the Initial Hotels' operations after their Base Rent payments have been made by the Lessee. The excess profits represented by the collective excess net property income ("NPI") from the Initial Hotels' operations are allocated 100% to Regal REIT in 2007 (and paid as Variable Rent) and on reducing ratios thereafter<sup>(2)</sup>.



## Upside Sharing via Variable Rents

### NPI of the Initial Hotels

—	<b>All Base Rents</b>
=	<b>NPI Excess</b>
X	<b>Sharing % (70%<sup>(2)</sup>)</b>
=	<b>Variable Rents</b>

- From the Listing Date through 2010, RHIHL guarantees Variable Rent to be no less than HK\$220m in total subject to no disposals of any of the Initial Hotels during the period
- For the Operating Period, Variable Rent of HK\$101.6m was received. The minimum guaranteed Variable Rent remaining, equals HK\$118.4m for 2008-2010

## FURNITURE, FIXTURES & EQUIPMENT RESERVE

Regal REIT is obligated under its 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 Lessee contributes, on a monthly basis, an amount equal to 2% (up to 31st December, 2010) of total hotel revenue for the previous month to Regal REIT. As at 31st December, 2007, approximately HK\$22.2 million had been contributed to the reserve and approximately HK\$18.2 million had been expended for the purpose intended.

## RENT REVIEWS

A rent review by a jointly appointed independent professional property valuer will take place each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (including Base Rent, Variable Rent and the Lessee's contribution to the FF&E Reserve) 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.

<sup>(1)</sup> For the period from the Listing Date to 31st December, 2007, Base Rent payable was pro-rated of full year amount of HK\$630m.

<sup>(2)</sup> 100%, 70%, 60% and 50% of collective excess NPI over Base Rents for each year from 2007, 2008, 2009 and 2010 respectively.

<sup>(3)</sup> 2007-2010 CAGR is approximately 7.4%.

## REVIEW OF OPERATIONS & FINANCIAL RESULTS

The results of the Group for the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007 are set out in the consolidated financial statements on pages 42 to 73.

### Rental Revenue Derived from Hotel Operations

Substantially all of our rental revenues, represented by Base Rent and Variable Rent, are derived from the hotel operations, that is, from the hotel business leased to the RHIHL Group and managed by the Hotel Manager (Refer to "Organisation and Structure of Regal REIT" above). Specifically, total hotel revenue consists of the following:

- Room revenue, which is primarily driven by room occupancy rates and average room rates;
- Food & beverage revenue ("F&B Revenue"), which is primarily driven by room occupancy rates, banquet bookings and local patrons in bars and restaurants; and
- Other income, which consists of ancillary hotel revenue and other items, is mainly driven by room occupancy rates such as telephone and internet usage, spa and health centres, parking and dry cleaning/laundry service. Other income also includes guaranteed revenue arising from corporate promotion programs 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 rates 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 revenue per available room ("RevPAR") and total hotel revenue attributable to increases in average room rates 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, which is the 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).

### Hotel Industry Conditions

Overall business for the hotel industry remained strong in 2007. It has enjoyed growing demand from the expanding Hong Kong economy and from the 11.6% growth in visitor arrivals to a record of over 28 million. In spite of an increase of 4,453<sup>(4)</sup> rooms or 9.5% in the supply of hotel rooms and a 1 percentage point drop in the room occupancy level<sup>(5)</sup>, the actual average room rates rose by 11.4% resulting in a double digit growth in RevPAR for all hotels in Hong Kong.

Hotels in High Tariff A<sup>(6)</sup> and B<sup>(6)</sup> categories boosted average room rates by 12.3% and 12.5% respectively, primarily because of very strong demand for top-end hotels in the core districts of Hong Kong, while Medium Tariff<sup>(6)</sup> hotels managed a more modest 6.2% year-on-year increase in average room rates. On the other hand, the market for Medium Tariff hotels was subjected to a larger share of new supply, i.e. 985 hotel rooms but was able to absorb the entire increase and still achieving a RevPAR increase of 4.9%.

<sup>(4)</sup> Source: "Hotel Supply Situation - as at December 2007", Tourism Research Hong Kong Tourism Board February 2008.

<sup>(5)</sup> Source: "Hotel Room Occupancy Report - Dec 2007", Tourism Research Hong Kong Tourism Board January 2008 and the REIT Manager.

<sup>(6)</sup> By HKTBC classified categories of hotels 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).



### Hotel Market Performance

Category	Room Occupancy Rates		Average Room Rates		RevPAR	
	2007	2006	2007	2006	2007	2006
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	84	85	2,141	1,906	1,798	1,620
High Tariff B	88	88	934	831	822	731
Medium Tariff	86	87	570	537	490	467
All Hotels	86	87	1,215	1,091	1,045	949

#### Performance of the Initial Hotels

From the Listing Date to 31st December, 2007, (the "Operating Period"), room occupancy rates in the Initial Hotels increased by 4.3% compared with the same period in 2006, primarily due to a successful strategy to increase room occupancy at Regal Airport Hotel. Strong growth in airport driven traffic, the targeting of conference and meetings segments and offering attractive room rates, produced significant new volumes of business. Regal Airport Hotel was voted as "The Best Conference Hotel" by Capital CEO (2007) and was named as one of "The Top 10 Convention & Exhibition Hotels of China" of The 3rd Starlight Award of China Hotels (2007) (please refer to P.7 for all the awards of Regal Airport Hotel).

The strategy to reposition the Initial Hotels in the market towards more individual travellers has been successful and Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Oriental Hotel all experienced room occupancy rates growth during the Operating Period.

Regal Riverside Hotel has for years been successful in the market in attracting leisure groups from Mainland China. However, the current trend in demand from this market is a shift towards individual travel and in 2007 Regal Riverside Hotel experienced a drop in rooms occupied and price competition in the Mainland group segment resulting in an overall drop in the room occupancy rates of 3.4% and a modest RevPAR increase of 1.4% during the Operating Period. The Hotel Manager is focusing on multiple efforts to offset this trend in Hong Kong which continues to affect Regal Riverside Hotel by targeting individual travellers and overseas groups as well as the MICE (meetings, incentives, conventions, and exhibitions) segment. As part of this effort, a new 6,265 square feet conference and exhibition hall was opened at Regal Riverside Hotel in January 2008.

Overall the Initial Hotels achieved a RevPAR growth of 18.5% which is significantly higher as compared with High Tariff A hotels (+11.0%), High Tariff B hotels (+12.4%) and Medium Tariff hotels (+4.9%) in Hong Kong (According to the "Hotel Room Occupancy Report - Dec 2007", Tourism Research Hong Kong Tourism Board January 2008 and the REIT Manager).

**Total Hotel Revenue, Gross Operating Profit and NPI**  
**For the Initial Hotels from the Listing Date to 31st December, 2007**  
**vs. Same Period Last Year and vs. Profit Forecast in the Offering Circular**

Operating Results	Initial Hotels Combined			Profit Forecast in the Offering Circular	
	30th March, 2007 to 31st December, 2007 (HK\$'million)	30th March, 2006 to 31st December, 2006 (HK\$'million)	Variance (%)	(HK\$'million)	Variance (%)
Room revenue	724.1	598.9	20.9	732.6	(1.2)
F&B revenue	324.0	271.2	19.5	332.5	(2.6)
Other income	62.6	37.7	66.0	47.5	31.8
Total hotel revenue	1,110.7	907.8	22.4	1,112.6	(0.2)
Operating expenses	(518.5)	(450.0)	15.2	(534.3)	3.0
Gross operating profit	592.2	457.8	29.4	578.3	2.4
Other expenses	(31.7)	(23.0)	37.8	(29.2)	8.6
Net rental income	17.0	19.0	(10.5)	24.1	(29.5)
NPI	577.5	453.8	27.3	573.2	0.8
<b>Statistics</b>					
Average room rate	HK\$897.83	HK\$790.41	13.6%	HK\$894.4*	N/A
Occupancy rate	85.5%	82.0%	4.3%	87.1%*	N/A
RevPAR	HK\$767.78	HK\$648.10	18.5%	HK\$779.0*	N/A
Total available room nights	943,108	924,071	2.1%	N/A	N/A
Occupied rooms	806,506	757,694	6.4%	N/A	N/A

\* Forecasts for average room rate, occupancy rate and RevPAR in the Offering Circular are for full year 2007

Food and beverage sales were brisk during the Operating Period driven by a strong economy, more rooms occupied in the hotels and a changing market mix with more hotel guests from market segments with greater propensity to use the restaurants and bars, such as individual travellers and participants in meetings and conferences as opposed to, say, leisure groups. A growing MICE segment at Regal Airport Hotel and the successful re-positioning of Regal Oriental Hotel in particular contributed to this trend.

Part of the increase in other income was attributable to a corporate marketing program implemented and sponsored by the Hotel Manager with a view to enhancing the brand recognition and expanding the marketing network for the Initial Hotels in the long-term which, in turn, helped improving operating margins and NPI performance.

Operating expenses were closely controlled and benefited from lower cost inflation than increases in hotel room rates. In addition, certain expenses were reduced through improved practices and some re-allocation of costs to the Lessee and the Hotel Manager. Hotel operations are highly leveraged and additional sales volume will usually only lead to modest increases in additional operating costs. For example, additional room nights sold will only require cleaning, laundry and

some other minor expenses. Overall, the results of the above circumstances and measures are improving margins in the Initial Hotels with combined GOP rising to 53.3% in 2007 from 50.4% in 2006 and strong conversion of additional revenue to NPI (61% of each additional revenue dollar converted to NPI in 2007).

## Performance of Regal REIT

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

The cash Base Rent and Variable Rent earned during the Operating Period were HK\$475.9 million and approximately HK\$101.6 million respectively. The achieved Variable Rent exceeded the stated Variable Rent in the profit forecast in the Offering Circular by HK\$4.3 million.

	HK\$Million	%
Base Rent		
Cash Base Rent	475.9	70.7
Difference in accounting Base Rent and actual contractual cash Base Rent	70.0	10.4
Variable Rent	101.6	15.1
Other rent-related income		
FF&E Reserve contribution	22.2	3.3
Other rental income	3.1	0.5
Gross rental revenue	672.8	100.0
Property operating expenses	7.1	1.1
Net rental income	<u>665.7</u>	<u>98.9</u>

During the period, net rental income represented approximately 98.9% 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 Hotel Management Agreements and the related expenses are charged to the hotel operations as opposed to being absorbed by Regal REIT directly.

### ***Distributable Income and Distribution Policy***

Total distributable income ("Total Distributable Income") is defined in the Trust Deed as "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) 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 which have been recorded in Regal REIT's Consolidated Income Statement, including "change in fair values of investment properties", "excess in fair values of net assets over the cost of a business combination", "difference in accounting Base Rent and cash Base Rent", "contribution to the FF&E Reserve by the Lessee" and "the REIT Manager fees paid in Units".

Pursuant to the Trust Deed, the REIT Manager is required to ensure 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 an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year.

The Total Distributable Income for the Operating Period amounted to approximately HK\$421.5 million, which exceeds the forecast in the Offering Circular by HK\$1.2 million. The Total Distributable Income represented a distribution per Unit (“DPU”) of HK\$0.15327 per Unit representing an annualised distribution yield of 7.54% based on the final Unit offer price of HK\$2.68.

As indicated in the Offering Circular, the forecasted DPU was HK\$0.1527, representing an annualised distribution yield of 7.51%.

### ***Distribution for 2007***

Based on distributing 100% of the Total Distributable Income, the Directors of the REIT Manager have declared a final distribution of HK\$0.09627 per Unit for the period from 1st July, 2007 to 31st December, 2007. The interim distribution for the period from 30th March, 2007 to 30th June, 2007 was HK\$0.057 per Unit thereby making a total DPU for the Operating Period of HK\$0.15327. The final distribution of HK\$0.09627 per Unit will be payable to Unitholders on the Register of Unitholders on 15th May, 2008.

### ***Closure of Register of Unitholders***

The Register of Unitholders will be closed from Tuesday, 13th May, 2008 to Thursday, 15th May, 2008, 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 Friday, 9th May, 2008. The relevant distribution warrants are expected to be despatched on or before 30th May, 2008.

### **Valuation of Investment Properties**

As at 31st December, 2007, Regal REIT’s investment properties portfolio has undergone a valuation on a market value basis and recorded a revaluation gain of HK\$591.8 million as compared with the valuation as at 31st December, 2006.

CB Richard Ellis Limited (“CBRE”), an independent professional property valuer, assessed the market values of the Initial Hotels 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. CBRE have 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.

### **FF&E Reserve Contribution**

As at 31st December, 2007, approximately HK\$22.2 million had been contributed to the FF&E Reserve representing 2% of total hotel revenue. Approximately HK\$18.2 million had been expended in 2007 on replacing furniture, fixtures and equipment in the Initial Hotels. The balance of the FF&E Reserve is carried over to the 2008 financial year.

### **Asset Enhancement Program**

According to the terms of the Sale and Purchase Agreement for the Initial Hotels, the Vendor undertook to complete an asset enhancement program (the “AEP”) at its full and own cost, including cost overruns and land premiums. The AEP is intended to enhance the revenues and profits generated from the Initial Hotels and includes the extension of the hotel room capacity in four of the Initial Hotels with a total of 468 rooms and adding a new swimming pool in Regal Hongkong Hotel.

Details of the AEP projects in Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel and the respective target and actual completion dates are summarised in the table below:

Initial Hotels	Number of Rooms Prior to AEP	Rooms to be added/ Works to be carried out	Target Completion Date	Actual Completion Date	Number of Rooms after AEP
Regal Airport Hotel	1,104	Conversion of about 14,590 sq. ft. unutilised gross floor area on 2/F. into 35 additional rooms and about 13,140 sq. ft. unutilised gross floor area on 9/F. into 32 additional rooms	30th September, 2007	<ul style="list-style-type: none"> <li>• 65 rooms completed on 28th September, 2007</li> <li>• 2 rooms completed on 22nd October, 2007</li> </ul>	1,171
Regal Hongkong Hotel	424	Addition of new floor areas on the top portion of the existing hotel building and conversion of existing spaces on other floors, together providing a total of 50 additional rooms and a new swimming pool	30th September, 2007	<ul style="list-style-type: none"> <li>• 6 rooms completed on 30th September, 2007</li> <li>• 43 rooms completed on 9th November, 2007</li> <li>• 1 swimming pool plus 1 room completed on 31st December, 2007</li> </ul>	474
Regal Oriental Hotel	390	Conversion of unutilised area on 3/F. into 49 additional rooms and a lounge area  Refurnishing the existing room floors from 4/F. to 8/F. (refurnishing work to the remaining floors has been completed)	30th September, 2007  30th September, 2007	<ul style="list-style-type: none"> <li>• 49 rooms completed on 30th September, 2007</li> <li>• 24th June, 2007</li> </ul>	439
Regal Riverside Hotel	830	Conversion of 27 suites into 55 rooms (Phase I)  Three additional stories comprising 274 additional rooms to be added on top of the existing hotel building (Phase II)	30th September, 2007  31st December, 2008	<ul style="list-style-type: none"> <li>• 28 rooms completed on 4th October, 2007</li> <li>• In progress</li> </ul>	1,132

Minor delays due to changes and improvements in the designs were experienced with regard to the projects at Regal Airport Hotel and Regal Hongkong Hotel and the target completion date of 30th September, 2007 was extended to 22nd October, 2007 for 2 rooms at Regal Airport Hotel and to 9th November, 2007 for 43 rooms and to 31st December, 2007 for one room and the swimming pool at Regal Hongkong Hotel. The first phase of the AEP at Regal Riverside Hotel was

delayed by 4 days caused by unusually long licensing and approval processing times by the relevant authorities. Liquidated damages were paid to Regal REIT by the Vendor in accordance with the Sale and Purchase Agreement between the Vendor and the REIT Manager in its capacity as the Manager of Regal REIT.

## Financial Review

On listing, Regal REIT issued a total of 3,104,605,748 Units. The issue price per Unit was HK\$2.68 and the total proceeds together with the proceeds of bank financing were applied towards the acquisition of the Initial Hotels and payment of the costs associated with the listing together with debt related costs.

As at 31st December, 2007, Regal REIT had loan facilities aggregating HK\$4.5 billion comprised of a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million, both for terms of five years.

The term loan was fully drawn down on 29th March, 2007 and is repayable in full on 30th March, 2012. The revolving credit facility is available for drawdown during the period from 29th March, 2007 to 30th March, 2009 at which time the revolving credit facility could be converted into a term loan. As of 31st December, 2007, the revolving credit facility had not yet been used.

Both the term loan and the revolving credit facility bear interest at a floating rate of 60 basis points above three-month Hong Kong Interbank Offered Rates ("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\$4.35 billion. Under such arrangements, the interest rates effectively borne by Regal REIT were fixed at an average rate of 4.54% per annum until 17th January, 2008 and are 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 REIT Manager monitors interest rate movements in the three-month HIBOR rate on an on-going basis and makes judgements about risk to Regal REIT and its Unitholders. In the latter part of 2007, the three-month HIBOR rate decreased to a level below our benchmark of 4.54%, including the 60 basis points margin. Taking a prudent view, Regal REIT, through its subsidiaries, entered into further five interest rate hedging arrangements at interest rate ranging from 4.33% to 4.50% for one year for an aggregate notional amount of HK\$2 billion effective from 18th January, 2008. The REIT Manager will continue to review the effectiveness of the cap and floor interest rate arrangement, which may be unwound if unwinding such arrangement would be in the interest of the Unitholders.

As at 31st December, 2007, the net aggregate fair value of the interest rate hedging arrangements is reported as a non-current liability of approximately HK\$24.4 million in the consolidated balance sheet.

As at 31st December, 2007, the loan-to-value ratio was 26.4%, being the ratio of the total amount of the outstanding loans of HK\$4.35 billion as compared to the aggregate market value of the Initial Hotels of approximately HK\$16.5 billion, as at 31st December, 2007, and including the AEP and the additional capital expenditures incurred during the Operating Period. The loan-to-value ratio is well below the 40% allowed under the bank facility agreements with the lenders.

As at 31st December, 2007, the gearing ratio of 25.7%, being the gross amount of the outstanding loans of HK\$4.35 billion as compared to the total assets of approximately HK\$16.9 billion, is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$140.4 million in unrestricted cash balances and bank deposits as at 31st December, 2007 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.

As at 31st December, 2007, the Initial Hotels with aggregate carrying value of HK\$16,080.0 million were pledged to secure bank loan facilities granted to Regal REIT.

### **Outlook for the Hotel Industry**

Looking forward, the fundamental demand drivers for hotel room demand in Hong Kong, such as GDP growth of Hong Kong economy and that of Mainland China, are likely to remain strong. Hong Kong's economy is vibrant and after a strong 2007 when private consumption grew by 7.8%<sup>(7)</sup> and GDP grew by 6.3%<sup>(7)</sup>, GDP is estimated to grow by 4% to 5%<sup>(7)</sup> in 2008 and to grow on average by 4.5%<sup>(7)</sup> in the period from 2009 to 2012. The all important Mainland China economy expanded by 11.4% in 2007 and is projected to grow by 9.8% in 2008 and 9% in 2009 measured in real GDP<sup>(8)</sup>.

The slowdown in the United States economy and its impact on the global economy and on Hong Kong and Asia is unknown. Overall though, the economic performance of Asia and other emerging markets remains strong, especially in Mainland China and in India. Although there is a risk of deterioration in the global economy in the near future, in our estimation, the rapid social changes taking place in China, with large numbers of new travellers entering the market, the rising disposable incomes and the underlying strength of the Mainland China economy bode for a resilient tourism travel market in the region and in Hong Kong.

The recently published Hong Kong fiscal budget 2008/09, outline several important measures and initiatives by the Hong Kong Government which are likely to further expand the economy and stimulate the tourism and travel sector, including the hotel market. According to the Financial Secretary, the initiatives are intended to strengthen Hong Kong's position as "Asia's World City" and its "Pillar Industries" in which the financial, business, logistics and tourism sectors are counted.

The following are the key Government measures and initiatives to strengthen "Pillar Industries":

- To set aside HK\$150 million in the next five years to promote Hong Kong as an international convention, exhibition and tourism capital.
- To waive the Hotel Accommodation Tax (currently 3% on room sales).
- To designate sites as "restricted to hotel use" for zoning purposes and provide 10 sites in 2008/09.
- To enhance competitiveness in commercial and financial sectors, to improve the regulatory regime and to promote Hong Kong's financial services in Mainland China and overseas.
- To increase the runway capacity of Hong Kong International Airport, the world's fifth busiest international airport, with 47 million passengers and direct air links to 150 cities in the world in 2007, from currently 54 to 68 aircraft traffic movements per hour by 2015 and start feasibility studies for a third runway.
- To exempt import duties on wine, beer and all other alcoholic beverages, except spirits, to promote catering services, tourism, brand promotion and exhibitions.

<sup>(7)</sup> Source: *The 2008/09 Hong Kong Budget, Appropriation Bill 2008*

<sup>(8)</sup> Source: *Economist Intelligence Unit, Country Forecast, March 2008*

- To develop a cruise terminal at the Kai Tak development site to become a leading regional cruise hub. The first berth is estimated to be operational by February 2012.

The Hong Kong Government has made the commitment to proceed with the Hong Kong-Zhuhai-Macao Bridge project. The construction of this new bridge will promote closer ties and co-operation among the three areas and will also help fostering the formation of a large economic region that provides new business and expansion opportunities for all concerned.

According to a recently published "The Hong Kong Tourism Forecasting Report"<sup>(9)</sup>, international tourist arrivals are expected to virtually double by 2015 to around 50 million visitors annually compared with approximately 25 million in 2006.

According to the above forecast report, total demand for hotel room nights by HKTB classified categories<sup>(10)</sup>, is forecasted to grow by slightly more than 6% per year, on a compounded basis, through 2015.

In comparison, the supply of hotel rooms in Hong Kong is estimated to grow from 51,581 in December 2007 to 63,732 hotel rooms by the end of 2012<sup>(11)</sup>, or at an annual compounded rate of approximately 3%, counting existing and currently known development projects.

The strong Hong Kong and Mainland economies, their continuous rapid integration and forecasts of growing tourism and hotel room demand, coupled with a shortage of good hotel sites as well as competition from other sectors for sites, such as from the office and retail sectors, indicate that the hotel market in Hong Kong is likely to remain robust.

## GROWTH STRATEGY

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotel and hospitality-related properties. The REIT Manager intends to achieve its objectives of long-term growth in distributions and in the net asset value per Unit of Regal REIT through a combination of the following core strategies:

*Internal Growth Strategy:* The core growth strategy for the hotel portfolio is to maximise value for Unitholders through pro-active asset management. The REIT Manager's asset management system includes the following elements:

- Closely monitor the performance of hotel operations and that of the Hotel Manager and Lessee;
- Liaise with the Hotel Manager to identify and implement operational efficiencies and revenue enhancement opportunities; and
- Liaise with the Hotel Manager and Lessee to identify, evaluate and execute property improvement opportunities which will contribute to the revenue-generating abilities and profitability of the Initial Hotels.

<sup>(9)</sup> Source: "The Hong Kong Polytechnic University Hong Kong Tourism Demand Forecasting System, The Hong Kong Tourism Forecasting Report", 2nd January, 2008, developed by the Public Policy Research Institute (PPRI) and the School of Hotel and Tourism Management, the Hong Kong Polytechnic University.

<sup>(10)</sup> By HKTB classified categories of hotels 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).

<sup>(11)</sup> Source: "Hotel Supply Situation – as at December 2007", Tourism Research Hong Kong Tourism Board February 2008.



The objective of the Internal Growth Strategy is to maximise total hotel revenue, RevPAR and NPI performance and thereby achieving higher Variable Rent from the Initial Hotels payable to Regal REIT.

*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 should be above Regal REIT's blended cost of capital and, after a reasonable ramp-up period, will maintain or enhance returns to Unitholders;
- Target Greater China with focus on Hong Kong, Macao and Mainland China;
- Markets and locations in urban centres and popular resort areas with growth potential;
- 4 and 5 star-rated<sup>(12)</sup> 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 is for sale;
- The targeted hotel property is operating and generating cash flow;
- The targeted property may be unfinished and requires furnishing and fit-out but will be completed with a total investment representing less than 10% of Regal REIT's total net asset value at the time of acquisition; and
- Hotel properties that may be leased to and managed by the RHIHL Group or to a hotel group of a similar standing, under contracts that will provide Unitholders with a stable income stream with potential for future profit sharing.

Over the past year, management has been actively reviewing numerous hotel investment proposals in Mainland China. However, faced with challenges arising from keen competition from other potential investors and the high expectations on property prices among sellers, driven by the Olympic fervour, the REIT Manager has taken a prudent view and remained disciplined with the set investment criteria.

Regal REIT intends to hold its properties on a long-term basis. However, if in the future a 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.

<sup>(12)</sup> PRC Star rating system

## Financing Strategy

Regal REIT maintains a conservative capital structure which limits the amount of debt financing used. The REIT Code sets a maximum level of borrowings of the total gross asset value of Regal REIT to 45% and the covenants for Regal REIT's syndicated loan restrict total borrowings to 40% of the aggregate market value of the Initial Hotels (including the AEP and the additional capital expenditures incurred during the period).

As at 31st December, 2007, Regal REIT had aggregate borrowings of HK\$4.35 billion, or 25.7% of its total gross asset value.

Regal REIT currently has a HK\$150.0 million revolving credit facility which may be used for funding capital additions (asset enhancement) projects, for down-payments associated with the acquisition of additional properties and for working capital purposes.

While adopting a prudent approach (the REIT Manager will ensure that the leverage ratios will not exceed the thresholds dictated by the REIT Code and its lenders), Regal REIT's excess borrowing capacity is available to fund future hotel property acquisitions.

The REIT Manager also intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

## MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

Save as disclosed herein, Regal REIT did not enter into any other real estate acquisition or disposal transactions during the Operating Period.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

Under the terms of the Trust Deed, the REIT Manager cannot repurchase or redeem any Units on behalf of Regal REIT unless and until permitted to do so by the relevant codes and guidelines issued by the SFC from time to time. There were no purchases, sales or redemptions of Units during the Operating Period.

## 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 Lessee and the Hotel Manager which had been delegated to take the responsibility for the operation and management of the Initial Hotels, pursuant to the Lease Agreements and the Hotel Management Agreements 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 during the Operating Period.

On behalf of the Board

**Regal Portfolio Management Limited**

(as the REIT Manager of Regal REIT)

**KAI OLE RINGENSON**

Chief Executive Officer

Hong Kong, 26th March, 2008

## DIRECTOR AND EXECUTIVE OFFICER PROFILES

### DIRECTOR PROFILES

**Mr. Lo Yuk Sui**, aged 63, Chairman and Non-Executive Director – Mr. Lo has over 37 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 publicly 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. Kai Ole Ringenson**, aged 58, Executive Director, Chief Executive Officer and Responsible Officer – Mr. Ringenson has extensive experience in international hotel management and asset management. During his more than 35 years in the hotel industry, he has managed hotels in Asia, Europe and the United States. He has considerable experience in hotel acquisition/sale transactions 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.

**Mr. John William Crawford, J.P.**, aged 65, Independent Non-Executive Director – Mr. Crawford 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 51, Non-Executive Director – Mr. Fan 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 Lam Kwing Wai**, aged 63, Independent Non-Executive Director – Mr. Lam is the managing director of Golden Resources Development International Limited (“Golden Resources”), a company listed on the Hong Kong Stock Exchange. He joined Golden Resources in 1970 after he obtained his 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 34, Non-Executive Director – Mr. Lo 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. He is the son of Mr. Lo Yuk Sui.

**Hon Abraham Shek Lai Him, J.P.**, aged 62, Independent Non-Executive Director – Mr. Shek holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the 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, NWS Holdings Limited, Titan Petrochemicals Group Limited, PHL (of which RHIHL is the listed associated) and See Corporation Limited and an independent non-executive director of Hop Hing Holdings Limited and Hsin Chong Construction Group Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of MTR Corporation Limited. 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 which is listed on the Hong Kong Stock Exchange.

#### EXECUTIVE OFFICER PROFILES

**Mr. Man Wai Kong**, Responsible Officer and Director of Finance & Investor Relations – Mr. Man is responsible for, among other things, overseeing and managing the finance and accounting activities, including statutory reporting, financial and management accounting, taxation, cash flow management, preparation of budgets and reviewing and evaluating potential investments, acquisitions and asset enhancement opportunities. He is also responsible for making transparent disclosures and communications to investors of the Regal REIT. Mr. Man has over 17 years of finance and accounting experience. Prior to his appointment as the Director of Finance & Investor Relations, he had held various management positions in different major Hong Kong listed companies and multinational conglomerate. Mr. Man is a fellow member of the Association of the Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He obtained a Bachelor of Social Sciences degree in 1990 and a Master of Science degree in Finance in 1998.

**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 Program from a technical point of view, receiving and interpreting technical reports and keeping the Chief Executive Officer informed of the ongoing progress of the program. He is also responsible for reviewing proposals from the Hotel Manager in relation to capital additions, expenditure for the replacement of furniture, fixtures and equipment and assisting the Chief Executive Officer to assess the justification and feasibility of such expenditure. Furthermore, he will inspect and review all potential and new acquisitions from a structural and technical point of view. Mr. Yip has over 22 years of engineering experience. He had been involved in several large projects during his 22 year working career, responsible for coordinating and monitoring building services installations and builder's work maintenance, repairing 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 Company 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 system functions properly. She has over 15 years of professional accounting experience, gained in Hong Kong and Canada. She is a member of Certified General Accountants of Ontario (CGA) and a member of 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 good 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 SFO and regulated by the provisions of the REIT Code and constituted by the Trust Deed.

The REIT Manager is licensed by the SFC under the SFO to conduct the regulated activity of asset management. Mr. Kai Ole Ringenson, the Chief Executive Officer and Executive Director, Mr. Man Wai Kong and Mr. Yip Yat Wa are duly approved as the responsible officers of the REIT Manager by the SFC.

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

#### 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.

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.

## Board Composition

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

- the Chairman of the Board must be a Non-Executive Director of the REIT Manager;
- the Chief Executive Officer must be a member of the Board; 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 Board presently comprises seven members, one Executive Director, three Non-Executive Directors and three Independent Non-Executive Directors. The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Board currently comprises the following members:

### *Chairman and Non-Executive Director*

Lo Yuk Sui

### *Chief Executive Officer and Executive Director*

Kai Ole Ringenson

### *Non-Executive Directors*

Donald Fan Tung

Jimmy Lo Chun To

### *Independent Non-Executive Directors*

John William Crawford, J.P.

Alvin Lam Kwing Wai

Abraham Shek Lai Him, J.P.

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.

## 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 balance sheet date or at any time during the period.

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 period.

## Conflict 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 that 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 discharging their duties.

Three full Board meetings of the REIT Manager were held during the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007 and the attendance rates of the individual Board members are as follows:

<b>Name of Directors</b>	<b>Attendance/ No. of Meetings</b>
<i>Chairman and Non-Executive Director</i> Lo Yuk Sui	3/3
<i>Chief Executive Officer and Executive Director</i> Kai Ole Ringenson	3/3
<i>Non-Executive Directors</i> Donald Fan Tung	3/3
Jimmy Lo Chun To	2/3
<i>Independent Non-Executive Directors</i> John William Crawford, J.P.	3/3
Alvin Lam Kwing Wai	3/3
Abraham Shek Lai Him, J.P.	3/3



## AUDIT COMMITTEE

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

John William Crawford, J.P. (Chairman of the Committee)  
Alvin Lam Kwing Wai  
Abraham Shek Lai Him, J.P.

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, 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, two formal Audit Committee meetings of the REIT Manager were held during the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007 and the attendance rates of the individual Audit Committee members are as follows:

<b>Name of Audit Committee Members</b>	<b>Attendance/No. of Meetings</b>
John William Crawford, J.P. (Chairman of the Committee)	2/2
Alvin Lam Kwing Wai	2/2
Abraham Shek Lai Him, J.P.	2/2

## 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 members:

*Chief Executive Officer and Executive Director*  
Kai Ole Ringenson (Chairman of the Committee)

*Non-Executive Director*  
Donald Fan Tung

*Independent Non-Executive Director*  
John William Crawford, J.P.

Two Disclosure Committee meetings of the REIT Manager were held during the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007 and the attendance rates of the individual Committee members of the REIT Manager are as follows:

<b>Name of Disclosure Committee Members</b>	<b>Attendance/No. of Meetings</b>
Kai Ole Ringenson (Chairman of the Committee)	2/2
Donald Fan Tung	2/2
John William Crawford, J.P.	2/2

## REPORTING AND TRANSPARENCY

Regal REIT prepares its financial statements in accordance with the 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 the public announcements of material information and developments with respect to Regal REIT are made on a timely basis in order to keep Unitholders apprised of the position of Regal REIT.

## GENERAL MEETINGS

Regal REIT will hold a general meeting each year as its annual general meeting in addition to any other meetings deemed necessary during the year. The Trustee or the REIT Manager may respectively (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 by 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.

## 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) 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 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

In accordance with the pre-emption provisions contained in the REIT Code, any further issues of Units, other than in payment of the REIT Manager fees, must be first offered on a pro rata pre-emptive basis to all existing Unitholders, except that Units may be issued:

- (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of Units in issue at the end of the previous financial year (or such other percentage of outstanding Units as may, from time to time, be prescribed in the REIT Code or otherwise by the SFC); and
- (ii) free of pre-emption rights in other circumstances provided that the approval of Unitholders by way of an ordinary resolution is obtained.

The REIT Manager will also observe the restrictions in the REIT Code which prevent issues of new Units to connected persons of Regal REIT unless specifically approved by the Unitholders.

During the Operating Period, Regal REIT allotted and issued 10,906,576 new Units to the REIT Manager in payment of management 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.

Pursuant to the Units Dealings Code, any Directors or the REIT Manager who wishes 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 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 period commencing one month immediately preceding the earlier of the date of the Board meeting for the approval of Regal REIT's results for any period and the deadline for publication of an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, 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 disclosure of interests by Directors, the Chief Executive Officer and the REIT Manager. The relevant provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager, the Directors and Chief Executive Officer 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 period ended 31st December, 2007.

## **PUBLIC FLOAT**

As at 31st December, 2007, the total number of Units outstanding was 3,115,512,324.

As at 31st December, 2007, 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 period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 74 to 75.

## CONNECTED PARTY TRANSACTIONS

During the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007, 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 RHIHL (collectively, the "RHIHL Connected Persons Group"); and
- (ii) 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) 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 "Property Companies") has entered into separate Lease Agreements with the Lessee in relation to the Initial Hotels. The Lessee is a member of the RHIHL Connected Persons Group. The terms of the Lease Agreements expire on 31st December, 2015.

Under the terms of each Lease Agreement, the Lessee makes lease payments to the Property Companies and is entitled to operate and manage one of the Initial Hotels and, accordingly, all income received from the operation thereof shall, during the term of the Lease Agreement, be retained by the Lessee.

In addition, the Lessee has guaranteed to pay an aggregate Variable Rent for all the Initial Hotels, at a minimum of HK\$220.0 million for the period from 30th March, 2007 to 31st December, 2010 to the Property Companies.

During the period, the total contractual lease income under the Lease Agreements amounted to approximately HK\$602.8 million.

#### (ii) Hotel Management Agreements

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

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

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

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

**(iii) Lease Guarantees**

RHIHL has guaranteed to pay all amounts from time to time owing or payable by the Lessee to the Property Companies under the Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. The Lease Guarantees also contain an indemnity in respect of all guaranteed liabilities.

**(iv) Sale and Purchase Agreement**

The Trustee has entered into a Sale and Purchase Agreement with the Vendor and RHIHL, pursuant to which the Trustee conditionally acquired, inter alia, the entire issued share capital of Regal Asset Holdings Limited, which indirectly holds the Property Companies, that own the Initial Hotels at a total consideration of approximately HK\$12.5 billion.

The Sale and Purchase Agreement also contained an undertaking by the Vendor to complete the Asset Enhancement Program. RHIHL has guaranteed the Vendor's obligations under the Sale and Purchase Agreement.

**(v) Deed of Trade Mark Licence**

Regal International Limited, a wholly-owned subsidiary of RHIHL, has entered into a deed of trade mark licence with the REIT Manager and the Regal REIT Group. Regal International Limited has granted to the REIT Manager and each 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) AEP Agency Deed**

To facilitate the carrying out of the Asset Enhancement Program, the relevant Property Companies, Regal Contracting Agency Limited, a wholly-owned subsidiary of RHIHL (the "AEP Agent"), and RHIHL have entered into the AEP Agency Deed, whereby each of the Property Companies appoints the AEP Agent to enter into the AEP Contracts on its behalf. The AEP Agent has undertaken to indemnify the Property Companies, inter alia, from and against all costs, losses and liabilities arising from the AEP Contracts.

**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 of aggregating approximately HK\$53.5 million for such services rendered during the Operating Period were settled and are to be settled by the issuance of new Units pursuant to 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 Lease Agreements, Hotel Management Agreements, Lease Guarantees, Sale and Purchase Agreement, Deed of Trade Mark Licence and 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 period, Regal REIT has complied with the terms and conditions of the RHIHL Connected Persons Group's Waiver.

## **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 comprising a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million. Both the term loan and the revolving credit facility bear 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 has entered into interest rate hedging arrangements for the term loans with Deutsche Bank AG, a Trustee Connected Person, for an aggregate notional amount of HK\$2 billion.

Regal REIT, through its subsidiaries has entered into further five interest rate hedging arrangements for one year for an aggregate notional amount of HK\$2 billion with Deutsche Bank AG, a Trustee Connected Person, effective from 18th January, 2008.

### **Ordinary Banking Services**

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

### **The Trustee's Fees**

DB Trustee (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 period ended 31st December, 2007.

### **Waiver from Strict Compliance**

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

During the period, 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 have reviewed the terms of all relevant connected party transactions including those connected party transactions with RHIHL Connected Persons Group and Trustee Connected Persons Group and that 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 they are on normal commercial terms, in 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 of Regal REIT. 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 of Regal REIT.

### Holdings of Significant Unitholders

As at 31st December, 2007, 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 of Regal REIT as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2007
Century City International Holdings Limited ("CCIHL")	2,238,199,974 (Note i)	71.84%
Century City BVI Holdings Limited ("CCBVI")	2,238,199,974 (Notes i & ii)	71.84%
Paliburg Holdings Limited ("PHL")	2,232,912,974 (Notes iii & iv)	71.67%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,232,912,974 (Notes iii & v)	71.67%
Regal Hotels International Holdings Limited ("RHIHL")	2,232,912,974 (Notes iii & vi)	71.67%
Regal International (BVI) Holdings Limited ("RBVI")	2,232,912,974 (Notes iii & vii)	71.67%
Complete Success Investments Limited	1,817,012,072 (Note viii)	58.32%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.98%

#### Notes:

- (i) The interests in 2,238,199,974 units of Regal REIT 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 of Regal REIT are deemed to be the same interests held by CCIHL.

- (iii) The interests in 2,232,912,974 units of Regal REIT 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 52.26% shareholding interest in PHL as at 31st December, 2007, and PHL's interests in units of Regal REIT are deemed to be the same interests held by CCIHL.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in units of Regal REIT are deemed to be the same interests held by PHL.
- (vi) RHIHL is a listed associate of PDBVI, which held 45.20% shareholding interest in RHIHL as at 31st December, 2007, and its interests in units of Regal REIT are deemed to be the same interests held by PDBVI.
- (vii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in units of Regal REIT 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 of Regal REIT are deemed to be the same interests held by RBVI.

Save as disclosed herein, there is no person who, as at 31st December, 2007, had an interest in units of Regal REIT which are recorded in the register required to be kept under section 336 of the SFO.

### Holdings of the REIT Manager and Directors of the REIT Manager

As at 31st December, 2007, the interests of the REIT Manager and director of the REIT Manager in units of Regal REIT, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2007
LO Yuk Sui	2,238,199,974 (Note i)	71.84%
Regal Portfolio Management Limited	10,906,576 (Note ii)	0.35%

#### Notes:

- (i) The interests in 2,238,199,974 units of Regal REIT were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held 53.82% shareholding interest as at 31st December, 2007.
- (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, 2007, none of the REIT Manager, the directors and chief executive of the REIT Manager had any interests in units of Regal REIT, 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 period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007

	Notes	HK\$'000
Gross rental revenue	5	672,787
Property operating expenses	24(b)	<u>(7,105)</u>
Net rental income		665,682
Other income	5	5,433
Excess over the cost of a business combination	23	2,044,441
Fair value gains on investment properties	11	591,841
REIT Manager fees	6	(53,525)
Trust and other expenses	7	(6,116)
Finance costs – excluding distributions to Unitholders	8	<u>(156,994)</u>
<b>PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS</b>		<b>3,090,762</b>
Tax	9	<u>(240,564)</u>
<b>PROFIT FOR THE PERIOD, BEFORE DISTRIBUTIONS TO UNITHOLDERS</b>		<b>2,850,198</b>
Finance costs – distributions to Unitholders		<u>(155,951)</u>
<b>PROFIT FOR THE PERIOD, AFTER DISTRIBUTIONS TO UNITHOLDERS</b>		<b><u>2,694,247</u></b>
<b>EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS</b>		
Basic and diluted	10	<u><u>HK\$0.917</u></u>

## CONSOLIDATED BALANCE SHEET

As at 31st December, 2007

	Notes	HK\$'000
<b>Non-current assets</b>		
Investment properties	11	16,080,000
Prepaid construction costs	12	430,000
Deferred tax assets	20	21,765
Total non-current assets		<u>16,531,765</u>
<b>Current assets</b>		
Accounts receivable	13	161,500
Prepayments and other receivables	14	14,537
Restricted cash	15	85,465
Cash and cash equivalents	16	140,412
Total current assets		<u>401,914</u>
<b>Total assets</b>		<u>16,933,679</u>
<b>Current liabilities</b>		
Accounts payable	17	3,885
Accruals		58,429
Total current liabilities		<u>62,314</u>
<b>Net current assets</b>		<u>339,600</u>
<b>Total assets less current liabilities</b>		<u>16,871,365</u>
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>		
Interest-bearing bank borrowings	18	4,314,022
Derivative financial instruments	19	24,382
Deferred tax liabilities	20	1,617,885
Total non-current liabilities		<u>5,956,289</u>
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<u>6,018,603</u>
<b>Net assets attributable to Unitholders</b>		<u>10,915,076</u>
<b>Number of Units in issue</b>	21	<u>3,115,512,324</u>
<b>Net asset value per Unit</b>	22	<u>HK\$3.503</u>

The consolidated financial statements on pages 42 to 73 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 26th March, 2008 and were signed on its behalf by:

**KAI OLE RINGENSON**  
Chief Executive Officer

**LO YUK SUI**  
Chairman

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007

	Notes	Units HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Issue of new Units upon listing on 30th March, 2007		8,320,343	—	—	8,320,343
Unit issue costs		(128,657)	—	—	(128,657)
Changes in fair values of cash flow hedges		—	(24,382)	—	(24,382)
As payment of REIT Manager fees:					
Units issued	6	28,228	—	—	28,228
Units to be issued	6	25,297	—	—	25,297
Profit for the period, after distributions to Unitholders		—	—	2,694,247	2,694,247
<b>Net assets attributable to Unitholders as at 31st December, 2007</b>		<u>8,245,211</u>	<u>(24,382)</u>	<u>2,694,247</u>	<u>10,915,076</u>

## DISTRIBUTION STATEMENT

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007

	HK\$'000
<b>Profit for the period, before distributions to Unitholders</b>	2,850,198
Adjustments:	
Excess over the cost of a business combination	(2,044,441)
Fair value gains on investment properties	(591,841)
Difference in accounting Base Rent and actual contractual cash Base Rent	(70,010)
Amount set aside on account for the furniture, fixtures and equipment reserve	(22,214)
REIT Manager fees paid/payable in the form of Units	53,525
Amortisation of debt establishment costs	5,705
Deferred tax charge	240,564
	<hr/>
<b>Distributable income for the period <sup>(1)</sup></b>	<b>421,486</b>
	<hr/> <hr/>
<b>Distributions to Unitholders:</b>	
Interim - HK\$0.057 per Unit for the period to 30th June, 2007 <sup>(2)</sup>	155,951
Final declared - HK\$0.09627 per Unit for the period from 1st July, 2007 to 31st December, 2007 <sup>(3) &amp; (5)</sup>	265,535
	<hr/>
	421,486
	<hr/> <hr/>
<b>Total distribution per Unit <sup>(4) &amp; (5)</sup></b>	<b>HK\$0.15327</b>
	<hr/> <hr/>

### Notes:

- Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributable 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 an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year (from the date of establishment of Regal REIT to 31st December, 2007 for the purpose of the initial financial year). Together with the interim distribution paid for the period to 30th June, 2007, the Total Distributable Income is approximately HK\$421.5 million, which is above the distributable income guarantee of not less than HK\$420.3 million for the period from the Listing Date to 31st December, 2007 provided by the Regal Hotels International Holdings Limited ("RHIHL") in connection with the listing of Regal REIT.
- The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. In accordance with the indicative distribution per Unit in the Offering Circular and taking into account seasonality of the hotel business, the REIT Manager made a distribution of HK\$0.057 per Unit for the period to 30th June, 2007. Based on the number of Units entitled to this interim distribution, the total amount was approximately HK\$156.0 million which involved an additional distributable amount of approximately HK\$35.8 million in addition to the interim distributable income of HK\$120.2 million for the period to 30th June, 2007. The additional distributable amount was taken out from the available cash resources of Regal REIT. The interim distribution was paid to Unitholders on 11th October, 2007.

3. 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. 15th May, 2008 has been set as the Record Date in respect of the final distribution for the period from 1st July, 2007 to 31st December, 2007. This final distribution will be paid out to Unitholders on or before 30th May, 2008. The final distribution per Unit to be paid to Unitholders for the period from 1st July, 2007 to 31st December, 2007 is arrived at based on the distributable amount to be paid to Unitholders for that period and the number of Units expected to be in issue at the Record Date that are entitled to the distribution.
4. Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of RHIHL, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Program at the relevant Initial Hotels (as defined hereinafter). The distributable income during the applicable period will be available for distribution among Unitholders other than Great Prestige Investments Limited. The number of Units entitled to the 2007 final distribution is calculated as follows:

	<b>Number of Units</b>
In issue as at 31st December, 2007	3,115,512,324
Issued on 29th January, 2008 to the REIT Manager for the REIT Manager Base Fees for November 2007	1,817,592
Issued on 29th February, 2008 to the REIT Manager for the REIT Manager Base Fees for December 2007	1,901,987
To be issued to the REIT Manager for the REIT Manager Variable Fees for the period from 30th March, 2007 to 31st December, 2007	8,134,021
To be issued to the REIT Manager for the REIT Manager Base Fees for January 2008 and February 2008	4,046,090
	3,131,412,014
In issue as at the Record Date	3,131,412,014
Less: AEP Units	(373,134,326)
	2,758,277,688

5. The final distribution of HK\$0.09627 per Unit for the period from 1st July, 2007 to 31st December, 2007, representing a total distributable amount of approximately HK\$265.5 million, was resolved and declared by the REIT Manager on 26th March, 2008. Accordingly, the final distribution is not reflected as a distribution payable in the consolidated financial statements for the period ended 31st December, 2007. It will be reflected in the consolidated financial statements for the year ending 31st December, 2008.

## CONSOLIDATED CASH FLOW STATEMENT

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007

	Notes	HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax and distributions to Unitholders		3,090,762
Adjustments for:		
Excess over the cost of a business combination	23	(2,044,441)
Fair value gains on investment properties	11	(591,841)
Difference in accounting Base Rent and actual contractual cash Base Rent	13	(70,010)
Interest income	5	(5,428)
REIT Manager fees	6	53,525
Finance costs – excluding distributions to Unitholders	8	156,994
		<u>589,561</u>
Increase in accounts receivable		(91,490)
Increase in prepayments and other receivables		(1,314)
Increase in restricted cash		(14,268)
Increase in accruals		3,825
		<u>486,314</u>
<b>Cash generated from operations</b>		486,314
Interest received		5,320
Interest paid		(110,716)
		<u>380,918</u>
<b>Net cash inflow from operating activities</b>		
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Acquisition of subsidiaries	23	(6,509,354)
Additions to investment properties		(13,358)
Increase in restricted cash		(5,255)
		<u>(6,527,967)</u>
<b>Net cash outflow from investing activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of new Units		2,329,694
Unit issue costs		(128,657)
New bank borrowings, net of debt establishment costs		4,308,317
Interim distribution paid		(155,951)
Increase in restricted cash		(65,942)
		<u>6,287,461</u>
<b>Net cash inflow from financing activities</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u><u>140,412</u></u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	16	7,149
Non-pledged time deposits with original maturities of less than three months when acquired	16	133,263
		<u><u>140,412</u></u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007*

### 1. GENERAL INFORMATION

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, made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as supplemented by the supplemental trust deed dated 2nd March, 2007) 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 and hospitality-related 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 offices of the REIT Manager and the Trustee are Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 55, 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.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Group as at 31st December, 2007. 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 significant inter-company transactions and balances within the Group are eliminated on consolidation.

The acquisitions of subsidiaries during the period have 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 acquisitions are measured at the aggregate of the fair value of the assets given, financial instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisitions.

## 2.2 IMPACT OF 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 consolidated financial statements.

HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HK(IFRIC)-Int 11	<i>HKFRS 2 – Group and Treasury Share Transactions</i> <sup>2</sup>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i> <sup>4</sup>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2008

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2008

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKFRS 8, which will replace 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. The Group expects to adopt HKFRS 8 from 1st January, 2009.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures and presentation of financial statements, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.3 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.

### Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

### 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

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties 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 each 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 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 an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv); or
- (vi) 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 (iv) or (v).

## Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period 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 period of the retirement or disposal.

## Financial instruments

The Group classifies its financial instruments into the categories set out below at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred.

The Group determines the classification of its financial assets and financial liabilities after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date. Purchases and sales of the financial assets are recognised using trade date accounting.

### (a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recorded at fair values plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate i.e., the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowances are written off when there are no realistic prospects of future recovery.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to account and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economics or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of invoices. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

(b) *Financial liabilities at amortised cost*

Financial liabilities including accounts payable and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

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

(c) *Derivative financial instruments and cash flow hedges*

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. 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 values on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

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.

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 in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in 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.

The effective portion of the gain or loss on the hedging instrument is recognised directly in net assets attributable to Unitholders, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to net assets attributable to Unitholders are transferred to the income statement when the hedged transaction affects the income statement, 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 taken to net assets attributable to Unitholders are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in net assets attributable to Unitholders 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 net assets attributable to Unitholders remain in net assets attributable to Unitholders until the forecast transaction or firm commitment occurs.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For financial instruments where there is no active market, fair value is determined using 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 pricing models.

### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, 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 balance sheet, 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 is recognised in the income statement, or directly in net assets attributable to Unitholders if it relates to items that are recognised in the same or a different period.

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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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 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 profits 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 profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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.

## **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) Variable Rent and the furniture, fixtures and equipment reserve (the "FF&E Reserve") contributions are recognised as income in the accounting period in which they are earned in accordance with the terms of respective agreements; and
- (c) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.



### Foreign currency transactions

The consolidated financial statements are presented in Hong Kong dollars, which is Regal REIT's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the balance sheet date. 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 reporting date. 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 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 net assets attributable to Unitholders within the cash flow hedge 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) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. 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 balance sheet date, 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.

#### *Estimation of fair values of investment properties*

The fair value of each investment property is individually determined at each balance sheet date by 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 their 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 lease 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.

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of such 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 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 each balance sheet date.

## **4. SEGMENT INFORMATION**

All of the Group's operations are located and carried out in Hong Kong and the sole principal activity of the Group is hotel property investment. Accordingly, no segment information by business and geographical segments is presented.

## 5. GROSS RENTAL REVENUE AND OTHER INCOME

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

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

	Notes	HK\$'000
<b>Gross rental revenue</b>		
Rental income	(a)	647,526
Other rental-related income	(b)	22,214
Others		3,047
		<u>672,787</u>
		<b>HK\$'000</b>
<b>Other income</b>		
Bank interest income		5,428
Others		5
		<u>5,433</u>

Notes:

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

	HK\$'000
Base Rent	
Cash Base Rent	475,900
Difference in accounting Base Rent and actual contractual cash Base Rent	70,010
	<u>545,910</u>
Variable Rent	101,616
	<u>647,526</u>

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

- (i) a 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 2007, the annual cash Base Rent is fixed at HK\$630 million and is pro-rated from the Listing Date to 31st December, 2007. 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; and
- (ii) a variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits from the operations of 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") adjusted for the cash Base Rent payments, until the year ending 31st December, 2010, payable semi-annually. Regal REIT is entitled to a share of 100% in 2007, 70% in 2008, 60% in 2009 and 50% in 2010.

For the years from 2011 to 2015, the Base Rent and the Variable Rent are to be determined subject to annual rent reviews by an independent property valuer.

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

## 6. REIT MANAGER FEES

	<b>HK\$'000</b>
Base Fees	36,200
Variable Fees	17,325
	<hr/>
	53,525
	<hr/> <hr/>

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 as at the Listing Date, as disclosed in the offering circular dated 19th March, 2007 (the "Offering Circular"), which is payable monthly and subject to adjustments based on the value of the audited total assets of Regal REIT as at the relevant balance sheet date; and
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income as defined in the Trust Deed in respect of each Initial Hotel, which is payable annually.

During the period, REIT Manager fees of approximately HK\$28.2 million were settled by 10,906,576 Units. The remaining REIT Manager fees of approximately HK\$25.3 million, comprising Base Fees for November 2007 and December 2007 and Variable Fees for the period from 30th March, 2007 to 31st December, 2007, are to be settled subsequent to the balance sheet date in Units in accordance with the terms of the Trust Deed.

## 7. TRUST AND OTHER EXPENSES

	<b>HK\$'000</b>
Auditors' remuneration	
Audit fees	1,320
Non-audit fees	479
Legal and other professional fees	69
Trustee fees	2,219
Valuation fees	670
Other expenses	1,359
	<hr/>
	6,116
	<hr/> <hr/>

Regal REIT did not appoint any directors and the Group did not engage any employees during the period ended 31st December, 2007 and, accordingly, no directors and employee benefit expenses were incurred during the period.

## 8. FINANCE COSTS – EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	<b>HK\$'000</b>
Interest expenses on interest-bearing bank borrowings repayable within five years	150,775
Amortisation of debt establishment costs	5,705
Loan commitment fees	284
Loan agency fee	230
	<u>156,994</u>

## 9. TAX

The tax charge represents the deferred tax charge for the period. No provision for Hong Kong profits tax has been made as the Group has available tax losses attached to the holding companies holding the Initial Hotels acquired by the Group upon the initial public offering of the Units to offset the assessable profits generated during the period.

	<b>HK\$'000</b>
Charge for the period	—
Deferred tax (note 20)	240,564
	<u>240,564</u>

A reconciliation of the tax expense applicable to profit before tax and distributions to Unitholders using the Hong Kong statutory rate to the tax expense at the Group's effective tax rate is as follows:

	<b>HK\$'000</b>
Profit before tax and distributions to Unitholders	3,090,762
Tax at the statutory tax rate of 17.5%	540,883
Income not subject to tax	(358,727)
Expenses not deductible for tax	58,408
	<u>240,564</u>

There are no income tax consequences attaching to the payment of dividends by the subsidiaries of Regal REIT to their shareholders.

## 10. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of basic earnings per Unit amount is based on the profit for the period before distributions to Unitholders of approximately HK\$2,850,198,000 and the weighted average of 3,108,353,881 Units in issue during the period. The basic earnings per Unit for the period amounted to HK\$0.917.

The diluted earnings per Unit amount is the same as the basic earnings per Unit amount as there were no dilutive instruments in issue during the period.

## 11. INVESTMENT PROPERTIES

	<b>HK\$'000</b>
Additions through a business combination upon listing (note 23)	14,900,000
Fair value gains	591,841
Transfer from prepaid construction costs (note 12)	570,000
Capital expenditures for the period	18,159
	<hr/>
Carrying amount at 31st December, 2007	<u>16,080,000</u>

The Group's investment properties were valued on 31st December, 2007 by CB Richards Ellis Limited, independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$16,080,000,000 on an open market value, existing use basis. The investment properties are leased to a related party under operating leases, further details of which are included in note 24(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 18).

Further particulars of the Group's investment properties are included on page 111.

## 12. PREPAID CONSTRUCTION COSTS

	<b>HK\$'000</b>
Additions through a business combination upon listing (note 23)	1,000,000
Transfer to investment properties (note 11)	(570,000)
	<hr/>
Carrying amount at 31st December, 2007	<u>430,000</u>

This represents the prepaid project costs for the asset enhancement program (the "AEP" or "Asset Enhancement Program") including construction costs, fit-out of 274 additional rooms in Regal Riverside Hotel and ancillary facilities, related renovations, land premiums and any other costs in respect of the Asset Enhancement Program.

During the period, aggregate prepaid construction costs of HK\$570,000,000 (note 11) were transferred to investment properties upon completion of the Asset Enhancement Program for certain Initial Hotels.

### 13. ACCOUNTS RECEIVABLE

Included in the Group's accounts receivable is an amount of approximately HK\$70.0 million representing the difference in accounting Base Rent and actual contractual cash Base Rent which is recognised as revenue in the income statement on the straight-line basis over the lease term in accordance with the accounting policy as set out in note 2.3 above.

The remaining balance of approximately HK\$91.5 million, comprising approximately HK\$87.7 million of Variable Rent receivables and approximately HK\$3.8 million of FF&E Reserve contribution receivables, represents an amount 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 in respect of a related company for whom there is no recent history of default.

### 14. PREPAYMENTS AND OTHER RECEIVABLES

	<b>HK\$'000</b>
Prepayments	586
Other receivables	13,223
Due from a significant Unitholder	728
	<hr/>
	14,537
	<hr/> <hr/>

None of the above financial assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there is no recent history of default.

### 15. RESTRICTED CASH

At 31st December, 2007, the Group had approximately HK\$85.5 million of cash which was restricted as to use. All of the restricted cash is expected to be released within one year from 31st December, 2007 and is accordingly classified as a current asset.

### 16. CASH AND CASH EQUIVALENTS

	<b>HK\$'000</b>
Cash and bank balances	7,149
Time deposits	133,263
	<hr/>
Cash and cash equivalents	140,412
	<hr/> <hr/>

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.

## 17. ACCOUNTS PAYABLE

The accounts payable represent an amount due to a related company which is unsecured, interest-free and repayable on demand.

## 18. INTEREST-BEARING BANK BORROWINGS

	<b>HK\$'000</b>
Interest-bearing bank borrowings repayable within five years	4,350,000
Debt establishment costs	(35,978)
	<hr/>
	4,314,022
	<hr/> <hr/>

Under a banking facility agreement, the Group has been granted a facility aggregating HK\$4.5 billion comprising a HK\$4.35 billion term loan and a HK\$150.0 million revolving credit facility. The total facility bears interest at the floating interest rate of 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. At the balance sheet date, the Group had fully utilised the term loan facility of HK\$4.35 billion. The term loan facility has a term of five years and 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 term loan, details of which are set out in note 19. The effective interest rate on the bank borrowings, taking into account the interest rate swap arrangements, is approximately 4.54% per annum for the period up to 31st December, 2007.

Bank borrowings under the term loan and the revolving credit facility are guaranteed by Regal REIT and, on a joint and several basis, by the individual companies of the Group and are also secured by, amongst others:

- (i) a legal charge and a debenture 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 relating to the investment properties;
- (iii) a charge over each rental account, sale proceeds account and other control accounts;
- (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 Group companies.



## 19. DERIVATIVE FINANCIAL INSTRUMENTS

**Liabilities**  
**HK\$'000**

Interest rate swaps – cash flow hedges

24,382

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan (note 18). 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
HK\$2,000,000,000	18th January, 2009	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate ranging from 4.33% to 4.5%, effective from 18th January, 2008 to 18th January, 2009

The above derivatives are measured at fair values at the balance sheet date and are determined based on discounted cash flow models. The REIT Manager considers that the interest rate swaps are effective hedging instruments.

## 20. DEFERRED TAX

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

	Depreciation allowances in excess of related depreciation HK\$'000	Fair value adjustments arising from revaluations of the Initial Hotels HK\$'000	Losses available for offset against future taxable profits HK\$'000	Total HK\$'000
Acquisition of subsidiaries	(141,941)	(1,396,019)	182,404	(1,355,556)
Deferred tax charged to the income statement during the period (note 9)	<u>(24,606)</u>	<u>(175,688)</u>	<u>(40,270)</u>	<u>(240,564)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2007	<u>(166,547)</u>	<u>(1,571,707)</u>	<u>142,134</u>	<u>(1,596,120)</u>

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

	HK\$'000
Net deferred tax assets recognised in the consolidated balance sheet	21,765
Net deferred tax liabilities recognised in the consolidated balance sheet	<u>(1,617,885)</u>
	<u>(1,596,120)</u>

The deferred tax liabilities set out above primarily relate to the deferred tax calculated on the valuation surplus on the Initial Hotels, which arose from the business combination, in accordance with the relevant accounting standard. However, based on current tax legislation in Hong Kong, no capital gains tax is payable upon disposal of the Initial Hotels.

## 21. NUMBER OF UNITS

	Number of Units
Units in issue	
Issue of new Units upon listing on 30th March, 2007	3,104,605,748
REIT Manager fees paid in Units	<u>10,906,576</u>
As at 31st December, 2007	<u>3,115,512,324</u>
Units to be issued	
REIT Manager fees payable in Units in respect of services rendered for the period	<u>11,853,600</u>

## 22. NET ASSET VALUE PER UNIT

The net asset value per Unit is calculated by dividing the net assets attributable to the Unitholders as at 31st December, 2007 of approximately HK\$10,915,076,000 by the number of Units in issue of 3,115,512,324 as of that date.

## 23. BUSINESS COMBINATION

On 30th March, 2007, Regal REIT acquired the entire share capital of Regal Asset Holdings Limited ("RAHL"), whose principal activity is indirectly holding the Initial Hotels from Regal International (BVI) Holdings Limited ("RBVI"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), for a consideration of approximately HK\$12.5 billion. As a result, the Group recognised an excess over the cost of a business combination of approximately HK\$2,044.4 million, representing, principally, the discount to the appraised values of the Initial Hotels. RBVI undertook to complete the AEP for a consideration of HK\$1 billion and RHIHL guaranteed this obligation 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 RAHL at the date of acquisition are summarised as follows:

	<b>HK\$'000</b>
Investment properties (note 11)	14,900,000
Prepaid construction costs (note 12)	1,000,000
Deferred tax assets	31,899
Deferred tax liabilities	(1,387,455)
	<hr/>
Net assets acquired	14,544,444
Excess over the cost of a business combination recognised in the income statement	(2,044,441)
	<hr/>
Total consideration	12,500,003
	<hr/> <hr/>
Consideration satisfied by:	
Cash	6,509,354
Fair value of 2,235,316,748 Units issued	5,990,649
	<hr/>
	12,500,003
	<hr/> <hr/>

Since its acquisition, RAHL and its subsidiaries contributed approximately HK\$672.8 million to the Group's gross rental income and approximately HK\$805.7 million to the consolidated profit for the period ended 31st December, 2007.

## 24. 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, 2007, the total future minimum lease receivables under non-cancellable operating leases with its tenant falling due were as follows:

	HK\$'000
Within one year	702,396
In the second to fifth years, inclusive	1,532,548
	<hr/>
	2,234,944
	<hr/> <hr/>

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

### (b) As lessee

The Group leases certain premises under operating lease arrangements. The leases are negotiated for terms ranging from 2 to 6 years. At 31st December, 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	HK\$'000
Within one year	2,396
In the second to fifth years, inclusive	2,548
	<hr/>
	4,944
	<hr/> <hr/>

During the period, the total minimum lease payments under operating leases in respect of land and buildings of approximately HK\$2,292,000 was charged to the consolidated income statement.

## 25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24(b) above, the Group had the following capital commitments in respect of the Initial Hotels as at 31st December, 2007:

	HK\$'000
Authorised and contracted for	3,485
Authorised but not contracted for	23,735
	<hr/>
	27,220
	<hr/> <hr/>

## 26. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with connected and related parties during the period:

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
CB Richard Ellis Limited (the "Valuer")	The principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	602,777
Interest income received/receivable from the Deutsche Bank Group	(ii)	14,443
REIT Manager fees	(iii)	(53,525)
Trustee fees	(iv)	(2,219)
Valuation fees paid/payable to the Valuer	(v)	(2,220)

Notes:

- (i) Rental and rental-related income are earned by the Group in accordance with the relevant agreements, details of which, including the terms, are set out in note 5 to the financial statements.
- (ii) The interest income is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. Interest is earned thereon in accordance with relevant bank agreements and swap contracts with the Deutsche Bank Group.
- (iii) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 6 to the financial statements.
- (iv) The Trustee is entitled to receive trustee fees (calculated and payable quarterly in arrears) at a rate from 0.025% per annum to a rate of 0.015% per annum based on the value of all the assets of Regal REIT as at the balance sheet date, including but not limited to the Initial Hotels, subject to a minimum of HK\$66,000 per month. Such fees are payable to the Trustee from the date Regal REIT acquired the Initial Hotels.
- (v) Included in the valuation fees charged by the Valuer are amounts of approximately HK\$1.1 million and HK\$0.4 million in connection with the initial public offering of Regal REIT and bank loan facilities as disclosed in note 18 to the financial statements, respectively. These amounts were recorded as a Unit issue cost in the statement of net assets attributable to Unitholders and debt establishment costs. The valuation fees are charged by the Valuer in accordance with the terms of the relevant agreements.

(b) Balances with connected/related parties as at 31st December, 2007 were as follows:

	<b>Notes</b>	<b>HK\$'000</b>
Net amount due from/(to):		
The RHIHL Group	(i)	88,332
The Trustee	(ii)	(678)
The Valuer	(iii)	(670)
Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group	(iv)	<u>142,469</u>

(i) Details of the balance are set out in notes 13, 14 and 17 to the financial statements.

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

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

(iv) Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirement 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, interests, default interests, 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) In connection with the initial public offering of the Units, the RHIHL Group has guaranteed the Total Distributable Income of Regal REIT for the period from the Listing Date to 31st December, 2007 to be not less than HK\$420.3 million.

(e) Under a deed of trade mark licence, the RHIHL Group has 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.

## 27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of designated categories of financial instruments as at the balance sheet date are as follows:

### Financial assets

	<b>Loans and receivables HK\$'000</b>
Financial assets included in accounts receivable	91,609
Other receivables	13,223
Due from a significant Unitholder	728
Restricted cash	85,465
Cash and cash equivalents	140,412
	<u>331,437</u>

### Financial liabilities

	<b>Financial liabilities at fair value through profit or loss - designated as hedging instruments HK\$'000</b>	<b>Financial liabilities at amortised cost HK\$'000</b>	<b>Total HK\$'000</b>
Accounts payable	—	3,885	3,885
Derivative financial instruments	24,382	—	24,382
Interest-bearing bank borrowings	—	4,314,022	4,314,022
	<u>24,382</u>	<u>4,317,907</u>	<u>4,342,289</u>

## 28. 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 cash and bank balances and 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 19 to the financial statements. These swaps are designated to hedge underlying bank borrowing obligations.

For Hong Kong dollars bank deposits, assuming the amount of bank balances outstanding at the balance sheet was outstanding for the whole year, a 100 basis point increase/decrease in interest rates at 31st December, 2007 would have increased/decreased the Group's profit before tax and distributions to Unitholders by approximately HK\$1.4 million. The sensitivity to interest rate used is considered reasonable, with all other variable 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 lessee on an on-going basis. Currently, all the Initial Hotels held by the Group are leased to a single lessee. 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 balance sheet.



## 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. A revolving credit facility has also been put in place for contingency purposes as disclosed in note 18 to the financial statements.

The maturity profile of the Group's financial liabilities as at 31st December, 2007, based on the contracted undiscounted payments, was as follows:

	On demand HK\$'000	Less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	—	—	4,350,000	4,350,000
Accounts payable	3,885	—	—	3,885
Derivative financial instruments	—	—	24,382	24,382
	<u>3,885</u>	<u>—</u>	<u>4,374,382</u>	<u>4,378,267</u>

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 swap 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 flow 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 Initial Hotels.

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 balance sheet date, the loan-to-value ratio of 26.4%, being the aggregate amount of the outstanding loans of HK\$4.35 billion as compared to the aggregate market value of the Initial Hotels (including prepaid construction costs under the Asset Enhancement Program) of approximately HK\$16.5 billion, was below the 40% threshold as allowed under the banking facility agreements. At the balance sheet date, the gearing ratio of 25.7%, being the gross amount of the outstanding loans of HK\$4.35 billion divided by the total assets of approximately HK\$16.9 billion, was below the maximum limit of 45% stipulated under the REIT Code.

## 29. 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.

### 30. POST BALANCE SHEET EVENTS

- (a) On 29th January, 2008, 1,817,592 new Units were issued to the REIT Manager at HK\$2.157 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$3.9 million for November 2007.
- (b) On 29th February, 2008, 1,901,987 new Units were issued to the REIT Manager at HK\$2.13 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$4.1 million for December 2007.
- (c) In accordance with the terms of the Trust Deed, 8,134,021 new Units will be issued to the REIT Manager in settlement of the REIT Manager Variable Fee of approximately HK\$17.3 million for the period from 30th March, 2007 to 31st December, 2007.

### 31. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

### 32. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

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

The above table lists the subsidiaries of Regal REIT which, in the opinion of the REIT Manager, principally affected the results for the period 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.

### 33. COMPARATIVE AMOUNTS

These consolidated financial statements are the first set of financial statements prepared by Regal REIT and, accordingly, no comparative amounts have been presented.

## INDEPENDENT AUDITORS' REPORT



### To the Unitholders of Regal Real Estate Investment Trust

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

We have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 73, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in net assets attributable to unitholders, the consolidated cash flow statement and the distribution statement for the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007, 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 supplemental trust deed dated 2nd March, 2007 (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trust (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.



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, 2007 and of the Group's profit and cash flows for the period from 11th December, 2006 (the date of establishment of Regal REIT) to 31st December, 2007 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

Hong Kong, 26th March, 2008

## PERFORMANCE TABLE

As at 31st December, 2007	Notes	HK\$
Net asset value		10,915,076,000
Net asset value per Unit		3.503
The highest traded price during the period		2.79
The highest premium of the traded price to net asset value per Unit	1	N/A
The lowest traded price during the period		1.99
The highest discount of the traded price to net asset value per Unit		43.19%
Distribution yield per Unit	2	7.20%
Annualised distribution yield per Unit	2	9.48%

### Notes:

1. The highest traded price during the period from the Listing Date to 31st December, 2007 was HK\$2.79 which was lower than the net asset value per Unit as at 31st December, 2007 (the offer price of the Units was HK\$2.68 under the Global Offering). Accordingly, no premium of the traded price to net asset value per Unit is presented.
2. Distribution yield per Unit for the period from the Listing Date to 31st December, 2007 is calculated by dividing the total distribution per Unit of HK\$0.15327 over the closing price of HK\$2.13 as at 31st December, 2007, being the last trading day for the period. The calculation of the distribution per Unit had been set out in section "Distribution Statement" on pages 45 to 46. The annualised distribution yield per Unit is calculated based on a factor of 365/277.



## 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 has, in all material respects, managed Regal Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 11th December, 2006, as amended by the First Supplemental Trust Deed dated 2nd March, 2007 for the period from 30th March, 2007 (date of listing) to 31st December, 2007.

#### **DB Trustees (Hong Kong) Limited**

*(in its capacity as the trustee of Regal Real Estate Investment Trust)*

Hong Kong, 18th March, 2008

## VALUATION REPORT

**CBRE**  
CB RICHARD ELLIS  
世邦魏理仕

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地產代理 (公司) 牌照號碼  
Estate Agent's Licence No: C-004065

February 28, 2008

### **Regal Portfolio Management Limited**

Unit No. 1504, 15/F,  
68 Yee Wo Street,  
Causeway Bay, Hong Kong  
(as REIT Manager of Regal REIT)

and

### **DB Trustees (Hong Kong) Limited**

55/F., Cheung Kong Center  
2 Queen's Road Central, Hong Kong  
(as Trustee of Regal REIT)

Dear Sirs,

### **RE: VALUATION OF REGAL AIRPORT HOTEL, REGAL HONGKONG HOTEL, REGAL KOWLOON HOTEL, REGAL ORIENTAL HOTEL AND REGAL RIVERSIDE HOTEL IN HONG KONG (COLLECTIVELY "INITIAL HOTEL PROPERTIES" OR INDIVIDUALLY "INITIAL HOTEL PROPERTY")**

We refer to the recent instruction from the Manager of Regal REIT to CB Richard Ellis Limited (hereinafter refers to "we" or "CBRE") to carry out valuations of the captioned five hotels (as detailed in the attached summary of values). We confirm that we have made relevant investigations and enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the market values of the leasehold interests of the Initial Hotel Properties as at December 31, 2007 (the "date of valuation").

## Valuation Principles

Our valuations are prepared in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" and meet the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities (the "Exchange Listing Rules") issued by The Stock Exchange of Hong Kong Limited as well as paragraph 6.8 of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission in June 2005.

Our valuations are made on the basis of Market Value which is defined by the HKIS to mean "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".

We have applied the definition of Market Value to each property interest independently.

Our assessments address the Market Values of the Initial Hotel Properties subject to the Lease Agreements, the Hotel Management Agreements, the Lease Guarantee and Third Party Guarantee, and the existing tenancies. In view of the nature of the properties, our valuations have been made inclusive of land, buildings, furniture, trade fixtures and fittings, and operating equipment. The lessee of the Lease Agreements is Favour Link International Limited, which is a subsidiary of Regal Hotels International Holdings Limited.

Gross Floor Area expressed in our valuation reports has the same meaning as that defined in the Building (Planning) Regulations. Except where such area has been exempted as constituting gross floor area under the Building (Planning) Regulations of the Buildings Ordinance, Cap. 123 of the Laws of Hong Kong, in general, Gross Floor Area of a building shall be the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground) and the thickness of the external walls of the building but may disregard any floor space that is constructed solely for parking motor vehicles, loading or unloading of motor vehicles, refuse related facilities and other mechanical and electrical services. Covered Floor Area, on the other hand, mean all floor area covered under the roofs of the property including Gross Floor Area, and any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or similar services, and any area (above or below the level of the ground) which is exempted from the Gross Floor Area calculation by the Building Authority but excluding bay window area.


In the course of our valuations, we have caused searches to be made at the Land Registry. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us. We are not aware of any title defects, easements or rights of way affecting the Initial Hotel Properties and our valuations assume that none exists, except only where otherwise stated.

We have assumed that the Initial Hotel Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Initial Hotel Properties upon which the attached reports are based, any and all required licences, permits, certificates, and authorizations have been obtained, except only where otherwise stated.

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

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of this report.





We understand the Asset Enhancement Program (the "AEP") has been completed in Regal Airport Hotel, Regal Hongkong Hotel and Regal Oriental Hotel. AEP of Regal Riverside Hotel is undergoing and its outstanding construction cost is approximately HK\$160 million (not including land premium). Regal International (BVI) Holdings Limited ("the Former Vendor") has undertaken to pay the full construction cost and land premium. Our valuation assumed the remaining AEP will be completed in according to the construction schedule as provided to us.

## Valuation Methods

We have adopted two valuation methods, namely Discounted Cash Flow Method and Direct Comparison Method, in assessing the Market Values of the Initial Hotel Properties. The rationales of the methods are pinpointed as follows:

- **Primary Method - Discounted Cash Flow**

Discounted Cash Flow ("DCF") Method allows an investor or owner to make an assessment of the long term return that is likely to be derived from a property with a combination of income growth over an assumed investment horizon. In undertaking this analysis, a wide range of assumptions are made including a target or pre-selected internal rate of return, revenue growth, sale price of the properties at the end of the investment horizon, costs associated with the initial purchase of the property interests and also its disposal at the end of the investment period.

The analysis proceeds on a before tax basis, and whilst we have not qualified any potential taxation benefits or burdens associated with the Initial Hotel Properties, we are of the view that these are issues which a prospective purchaser would reflect in its consideration. Acquisition costs and disposal costs have been assumed in the DCF analysis.

DCF Method begins with a set of assumptions as to income and expenses of the Initial Hotel Properties and future economic conditions in the hotel market. The income and expenses figures are mathematically extended and is fully dependent upon the accuracy of the assumptions as to incomes, expenses and market conditions.

In arriving at our valuations, we have made reference to the actual results of operations of the Initial Hotel Properties for years 2004 to 2007, information regarding the business prospects of the hotel industry in Hong Kong with reference to the five hotels provided by the instructing party, and our own analysis of relevant general and economic conditions and of business prospects of the Initial Hotel Properties.

- **Secondary Method - Direct Comparison**

As a supporting approach to the valuation, we have also considered the Direct Comparison Method as a check for the valuation arrived at from the DCF Method. Direct Comparison Method, involving the analysis of comparable sales and adjustments are made to reflect the differences in date of sale, location, property quality, market positioning, room configuration and distribution, provision of retail and other facilities, the land lease term, the government rents and other factors affecting the value. Information about all recent hotel transactions has been collected and it is found that none of them is a direct comparable to the Initial Hotel Properties as they are different in terms of location, total number of rooms, availability of facilities, date of sale, etc. However, reference and adjustments have been made to such sales transactions and the valuation assessment using this approach serve as benchmarks to check the assessment by the DCF Method.

## Inspection

We have inspected the Initial Hotel Properties to such extent as is necessary for the purpose of the valuations. In the course of our inspection, we did not notice any serious defects, except where stated otherwise. However, we have not carried out any structural survey nor any tests were made on the building services.

## Reliance On This Letter

The valuations and market information are not guarantees or predictions and must be read in conjunction with the following:

- The conclusions as to the estimated values of each Initial Hotel Property are based upon the factual information set forth in the respective reports. Whilst CBRE has endeavored to assure the accuracy of the factual information, it has not independently verified all information provided to us (primarily copies of leases and financial information with respect to the properties as well as statistical information relating to market conditions and demographics).
- We have no reason to doubt the truth and accuracy of the information provided to us and we also have no reason to believe that the information is not fair and reasonable. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.
- The reports were undertaken based upon information available to us. CBRE accepts no responsibility for subsequent changes in information as to income, expenses or market conditions. No obligation is assumed to revise the valuations to reflect events or conditions which may occur subsequent to the date thereof.

## Disclaimer

This report and our valuation is for the use of the REIT Manager of Regal REIT and the Trustee. It 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 this valuation.

CBRE has relied upon information supplied by the instructing party and various independent third party studies which we assume to be true and accurate. CBRE takes no responsibility for the accuracy of the supplied data and subsequent conclusions related to such data. The inquiries of CBRE are necessarily limited by the nature of its role and CBRE does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. For the purpose of our valuation assessments, we have assumed that this information is correct.

The valuer and CBRE have no present or prospective interest in the Initial Hotel Properties and have no personal interest or bias with respect to the parties involved. The valuer's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of subsequent events (such as a lending proposal or sale negotiation).

We enclose herewith a summary of values and our valuation reports.

Yours faithfully,  
For and on behalf of  
**CB Richard Ellis Limited**

**Mr Alex PW Leung** MHKIS MRICS RPS(GP)  
*Director*  
*Valuation & Advisory Services*

## SUMMARY OF VALUES

<b>Property interests</b>	<b>Market Value as at December 31, 2007</b>
1. <b>Regal Airport Hotel</b> 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, Lantau Island, New Territories, Hong Kong	HK\$5,300,000,000
2. <b>Regal Hongkong Hotel</b> 88 Yee Wo Street, Causeway Bay, Hong Kong	HK\$3,530,000,000
3. <b>Regal Kowloon Hotel</b> 71 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong	HK\$3,530,000,000
4. <b>Regal Oriental Hotel</b> 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and Whole 1/F, Po Sing Court 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong	HK\$1,270,000,000
5. <b>Regal Riverside Hotel</b> 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong <sup>1</sup>	HK\$2,940,000,000 <sup>2</sup>
<b>Total:</b>	<b><u>HK\$16,570,000,000<sup>3</sup></u></b>

<sup>1</sup> AEP of Regal Riverside Hotel is expected to be completed in full by December 31, 2008.

<sup>2</sup> Inclusive of the land premium involved for AEP. The assessed value without AEP was HK\$2,450,000,000.

<sup>3</sup> Excluding the AEP of Regal Riverside Hotel, the Market Value of all the Initial Hotel Properties as at December 31, 2007 is HK\$16,080,000,000.

## PROPERTY 1

### REGAL AIRPORT HOTEL

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

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

#### 1. PROPERTY DESCRIPTION

##### General Description

Regal Airport Hotel was opened in 1999 and is a 14-story (including one basement floor) High Tariff B hotel. The number of rooms has been increased from 1,104 to 1,171 after its AEP completed in October, 2007. It is currently the only hotel connected to the Hong Kong International Airport by an air-conditioned footbridge.

Regal Airport Hotel overlooks other buildings and airport facilities across the roads on the northern and western sides and faces an elevated road/railway and an open taxi staging area in the eastern direction towards the commercial district.

**Site Area** 117,179 sq ft (10,886.15 sq m)

**Town Planning Zoning** "Commercial" under the current Chek Lap Kok Outline Zoning Plan No. S/I-CLK/10 dated May 9, 2006

**Floor Areas** Gross Floor Area: 774,880 sq ft (71,988.08 sq m) or  
Covered Floor Area: 897,545 sq ft (83,383.99 sq m)

##### Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	216	Cabana room	17	Honeymoon Suite	1
Superior	380	Apartment	9	Spa Superior	14
Deluxe	306	Duplex Suite	2	Spa Cabana	5
Premier	30	Regal Club Superior	68	Spa Suite	2
Deluxe Suite	15	Regal Club Deluxe	94	Presidential Suite	1
Royal Suite	11				
<b>Size Range<sup>4</sup></b>	291 sq ft (27 sq m) to 926 sq ft (86 sq m)			<b>TOTAL</b>	<b>1,171</b>

<sup>4</sup> Except Presidential Suite which is of 3,014 sq ft (280 sq m)

## Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Café Aficionado	G/F	Coffee Shop	733
China Coast Bar & Grill	G/F	Western	550
Dragon Inn	G/F	Chinese	324
Airport Izakaya	G/F	Japanese	202
Rouge	1/F	Chinese	454
Lobby Lounge	2/F	Lounge	306

## Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Pre-Function Area	B/F	1	6,755	628
Meeting Rooms	B/F	13	10,958	1,018
Meeting Room	G/F	1	1,921	178
Ballroom	1/F	1, can be subdivided into 3	10,333	960
Meeting Room	1/F	7	5,274	490
Meeting Room	2/F	3	1,017	94
Meeting Room	9/F	1	645	60

## Other Facilities

Other facilities include a business center, one outdoor and one indoor swimming pool, a health club with gymnasium, massage and spa facilities and shopping areas.

## 2. OWNERSHIP & TENURE

**Registered Owner:** Bauhinia Hotels Limited

**Sub-Lease Expiry:** December 30, 2028

### Encumbrances

- Sub-Lease of Hotel from the Airport Authority for a term of 25 years from December 31, 2003 via Memorial No. IS342341 dated August 12, 2004.
- Bauhinia Debenture in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850013 dated March 30, 2007.
- Mortgage and Assignment of Rights in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850060 dated March 30, 2007.

### 3. TENANCIES/LICENCES

#### Retail Spaces

Total Retail Area (lettable):	40,860 sq ft (3,796 sq m)
Occupied Area (lettable):	9,041 sq ft (840 sq m)
Vacant Space (lettable):	31,819 sq ft (2,956 sq m)
Occupancy:	22.1%
Monthly Base Rent:	HK\$277,501
Range of Terms: (excluding monthly tenancies)	2 years to 3 years

#### Mobile Phone Base Stations/Antennae/ Signage Space and Poster Stand(s)

Number of Licences:	8
Monthly Licence Fee:	HK\$241,500
Latest Expiry Date:	February 14, 2009

#### Tenancy Expiry Profile:

Monthly Tenancies	
2008	
2009	
2010	

#### Lettable Area (sq ft)

794
891
2,694
4,662

Latest expiry date: June 30, 2010

Option to Renew: N/A

Summary of Terms: The landlord 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.

### 4. HOTEL OPERATION

#### Performance in 2007

<b>Occupancy:</b>	76%
<b>Average Room Rate:</b>	HK\$1,106

#### Hotel Management

**Manager:** Regal Hotels International Limited

**Management Term:** 20 years from the Listing Date

**Annual Base Fee:** For so long as the Lease is in subsistence: 1% of the Gross Revenues<sup>5</sup>  
In any other cases: 2% of the Gross Revenues

<sup>5</sup> In accordance with the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

**Annual Incentive Fee:** For so long as the Lease is in subsistence: 1% of the excess of the Adjusted GOP<sup>6</sup> over the Base Fee<sup>7</sup> and the Fixed Charges<sup>8</sup>

In any other cases: 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

### Lease Agreement

**Lessor:** Bauhinia Hotels Limited

**Lessee:** Favour Link International Limited

**Term:** Commencing from the Listing Date and expiring on December 31, 2015.

**Rental:** 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income<sup>9</sup> ("NPI") of the five hotels over the aggregate Base Rent of the five 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 five hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents	Rates of Variable Rents
2007	pro-rated portion of HK\$270,000,000 which is for whole year	100%
2008	HK\$300,000,000	70%
2009	HK\$320,000,000	60%
2010	HK\$325,000,000	50%

2011 to 2015: Market Rent to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK\$175,000,000 p.a.

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

<sup>6</sup> Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>7</sup> Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

<sup>8</sup> Under the Hotel Management Agreement, "Fixed Charges" means expenses which constitute a non-operating expense in nature in accordance with the Uniform System of Accounts for the Lodging Industry, as more particularly described in the Hotel Management Agreement. Please refer to the Hotel Management Agreement for details.

<sup>9</sup> Net Property Income, "NPI", as defined in Hotel Management Agreement.

## 5. MARKET ANALYSIS

The Hong Kong tourism sector has extended its buoyancy since 2004 and increased steadily in 2007. In 2007, approximately 28 million tourists visited Hong Kong, a year-on-year increase of 11.6% over the total number in 2006. Arrivals from the Mainland registered a substantial rise of 13.9% over 2006 to 15 million. Among all tourist arrivals, over 17 million representing 61% overnight visitors, while the remaining 39% were classified as same-day in-town visitors.

These positive indicators translated into the high occupancy rates in 2007. Due to the additional 4,453 new rooms supply in 2007, the average occupancy rate declined slightly to 86% compared with 87% in 2006. In other words, the actual number of rooms occupied has increased. In light of the maturing operations of AsiaWorld-Expo, SkyPlaza and Disneyland and the 24-hour operation of Hong Kong International Airport, the occupancy rate for hotel rooms is expected to be further improved. In addition, based on the findings of Hong Kong Tourism Board, the average room rates increased impressively by 11.4%. Given the strength from these figures, the hotel industry is expected to remain buoyant over the near-to-medium term.

With the prevailing positive figures shown above, the investors are highly optimistic about the hotel industry. As at December 2007, there were 140 hotels providing 51,581 guest rooms in Hong Kong. According to the Hong Kong Tourism Board, 50 new hotels are scheduled for completion between 2008 and 2012. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 63,732 in 2012.

Regal Airport Hotel is currently the only hotel connected to the Hong Kong International Airport by an air-conditioned footbridge. It directly enjoys the benefits from the increase of the tourist/business traveler arrivals. The hotel management changed its marketing strategy in 2007 to build up occupancy rate ahead of the increase in room rates.

The growth of daily rate and occupancy will be supported by the considerable increase in the Airport traffic due to the growing China trades and the CEPA. The improvements in conference and room facilities also attract more clients. The forecast growth rates adopted represent the improving economic conditions and increasing property value in Hong Kong.

## 6. CONCLUSION

- Market value as at December 31, 2007 was **HK\$5,300,000,000** (HONG KONG DOLLARS FIVE BILLION THREE HUNDRED MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the above mentioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 5.7%



## 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

##### General Description

Regal Hongkong Hotel is High Tariff A hotel opened in 1993. After its AEP completed in December 2007, it becomes a 37-story (including four basement floors) building with number of room increased from 424 to 474. It is positioned in a way that the majority of rooms could command a view of the Victoria Park.

**Site Area** 12,663 sq ft (1,176.42 sq m)

**Town Planning Zoning** "Commercial/ Residential" under the current Causeway Bay Outline Zoning Plan No. S/H6/14 dated September 13, 2005

**Floor Areas** Gross Floor Area: 270,016 sq ft (25,085.08 sq m) or  
Covered Floor Area: 343,864 sq ft (31,945.74 sq m)

In addition, the current owner of Regal Hongkong Hotel has also rented some spaces on G/F to 3/F of 68 Yee Wo Street by two tenancies. The first tenancy is related to the ancillary uses to the daily hotel operation. Expiring on March 1, 2010 with an option to renew for 12 years, involves a lettable area of 10,510 sq ft at a current rent of HK\$182,000 per month. The second one is a shorter tenancy expiring on March 28, 2008 involving a lettable area of 3,437 sq ft at a rent of HK\$70,800 per month.

##### Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	34	Premier	39	Royal Suite	8
Superior	210	Regal Royale Summit Room	24	Imperial Suite	1
Deluxe	117	Regal Royale Platinum Room	19	Presidential Suite	1
Deluxe Suite	20	Regal Royale Suite	1		
<b>Size Range</b> <sup>10</sup>	258 sq ft (24 sq m) to 1,649 sq ft (153 sq m)			<b>TOTAL</b>	<b>474</b>

<sup>10</sup> Except Presidential Suite which is of 6,975 sq ft (648 sq m).

## Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Windsor Arms Sports Bar	2/B	Bar	182
Tiffany Lounge	G/F	Lobby Lounge	109
Regal Patisserie	G/F	Cake Shop	—
Le Café Rivoli	1/F	Coffee Shop	316
Regal Palace	3/F	Chinese	746
Zeffirino Ristorante	31/F	Italian	215

## Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Meeting Room	2/B	1	2,247	209
Ballroom	1/B	1	2,560	238
Meeting Rooms	1/B	3	1,898	176
Meeting Rooms	3/F	6	3,622	336

## Other Facilities

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

## 2. OWNERSHIP & TENURE

**Registered Owner:** Cityability Limited

**Land Lease Expiry:** December 24, 2883

### Encumbrances

- Deed of Restrictive Covenant via Memorial No. UB5287070 dated May 13, 1992.
- Deed of Covenant and Grant of Right of Way and Easements and Management Agreement via Memorial No. UB5287071 dated May 13, 1992.
- Statutory Declaration as to Loss of Title Deeds via Memorial No. UB8033163 dated March 21, 2000.
- Cityability Debenture in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850058 dated March 30, 2007.

### 3. TENANCIES/LICENCES

#### Mobile Phone Base Stations/Antennae

<b>Number of Licences:</b>	4
<b>Monthly licence fee:</b>	HK\$81,200
<b>Latest expiry date:</b>	June 30, 2008

### 4. HOTEL OPERATION

#### Performance in 2007

<b>Occupancy:</b>	92%
<b>Average Room Rate:</b>	HK\$1,188

#### Hotel Management

<b>Manager:</b>	Regal Hotels International Limited	
<b>Management Term:</b>	20 years from the Listing Date	
<b>Annual Base Fee:</b>	For so long as the Lease is in subsistence:	1% of the Gross Revenues <sup>11</sup>
	In any other cases:	2% of the Gross Revenues
<b>Annual Incentive Fee:</b>	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP <sup>12</sup> over the Base Fee <sup>13</sup> and the Fixed Charges <sup>14</sup>
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

<sup>11</sup> In accordance with the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

<sup>12</sup> Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>13</sup> Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

<sup>14</sup> Under the Hotel Management Agreement, "Fixed Charges" means expenses which constitute a non-operating expense in nature in accordance with the Uniform System of Accounts for the Lodging Industry, as more particularly described in the Hotel Management Agreement. Please refer to the Hotel Management Agreement for details.

### **Lease Agreement**

**Lessor:** Cityability Limited

**Lessee:** Favour Link International Limited

**Term:** Commencing from the Listing Date and expiring on December 31, 2015.

**Rental:** 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income<sup>15</sup> ("NPI") of the five hotels over the aggregate Base Rent of the five 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 five hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

<b>Year</b>	<b>Base Rents</b>	<b>Rates of Variable Rents</b>
2007	pro-rated portion of HK\$110,000,000 which is for whole year	100%
2008	HK\$115,000,000	70%
2009	HK\$120,000,000	60%
2010	HK\$125,000,000	50%

2011 to 2015: Market Rent to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK\$60,000,000 p.a.

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

<sup>15</sup> Net Property Income, "NPI", as defined in Hotel Management Agreement.

## 5. MARKET ANALYSIS

The Hong Kong tourism sector has extended its buoyancy since 2004 and increased steadily in 2007. In 2007, approximately 28 million tourists visited Hong Kong, a year-on-year increase of 11.6% over the total number in 2006. Arrivals from the Mainland registered a substantial rise of 13.9% over 2006 to 15 million. Among all tourist arrivals, over 17 million representing 61% overnight visitors, while the remaining 39% were classified as same-day in-town visitors.

These positive indicators translated into the high occupancy rates in 2007. Due to the additional 4,453 new rooms supply in 2007, the average occupancy rate declined slightly to 86% compared with 87% in 2006. In other words, the actual number of rooms occupied has increased. In addition, based on the findings of Hong Kong Tourism Board, the average room rates increased impressively by 11.4%. Given the strength from these figures, the hotel industry is expected to remain buoyant over the near-to-medium term.

With the prevailing positive figures shown above, the investors are highly optimistic about the hotel industry. As at December 2007, there were 140 hotels providing 51,581 guest rooms in Hong Kong. According to the Hong Kong Tourism Board, 50 new hotels are scheduled for completion between 2008 and 2012. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 63,732 in 2012.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the enhancement and improvement of hotel facilities and the greater demand generated by the extension of the nearby Hong Kong Convention and Exhibition Centre, the occupancy for hotel rooms is expected to be steady.

Being a hotel focused in providing quality accommodation to business and leisure travelers, Regal Hongkong Hotel will directly enjoy the benefits of the increasing arrival numbers of such kind of travelers. Looking ahead, the completion of extension works of HKCEC should attract more business travelers to Wanchai/Causeway Bay area.

## 6. CONCLUSION

- Market value as at December 31, 2007 was **HK\$3,530,000,000** (HONG KONG DOLLARS THREE BILLION FIVE HUNDRED THIRTY MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 4.5%

## PROPERTY 3

### REGAL KOWLOON HOTEL

71 Mody Road  
Tsim Sha Tsui East, Kowloon, Hong Kong

Kowloon Inland Lot No. 10474

#### 1. PROPERTY DESCRIPTION

##### General Description

Regal Kowloon Hotel was opened in 1982. It is a 20-story (including four basement floors) High Tariff A hotel with 600 rooms. It faces Centenary Garden and is surrounded by office towers, commercial developments and shopping arcades.

There are retail shops and restaurants on G/F to 2/F and 1st to 3rd basement. The guestroom tower is positioned in a way that the majority of rooms could command view of the Centenary Garden or the Mody Square.

**Site Area** 27,556 sq ft (2,560 sq m)

**Town Planning Zoning** "Commercial" under the current Tsim Sha Tsui Outline Zoning Plan No. S/K1/22 dated October 17, 2006

**Floor Areas** Gross Floor Area: 341,714 sq ft (31,746 sq m) or  
Covered Floor Area: 468,355 sq ft (43,511.22 sq m)

##### Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	83	Regal Club Deluxe	52	Royal Suite	8
Superior	186	Regal Club Superior	30	Presidential Suite	1
Deluxe	147	Deluxe Suite	30		
Premier	63				
<b>Size Range</b>	226 sq ft (21 sq m) to 1,744 sq ft (162 sq m)			<b>TOTAL</b>	<b>600</b>

## Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Zeffirino Ristorante	3/F	Italian	373
Café Allegro	1/B	Coffee Shop	349
Regala Café & Dessert Bar	G/F	Lobby Lounge	151 (Indoor) 44 (Outside Seating)
Regal Patisserie	G/F	Cake Shop	—
Basso Bar	1/F	Bar	233
Mezzo Grill	1/F	Western	197
Golden Delight Seafood Restaurant (leased to and operated by a third party)	2/F	Chinese	574
Nishiki (leased to and operated by a third party)	1/F	Japanese	53

## Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Meeting Room	2/B	1	1,684	156
Meeting Rooms	2/F	6	3,563	331
Ballroom	3/F	1	3,761	349
Meeting Rooms	3/F	5	2,512	234

## Other Facilities

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

## 2. OWNERSHIP & TENURE

**Registered Owner:** Ricobem Limited

**Land Lease Expiry:** December 27, 2051 (with an option to renew for 75 years)

### Encumbrances

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

### 3. TENANCIES / LICENCES<sup>16</sup>

#### Retail Spaces

Total Retail Area (lettable):	56,002 sq ft (5,203 sq m)
Occupied Area (lettable):	53,951 sq ft (5,012 sq m)
Vacant Space (net):	2,051 sq ft (191 sq m)
Occupancy:	96.34%
Monthly Base Rent:	HK\$1,379,612.10
Range of Terms: (excluding monthly tenancies):	1 year to 3 years

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

Number of Licences:	10
Monthly Licence Fee:	HK\$51,200
Latest Expiry Date:	November 30, 2009

#### Tenancy Expiry Profile:

Monthly Tenancies  
2008  
2009  
Latest expiry date:

9 August, 2010

Option to Renew:

two of the tenancies with options to renew for 2 years at pre-determined rent/ market rent

Summary of Terms:

The landlord is responsible for structural maintenance and payment of Government Rent.

#### Lettable Area (sq ft)

2,615  
23,856  
21,195

<sup>16</sup> In accordance with the standard terms and conditions of tenancy agreements provided to us, the landlord is to be responsible for the structural and external repairs and the tenant is to be responsible for the internal repairs of the property.



#### 4. HOTEL OPERATION

##### Performance in 2007

**Occupancy:** 86.4%

**Average Room Rate:** HK\$989

##### Hotel Management

**Manager:** Regal Hotels International Limited

**Management Term:** 20 years from the Listing Date

**Annual Base Fee:** For so long as the Lease is in subsistence: 1% of the Gross Revenues<sup>17</sup>  
In any other cases: 2% of the Gross Revenues

**Annual Incentive Fee:** For so long as the Lease is in subsistence: 1% of the excess of the Adjusted  
GOP<sup>18</sup> over the Base Fee<sup>19</sup> and the  
Fixed Charges<sup>20</sup>  
In any other cases: 5% of the excess of the Adjusted  
GOP over the Base Fee and the  
Fixed Charges

##### Lease Agreement

**Lessor:** Ricobem Limited

**Lessee:** Favour Link International Limited

**Term:** Commencing from the Listing Date and expiring on December 31, 2015.

<sup>17</sup> In accordance with the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

<sup>18</sup> Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>19</sup> Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

<sup>20</sup> Under the Hotel Management Agreement, "Fixed Charges" means expenses which constitute a non-operating expense in nature in accordance with the Uniform System of Accounts for the Lodging Industry, as more particularly described in the Hotel Management Agreement. Please refer to the Hotel Management Agreement for details.

**Rental:** 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income<sup>21</sup> ("NPI") of the five hotels over the aggregate Base Rent of the five 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 five hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents	Rates of Variable Rents
2007	pro-rated portion of HK\$115,000,000 which is for whole year	100%
2008	HK\$120,000,000	70%
2009	HK\$125,000,000	60%
2010	HK\$130,000,000	50%

2011 to 2015: Market Rent to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK\$65,000,000 p.a.

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

## 5. MARKET ANALYSIS


The Hong Kong tourism sector has extended its buoyancy since 2004 and increased steadily in 2007. In 2007, approximately 28 million tourists visited Hong Kong, a year-on-year increase of 11.6% over the total number in 2006. Arrivals from the Mainland registered a substantial rise of 13.9% over 2006 to 15 million. Among all tourist arrivals, over 17 million representing 61% overnight visitors, while the remaining 39% were classified as same-day in-town visitors.

These positive indicators translated into the high occupancy rates in 2007. Due to the additional 4,453 new rooms supply in 2007, the average occupancy rate declined slightly to 86% compared with 87% in 2006. In other words, the actual number of rooms occupied has increased. In addition, based on the findings of Hong Kong Tourism Board, the average room rates increased impressively by 11.4%. Given the strength from these figures, the hotel industry is expected to remain buoyant over the near-to-medium term.

With the prevailing positive figures shown above, the investors are highly optimistic about the hotel industry. As at December 2007, there were 140 hotels providing 51,581 guest rooms in Hong Kong. According to the Hong Kong Tourism Board, 50 new hotels are scheduled for completion between 2008 and 2012. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 63,732 in 2012.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the completion of the recent renovation works, the closure of the nearby Hyatt Regency Hong Kong and the opening of MTR East Tsim Sha Tsui Station, the occupancy for hotel rooms is expected to be further improved.

<sup>21</sup> Net Property Income, "NPI", as defined in Hotel Management Agreement.



Located within Tsim Sha Tsui which is a popular commercial and tourism area, Regal Kowloon Hotel will directly enjoy the benefits of the increase of the tourist/ business traveler arrivals. The room rate of Regal Kowloon Hotel will be benefited from the completion of its recent renovation works, the closure of Hyatt Regency Hong Kong and the opening of MTR East Tsim Sha Tsui Station (a 5-minute walk from Regal Kowloon Hotel).

## 6. CONCLUSION

- Market value as at December 31, 2007 was **HK\$3,530,000,000** (HONG KONG DOLLARS THREE BILLION FIVE HUNDRED THIRTY MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 4.6%

## PROPERTY 4

### REGAL ORIENTAL HOTEL

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

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

#### 1. PROPERTY DESCRIPTION

##### General Description

Regal Oriental Hotel, opened in 1982, is a 17-story (including two basement floors) High Tariff B hotel. After its AEP completed in September 2007, the number of rooms has been increased from 390 rooms to 439 rooms. The property also comprises part of the Ground and 1st Floors in an adjacent 14-story building (Po Sing Court) completed in 1967 mainly for back-of-the-house uses. The hotel is facing the demolished old Hong Kong International Airport.

**Site Area** 19,342 sq ft (1,797 sq m) for New Kowloon Inland Lot No. 5754  
7,980 sq ft (741.4 sq m) for New Kowloon Inland Lot No. 4917

**Town Planning Zoning** "Commercial" under the Ma Tau Kok Outline Zoning Plan  
No. S/K10/18 dated June 8, 2004

**Floor Areas** Gross Floor Area: 229,073 sq ft (21,281.44 sq m) and 14,200 sq ft  
(1,319.21 sq m) in Po Sing Court, totally 243,273 sq ft (22,600.65 sq m)  
Total Covered Floor Area: 294,154 sq ft (27,327.57 sq m)

##### Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	57	Premier	28	Regal Club Premier	11
Superior	72	Regal Club Superior	38	Royal Suite	1
Deluxe	180	Regal Club Deluxe	38	Presidential Suite	1
Deluxe Suite	13				

**Size Range** 140 sq ft (13 sq m) to 431 sq ft (40 sq m)

**TOTAL** **439**

## Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
La Plantation Coffee Shop	1/B	Coffee Shop	535
China Coast Pub	G/F	Bar	328
Regal Patisserie	G/F	Cake Shop	—
Regal Seafood Restaurant	2/F	Chinese	385
Five Continents Restaurant	14/F	Western	337
Sky Lounge	14/F	Bar	156

## Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Ballroom	1/F	1	3,696	343
Meeting Rooms	1/F	3	1,074	100
Meeting Rooms	2/F	10	3,793	352

## Other Facilities

In addition to the above, there are also a business center and shopping areas.

## 2. OWNERSHIP & TENURE

**Registered Owner:** Gala Hotels Limited

**Land Lease Expiry:** June 30, 2047

### Encumbrances

#### New Kowloon Inland Lot No. 5754

- Deed of Grant of Easement via Memorial No. UB2111189 dated June 23, 1981.
- Modification Letter via Memorial No. UB2144106 dated August 26, 1981.
- Letter of Compliance from District Lands Office Kowloon West, Kowloon Government Offices to Paliburg Project Management Limited via Memorial No. UB3990406 dated July 27, 1982.
- Statutory Declaration as to Loss of Title Deeds via Memorial No. UB8033164 dated March 21, 2000.
- Gala Debenture in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850026 dated March 30, 2007.

### Shop Nos. 3-11 including Cocklofts of Shop Nos. 5, 6, 7 on Ground Floor and Whole of First Floor of Po Sing Court on New Kowloon Inland Lot No. 4917

- Management Agreement in favor of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager) via Memorial No. UB604982 dated November 28, 1967.
- Deed of Mutual Covenant via Memorial No. UB607737 dated December 12, 1967 Order No. DR03344/W03/TCW/TE under S.28(3) of the Buildings Ordinance by the Building Authority (re: Common Parts) via Memorial No. UB9218581 dated April 16, 2004.  
*(Note: we were advised that the cost for relevant rectification works in relation to the order above will be paid by the Former Vendor.)*
- Gala Debenture in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850026 dated March 30, 2007.

### 3. TENANCIES/LICENCES<sup>22</sup>

#### Retail Spaces

Total Retail Area (lettable):	30,250 sq ft (2,810 sq m)
Tenanted Area (lettable):	N/A
Vacant Space (lettable):	30,250 sq ft (2,810 sq m)
Occupancy:	0%

#### Licences for Mobile Phone Base Stations and Antennae

Number of Licences:	3
Monthly Licence Fee:	HK\$34,000
Latest Expiry Date:	June 30, 2009

<sup>22</sup> In accordance with the standard terms and conditions of tenancy agreements provided to us, the landlord is to be responsible for the structural and external repairs and the tenant is to be responsible for the internal repairs of the property.

#### 4. HOTEL OPERATION

##### Performance in 2007

**Occupancy:** 90.4%

**Average Room Rate:** HK\$566

##### Hotel Management

**Manager:** Regal Hotels International Limited

**Management Term:** 20 years from the Listing Date

**Annual Base Fee:** For so long as the Lease is in subsistence: 1% of the Gross Revenues<sup>23</sup>  
In any other cases: 2% of the Gross Revenues

**Annual Incentive Fee:** For so long as the Lease is in subsistence: 1% of the excess of the Adjusted GOP<sup>24</sup> over the Base Fee<sup>25</sup> and the Fixed Charges<sup>26</sup>  
In any other cases: 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

<sup>23</sup> In accordance with the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

<sup>24</sup> Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>25</sup> Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

<sup>26</sup> Under the Hotel Management Agreement, "Fixed Charges" means expenses which constitute a non-operating expense in nature in accordance with the Uniform System of Accounts for the Lodging Industry, as more particularly described in the Hotel Management Agreement. Please refer to the Hotel Management Agreement for details.

## Lease Agreement

**Lessor:** Gala Hotels Limited

**Lessee:** Favour Link International Limited

**Term:** Commencing from the Listing Date and expiring on December 31, 2015.

**Rental:** 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income<sup>27</sup> ("NPI") of the five hotels over the aggregate Base Rent of the five 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 five hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents	Rates of Variable Rents
2007	pro-rated portion of HK\$45,000,000 which is for whole year	100%
2008	HK\$50,000,000	70%
2009	HK\$55,000,000	60%
2010	HK\$60,000,000	50%

2011 to 2015: Market Rent to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK\$30,000,000 p.a.

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


## 5. MARKET ANALYSIS

The Hong Kong tourism sector has extended its buoyancy since 2004 and increased steadily in 2007. In 2007, approximately 28 million tourists visited Hong Kong, a year-on-year increase of 11.6% over the total number in 2006. Arrivals from the Mainland registered a substantial rise of 13.9% over 2006 to 15 million. Among all tourist arrivals, over 17 million representing 61% overnight visitors, while the remaining 39% were classified as same-day in-town visitors.

These positive indicators translated into the high occupancy rates in 2007. Due to the additional 4,453 new rooms supply in 2007, the average occupancy rate declined slightly to 86% compared with 87% in 2006. In other words, the actual number of rooms occupied has increased. In addition, based on the findings of Hong Kong Tourism Board, the average room rates increased impressively by 11.4%. Given the strength from these figures, the hotel industry is expected to remain buoyant over the near-to-medium term.

<sup>27</sup> Net Property Income, "NPI", as defined in Hotel Management Agreement.





With the prevailing positive figures shown above, the investors are highly optimistic about the hotel industry. As at December 2007, there were 140 hotels providing 51,581 guest rooms in Hong Kong. According to the Hong Kong Tourism Board, 50 new hotels are scheduled for completion between 2008 and 2012. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 63,732 in 2012.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the commencement of Kai Tak redevelopment project, the occupancy for hotel rooms is expected to be steady. Regal Oriental Hotel will directly enjoy the benefits of the increasing of the tourist/ business traveler arrivals. The start of Kai Tak development projects will keep the occupancy of Regal Oriental Hotel at high level. Upon completion of Kai Tak projects, the vicinity around Regal Oriental Hotel will be strengthened significantly as a residential, commercial, recreational and tourism hub.

## 6. CONCLUSION

- Market value as at December 31, 2007 was **HK\$1,270,000,000** (HONG KONG DOLLARS ONE BILLION TWO HUNDRED SEVENTY MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 4.6%

## 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

##### General Description

Regal Riverside Hotel, opened in 1986, is a 17-story (including two basement floors) High Tariff B hotel facing Shing Mun River. It is the largest hotel located in Shatin, further to the conversion of 27 suites into 55 rooms, completed in October 2007, there are currently 858 rooms.

Extension is undergoing in form of constructing additional 3 floors over the existing building. After its AEP scheduled to be completed fully by December 31, 2008, the number of hotel rooms will become 1,132.

**Site Area** 53,346 sq ft (4,956 sq m)

**Town Planning Zoning** "Commercial" under the current Sha Tin Outline Zoning Plan No. S/ST/23 dated June 5, 2007.

**Floor Areas (Before AEP)** Gross Floor Area: 519,046 sq ft (48,220.59 sq m) or  
Covered Floor Area: 662,123 sq ft (61,512.73 sq m)

##### Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	184	Premier	41	Royal Suite	1
Superior	209	Regal Club Deluxe	36	Deluxe Suite	17
Deluxe	189	Regal Club Superior	40	Presidential Suite	1
Family	30	Quadruple	60	Triple	50
<b>Size Range</b>	323 sq ft (30 sq m) to 1,561 sq ft (145 sq m)			<b>TOTAL</b>	<b>858</b>

## Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Scene Bar & Restaurant	G/F	Bar	207 (Indoor) 38 (Outside seating)
Avanti Ristorante	G/F	Italian	154 (Indoor) 73 (Outside Seating)
Regal Patisserie	G/F	Cake Shop	—
Aji Bou Izakaya	1/F	Japanese	337
Carnival Bar	1/F	Bar	286
Regal Seafood Restaurant	2/F	Chinese	726
Regal Court	2/F	Chinese	206
L'eau Restaurant	3/F	Western	410

## Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Ballroom	1/F	1	5,104	474
Meeting Rooms	1/F	2	1,160	108
Meeting Rooms	2/F	5	3,434	320
Meeting Rooms	3/F	5	3,820	355

## Other Facilities

Other facilities include a business center, a health club with gymnasium and massage services, an outdoor swimming pool and shopping areas.

## Asset Enhancement Program ("AEP")

- 274 new rooms, which are expected to be completed by December 31, 2008, will come from the construction of three additional stories.
- After the AEP, the number of rooms will increase to 1,132.
- Outstanding construction cost is estimated to be about HK\$160 million. The construction cost and the land premium involved are to be paid by the Former Vendor.
- GFA will increase to 639,292 sq ft (59,391.65 sq m).

## 2. OWNERSHIP & TENURE

**Registered Owner** Regal Riverside Hotel Limited

**Land Lease Expiry** June 30, 2047

### Encumbrances

- Modification Letter via Memorial No. ST211142 dated April 29, 1982.
- Modification Letter via Memorial No. ST353344 dated August 28, 1986.
- Regal Riverside Debenture in favor of the ABN AMRO Bank N.V., Singapore Branch via Memorial No. 0742400850040 dated March 30, 2007.

## 3. TENANCIES/LICENCES<sup>28</sup>

### Retail Spaces

Total Retail Area (lettable): 20,966 sq ft (1,948 sq m)  
 Occupied Area (lettable): 3,663 sq ft (340 sq m)  
 Vacant Space (lettable): 17,303 sq ft (1,607 sq m)  
 Occupancy: 17.47%<sup>29</sup>  
 Monthly Base Rent: HK\$82,746  
 Range of Terms: 2 years to 3 years  
 (excluding monthly tenancies):

### Mobile Phone Base Stations/Antennae and Some Arcade Spaces

Number of Licences: 4  
 Monthly Licence Fee: HK\$76,500  
 Latest Expiry Date: April 30, 2008

### Tenancy Expiry Profile:

Monthly Tenancies  
 2008  
 2009

### Lettable Area (sq ft)

966  
 724  
 1,973

Latest expiry date: November 14, 2009

Option to Renew: N/A

Summary of Terms: The landlord is to be responsible for structural maintenance and payment of Government Rent.

<sup>28</sup> In accordance with the standard terms and conditions of tenancy agreements provided to us, the landlord is to be responsible for the structural and external repairs and the tenant is to be responsible for the internal repairs of the property.

<sup>29</sup> Excluding outlets operated by hotel.

#### 4. HOTEL OPERATION

##### Performance in 2007

**Occupancy:** 89.9%

**Average Room Rate:** HK\$486

##### Hotel Management

**Manager:** Regal Hotels International Limited

**Management Term:** 20 years from the Listing Date

**Annual Base Fee:** For so long as the Lease is in subsistence: 1% of the Gross Revenues<sup>30</sup>  
In any other cases: 2% of the Gross Revenues

**Annual Incentive Fee:** For so long as the Lease is in subsistence: 1% of the excess of the Adjusted  
GOP<sup>31</sup> over the Base Fee<sup>32</sup> and the  
Fixed Charges<sup>33</sup>  
In any other cases: 5% of the excess of the Adjusted  
GOP over the Base Fee and the  
Fixed Charges

<sup>30</sup> In accordance with the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

<sup>31</sup> Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

<sup>32</sup> Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

<sup>33</sup> Under the Hotel Management Agreement, "Fixed Charges" means expenses which constitute a non-operating expense in nature in accordance with the Uniform System of Accounts for the Lodging Industry, as more particularly described in the Hotel Management Agreement. Please refer to the Hotel Management Agreement for details.

## Lease Agreement

**Lessor:** Regal Riverside Hotel Limited

**Lessee:** Favour Link International Limited

**Term:** Commencing from the Listing Date and expiring on December 31, 2015.

**Rental:** 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income<sup>34</sup> ("NPI") of the five hotels over the aggregate base rent of the five 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 five hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents	Rates of Variable Rents
2007	pro-rated portion of HK\$90,000,000 which is for whole year	100%
2008	HK\$115,000,000	70%
2009	HK\$130,000,000	60%
2010	HK\$140,000,000	50%

2011 to 2015: Market Rent to be determined in accordance with the Lease Agreement subject to a minimum rental guarantee of HK\$70,000,000 p.a.


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

## 5. MARKET ANALYSIS

The Hong Kong tourism sector has extended its buoyancy since 2004 and increased steadily in 2007. In 2007, approximately 28 million tourists visited Hong Kong, a year-on-year increase of 11.6% over the total number in 2006. Arrivals from the Mainland registered a substantial rise of 13.9% over 2006 to 15 million. Among all tourist arrivals, over 17 million representing 61% overnight visitors, while the remaining 39% were classified as same-day in-town visitors.

These positive indicators translated into the high occupancy rates in 2007. Due to the additional 4,453 new rooms supply in 2007, the average occupancy rate declined slightly to 86% compared with 87% in 2006. In other words, the actual number of rooms occupied has increased. In addition, based on the findings of Hong Kong Tourism Board, the average room rates increased impressively by 11.4%. Given the strength from these figures, the hotel industry is expected to remain buoyant over the near-to-medium term.

<sup>34</sup> Net Property Income, "NPI", as defined in Hotel Management Agreement.



With the prevailing positive figures shown above, the investors are highly optimistic about the hotel industry. As at December 2007, there were 140 hotels providing 51,581 guest rooms in Hong Kong. According to the Hong Kong Tourism Board, 50 new hotels are scheduled for completion between 2008 and 2012. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 63,732 in 2012.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the opening of the new phases of the Science Park, the occupancy for hotel rooms is expected to be steady. Regal Riverside Hotel is expected to enjoy the benefits of the increasing of the tourist business traveler arrivals. Shatin Soho is expected to improve the F&B business of Regal Riverside Hotel. With the benefits of Shatin being main arena for the 2008 Olympic Equestrian events as well as the Science Park Phase II, it is expected that the occupancy levels and room rates of Regal Riverside Hotel will surge.

## 6. CONCLUSION

- Market value as at December 31, 2007 was **HK\$2,940,000,000** (HONG KONG DOLLARS TWO BILLION NINE HUNDRED FORTY MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost and the land premium involved being fully paid by the Former Vendor.
- Estimated Net Yield: 3.9%
- If there is no Asset Enhancement Program of the additional 3 stories, the market value of the property as at December 31, 2007 was **HK\$2,450,000,000** (HONG KONG DOLLARS TWO BILLION FOUR HUNDRED FIFTY MILLION) assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.

## SUMMARY OF PROPERTIES

As at 31st December, 2007

### PROPERTIES FOR INVESTMENT

	<b>Description</b>	<b>Use</b>	<b>Lease</b>	<b>Gross Floor Area (sq.ft.)</b>	<b>Covered Floor Area (sq.ft.)</b>
(1)	Regal Airport Hotel Hong Kong International Airport 9 Cheong Tat Road Chek Lap Kok Lantau Island New Territories Hong Kong	Hotel	Medium term	774,880	897,545
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	270,016	343,864
(3)	Regal Kowloon Hotel 71 Mody Road Tsim Sha Tsui East Kowloon Hong Kong	Hotel	Long term	341,714	468,355
(4)	Regal Oriental Hotel 30-38 Sa Po Road Kowloon Hong Kong	Hotel	Medium term	243,273	294,154
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	519,046	662,123



## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Regal Real Estate Investment Trust ("Regal REIT") will be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Thursday, 15th May, 2008 at 11:00 a.m. for the following purposes:

1. To note the Audited Financial Statements of Regal REIT together with the Auditor's Report for the period from 11th December, 2006 (date of establishment of Regal REIT) to 31st December, 2007;
2. To note the payment of final distribution of HK\$0.09627 per unit for the period from 1st July, 2007 to 31st December, 2007; and
3. To note the appointment of Auditors of Regal REIT and the fixing of their remuneration.

By order of the Board  
**Regal Portfolio Management Limited**  
as manager of Regal Real Estate Investment Trust  
**Kai Ole RINGENSON**  
*Chief Executive Officer*

Hong Kong, 14th April, 2008

### *Notes:*

1. A unitholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a unitholder of Regal REIT.
2. The form of proxy must be deposited with Regal REIT's unit registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Registrar") not less than 48 hours before the time appointed for the meeting.
3. The Register of Unitholders of Regal REIT will be closed from Tuesday, 13th May, 2008 to Thursday, 15th May, 2008, both days inclusive, during which period no transfers of units will be effected. In order to qualify for attending the Annual General Meeting, all unit certificates with completed transfer forms must be lodged with the Registrar not later than 4:30 p.m. on Friday, 9th May, 2008.



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