



REGAL REIT
富豪產業信託

Regal Real Estate Investment Trust

(a Hong Kong collective investment scheme authorized 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)

ANNUAL REPORT 2008 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 Leslie Lam Kwing Wai
Abraham Shek Lai Him, J.P.

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, J.P. (Chairman)
Alvin Leslie 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 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
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REGISTERED OFFICE OF THE REIT MANAGER

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Website: www.RegalREIT.com

CHAIRMAN'S STATEMENT



Chairman – Y.S. Lo

Dear Unitholders,

I am pleased to present to Unitholders the 2008 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 year ended 31st December, 2008, Regal REIT recorded a consolidated net loss before distributions to Unitholders of approximately HK\$2,150.2 million. The loss incurred was primarily attributable to the revaluation deficit arising from the changes in the fair values of Regal REIT's hotel portfolio (the "Initial Hotels") based on the independent valuer's appraisal as at 31st December, 2008. The decrease in the fair values of the hotel properties largely reflected the significant downturn in the financial and property market conditions in Hong Kong which, in turn, was brought about by the recent global financial crisis. The revaluation deficit is, however, a non-cash item and does not have an immediate impact on the cash flow of Regal REIT.

Total distributable income for the year under review amounted to approximately HK\$501.9 million, as compared to HK\$421.5 million for the period ended 31st December, 2007. Based on distributing 100% of the total distributable income, the Directors of the REIT Manager have declared a final distribution of HK\$0.08461 per unit of Regal REIT (the "Unit") for the year ended 31st December, 2008, bringing the total distributions per Unit for 2008 to HK\$0.16761, up by 9.4% from HK\$0.15327 for 2007. Due to the decrease in the market valuations of the Initial Hotels as compared with their last appraised values as at 31st December, 2007, the net asset value per Unit has decreased to HK\$2.596 as at 31st December, 2008, as compared to HK\$3.503 per Unit at the end of 2007.

Given the volatile economic situation around the world, it is likely that the global economy will take some time to return to normal. While it is difficult to predict accurately when recovery will come about and although we expect that 2009 will be a very challenging year, Regal REIT's existing lease structure provides a strong shelter to protect against fluctuations in market conditions. Moreover, all our hotels are of good quality and cater strategically to different market segments.

At the upcoming annual general meeting to be held on 8th May, 2009, we will propose, among other proposals, to modify our distribution policy from distributing 100% of Regal REIT's total distributable income to no less than 90% for each financial year commencing from the year ending 31st December, 2009. By allowing flexibility to the REIT Manager to distribute 90% to 100% of the total distributable income, the REIT Manager will be able to utilise up to 10% of Regal REIT's total distributable income annually for capital additions projects as well as for potential acquisition opportunities, which we believe will benefit Unitholders in the long term.

In 2008, capital additions projects have been committed with a total cost of about HK\$85 million covering all the five Initial Hotels. Notable projects that have since been completed included the conversion of space in Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel to add a total of approximately 16,700 square feet of state-of-the-art conference and meeting facilities, the renovation and upgrade of one guest room floor with 51 hotel rooms in Regal Kowloon Hotel to club floor standard, the setting up of 3 additional food outlets in Regal Riverside Hotel offering various choices of specialty cuisine, and the upgrade of the external façade at Regal Oriental Hotel. Projects scheduled for completion in 2009 include the re-decoration and upgrade of the Chinese restaurant in Regal Kowloon Hotel and the renovation and upgrade of the external façades at Regal Kowloon Hotel and Regal Riverside Hotel.

As mentioned in my last Chairman's Statement in the 2008 Interim Report, the delay in the implementation of the expansion plans for the acquisition of hotel properties has apparently proven to have been a correct strategy. Management continues to actively review hotel acquisition opportunities but in view of the uncertainty on the timing of an overall economic revival, our near-term focus is still to preserve liquidity and be prepared for any appropriate acquisition opportunities that may arise.

The Directors continue to be confident on the competitive strengths of the five Regal Hotels in Hong Kong as well as the capability of Regal REIT to grow the long-term value of its investment portfolio once the economy recovers.

Once again, I would like to extend my personal thanks to my fellow Directors for their continual support and contributions as well as all the management and staff members for their dedicated efforts during the past year.

Lo Yuk Sui
Chairman

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

Hong Kong, 26th March, 2009

INVESTMENT PROPERTIES PORTFOLIO



Location of the Hotel Properties (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

- The Best Airport Hotel in the World 2008



- The only hotel connected directly to the airport passenger terminals
- 36,000 sq. ft. state-of-the-art meeting and conference venues
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- The Best Airport Hotel in the World by Business Traveller UK Magazine (2008)
- The Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for eight consecutive years (2001-2008)
- The Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for four consecutive years (2005-2008)
- Five Star Golden Diamond Award - Global Best Conference Hotel by Global Hotel Forum (2008)
- The Best Airport Hotel in Asia by TravelWeekly (Asia) Magazine (2007)
- The Best Conference Hotel in Hong Kong by Capital CEO Magazine (2007)
- The 1st runner-up for the World's Best Airport Hotel by Business Traveller UK Magazine (2007)
- One of the World's Best Airport Hotels listed on Forbestraveler.com (2007)
- The Top 10 Convention & Exhibition Hotels of China of China Hotel Starlight Award (2007-2008)
- The Best International Airport Hotel of China of China Hotel Starlight Award (2007)
- OM Spa - One of the Best Airport Facilities in the World ranked by Travel+Leisure Magazine (2008)



■ Deluxe Suite



■ Duplex Suite



■ Rouge

	1,171		10,333 sq. ft.
	1999		25
	897,864 sq. ft.		1
	774,880 sq. ft.		2
	5		1
	2		1

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REGAL HONGKONG HOTEL



■ Regal Royale Lounge



■ The Forum II & III



■ The Forum I



■ Zeffirino Ristorante

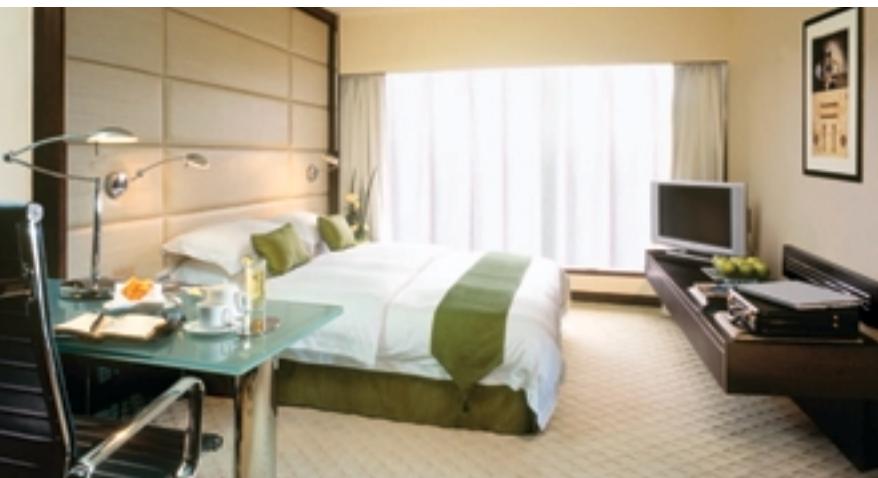
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Website: <http://RegalHotel.com>

- Located in the heart of Causeway Bay and within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Sevens Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention & Exhibition Centre
- The Forum, a newly opened meeting and conference centre, provides full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Regal Royale features a collection of 81 tastefully appointed guestrooms and suites, all with views over Hong Kong. With a private lounge on 31st floor and a series of luxurious privileges and amenities, Regal Royale adds up to an exclusive experience of "a hotel within a hotel"
- Five Star Golden Diamond Award – Global Best Business Hotel by Global Hotel Forum (2008)
- The Michelin Guide, Hong Kong and Macau, 2009 edition endorsed Regal Palace, a Chinese restaurant, with a one star award

	482 (after conversion of 34/F.)		2,560 sq. ft.
	1993		14
	343,864 sq. ft.		1
	269,988 sq. ft.		1
	3		1
	1		

REGAL KOWLOON HOTEL

■ Regal Club Deluxe Room



- Conveniently located in Tsimshatsui ("TST"), a commercial and tourist district
- Within walking distance from East Tsim Sha Tsui, Hung Hom and TST MTR stations, with easy access to Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including the Avenue of Stars, Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art and the Star Ferry, etc.
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)



■ Mezzo Grill



■ Café Allegro



■ Basso Bar



600



3,761 sq. ft.



1982



12



468,355 sq. ft.



1



341,714 sq. ft.



1



5



2

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

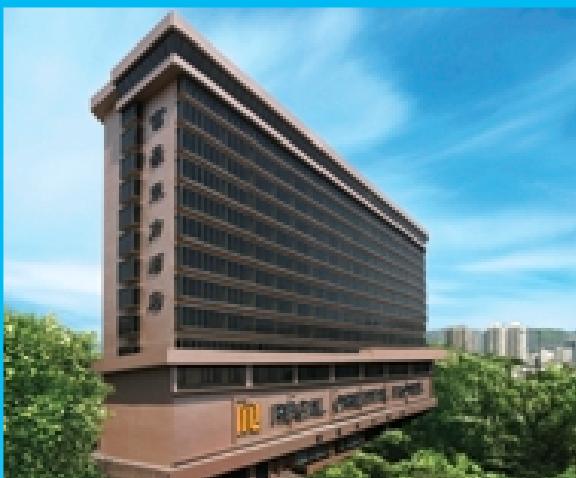
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REGAL ORIENTAL HOTEL



■ Deluxe Room



■ Hotel Lobby



■ Ballroom



■ Meeting &
Conference
Centre

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

	439
	1982
	294,154 sq. ft.
	254,279 sq. ft.
	3
	2

	3,696 sq. ft.
	18
	1
	1

REGAL RIVERSIDE HOTEL

■ Regal i-Club Guest Room



- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland border
- Close to the Hong Kong Science & Technology Parks, the Ten Thousand Buddhas Monastery and the Chinese University of Hong Kong
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- 280 additional rooms expected in mid-2009
- Official hotel for 2008 Olympic Equestrian Events



■ The Forum



■ Riverside Ballroom



■ Moon River

	1,138 (after completion of AEP)
	1986
	642,268 sq. ft. (after completion of AEP)
	743,529 sq. ft. (after completion of AEP)
	8
	2

	5,104 sq. ft.
	13 (include a new 5,575 sq. ft. conference and exhibition hall)
	1
	1
	1

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REPORT OF THE REIT MANAGER



Chief Executive Officer – Kai Ole Ringenson

The Directors of the REIT Manager herein present their report together with the audited financial statements of Regal REIT and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2008.

LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

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

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

ORGANISATION AND STRUCTURE OF REGAL REIT

Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by first supplemental deed dated 2nd March, 2007 and second supplemental deed dated 15th May, 2008) (collectively, the "Trust Deed") entered into between 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.

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 Units were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The REIT Manager, The Lessee, The Hotel Manager and The Trustee

The REIT Manager is licensed by the Securities and Futures Commission in Hong Kong (the "SFC") to undertake the regulated activity of asset management.

The REIT Manager does not manage the Initial Hotels directly. The Initial Hotels are leased to Favour Link International Limited (the "Lessee"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (the "RHIHL") until 31st December, 2015, 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 (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group"), as the hotel manager (the "Hotel Manager") under long-term hotel management agreements (the "Hotel Management Agreements").

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

RENTAL STRUCTURE AND MARKET RENTAL PACKAGE

Rental payments received by Regal REIT consist of three main elements, Base Rent, Variable Rent and Furniture, Fixtures and Equipment Reserve contribution.

Base Rent

Regal REIT receives rent in the form of a fixed cash Base Rent for each Initial Hotel for each of the years 2008 through 2010. Total Base Rent for the years 2008, 2009 and 2010 have been determined to be HK\$700.0 million, HK\$750.0 million and HK\$780.0 million, respectively. In addition, Regal REIT receives cash additional Base Rent (the "Additional Base Rent") for capital additions (the "Capital Additions") projects, which are proposed by the Lessee, approved and funded by Regal REIT for Capital Additions projects intended to increase the revenue and rental payment capacity of the respective Initial Hotels. In 2008, Regal REIT received approximately HK\$1.9 million for projects completed in 2008. Refer to page 19 and page 61 for further information.

Variable Rent

Regal REIT receives Variable Rent through sharing of aggregate profits from the Initial Hotels' operations after their Base Rent payments have been made by the Lessee. The excess profits represented by the collective excess net property income (the "NPI") from the Initial Hotels' operations are allocated 70% to Regal REIT in 2008. In 2009 and 2010, 60% and 50% of the excess NPI is allocated to Regal REIT, respectively.

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

Furniture, Fixtures & Equipment Reserve Contribution

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, in the form of additional rental payments, on a monthly basis, an amount equals to 2% (up to 31st December, 2010) of total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for the previous month to Regal REIT. For the year ended 31st December, 2008, approximately HK\$29.0 million had been contributed to the reserve and approximately HK\$34.2 million had been expended for the purposes intended.

Rent Reviews of Market Rental Package for 2010 to 2015

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 (inclusive of 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 (collectively, the "Market Rental Package").

REVIEW OF OPERATIONS & FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated financial statements on pages 43 to 79.

Rental Revenue Derived from Hotel Operations

Substantially all of our rental revenues, represented by Base Rent, Variable Rent and FF&E Reserve contribution, are derived from the hotel operations, that is, from the hotel business leased to the RHIHL Group and managed by the Hotel Manager. The financial performance of Regal REIT with regard to operating results and net asset value depend on the underlying performance of the hotel business managed by the Lessee and the Hotel Manager.

Specifically, total hotel revenue consists of the following:

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

Hotel operating costs and expenses consist of direct costs and expenses attributable to the respective operating departments, e.g. rooms department, food and beverage department, etc. as well as costs and expenses attributable to overhead departments such as the administration department, sales and marketing department and repairs and maintenance department.

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

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

- Room occupancy rate;
- Average room rate; and
- RevPAR, 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

Following a strong 2007, the business for the hotel industry in Hong Kong stayed healthy for the first nine months of 2008 and benefited from a 6.9%⁽¹⁾ growth in number of visitor arrivals to Hong Kong during January to September 2008 (10.5%⁽¹⁾ growth in visitor arrivals from Mainland China). Demand continued to grow in spite of the slow-down in the financial sector starting earlier in the year, the hesitation to travel by Mainlanders in the wake of the Sichuan earthquake in May 2008 and the stringent visa requirements on foreign travel to the Mainland in the run-up to the Beijing 2008 Olympic Games, which all affected Hong Kong's hotel market.

(1) Source: "Visitor Arrival Statistics – Sep 2008", Tourism Research Hong Kong Tourism Board; the REIT Manager.

In the fourth quarter of 2008, tourism travel and hotel businesses worldwide were severely affected by the strain on the international financial systems in the aftermath of the collapse and near collapse of some major U.S. financial institutions. Correspondingly, tourism travel to Hong Kong saw diminishing demand from key overseas markets. Visitor arrivals to Hong Kong dropped in the fourth quarter by 16%⁽²⁾ from the Americas, 11%⁽²⁾ from Europe, Africa & Middle East and 10%⁽²⁾ from North Asia regions. However, mostly offset by visitors from Mainland China (up 4.4%)⁽²⁾, the resulting drop in visitor arrivals was limited to a modest overall reduction of 0.9%⁽²⁾ in the fourth quarter and the full year number of visitor arrivals recorded a positive growth of 4.7%⁽³⁾.

The consequent effect on city-wide hotel room occupancy and average room rates achieved by Hong Kong hotels was a disappointing fourth quarter for most hotels, particularly the higher priced category "High Tariff A Hotels"⁽⁴⁾. Notwithstanding and despite the weakening demand and a supply increase of 3,223 (6.3%)⁽⁵⁾ hotel rooms in 2008, full year hotel room occupancy rate recorded only a slight decrease of 1 percentage point to 85%⁽⁶⁾ and an increase with 0.6% to HK\$1,222⁽⁶⁾ in average room rate. The resultant overall 2008 RevPAR recorded a drop by a modest 0.6% to HK\$1,039⁽⁶⁾.

Hotel Market Performance⁽⁶⁾

Category ⁽⁴⁾	Room Occupancy Rate		Average Room Rate		RevPAR	
	2008 %	2007 %	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
High Tariff A	79	84	2,106	2,141	1,664	1,798
High Tariff B	87	88	974	934	847	822
Medium Tariff	86	86	586	570	504	490
All Hotels	85	86	1,222	1,215	1,039	1,045

Performance of the Initial Hotels

The performance of the Initial Hotels in 2008 was equally impacted by the weaker demand from overseas markets and from higher price segments such as the financial sector in Hong Kong. Room occupancy rate in the Initial Hotels decreased by 3.4 percentage points (calculated based on increased hotel room capacity) compared with the same period in 2007, primarily due to a drop in room occupancy at Regal Airport Hotel and Regal Hongkong Hotel, the two properties mostly affected by reduced demand from higher price segments in the fourth quarter. Contrary to the trend, Regal Oriental Hotel and Regal Riverside Hotel were both able to gain room occupancy levels in the fourth quarter and, by so doing, also for the full year.

The strategy to reposition the Initial Hotels in the market towards more individual travellers continues and has been added to with a strategy to capture more demand from the MICE segment (meetings, incentives, conventions and exhibitions). By way of investments in the properties through various Capital Additions projects, the competitiveness of the Initial Hotels in the MICE market has improved. Executive conference and meeting capacities have been added by converting space from other less profitable uses in Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel. Significant new volumes of business were produced for Regal Oriental Hotel and Regal Riverside Hotel, in particular, from targeting conference and meeting segments and offering attractive room rates.

Regal Airport Hotel was recognised as "Best Airport Hotel in the World 2008" by Business Traveller UK Magazine in 2008 and "Best Airport Hotel in Asia-Pacific" by Business Traveller Asia-Pacific Magazine and TTG Asia Media Pte Limited for many consecutive years since 2001 and 2005, respectively, as well as "The Top 10 Convention & Exhibition Hotels of China of China Hotel Starlight Award (2007-2008)" (refer to P.7 for all the awards of Regal Airport Hotel). The Michelin Guide, Hong Kong and Macau, 2009 edition endorsed Regal Palace, the Chinese restaurant in Regal Hongkong Hotel with a one star award. Regal Oriental Hotel was also awarded "The Top 10 City-Nova Hotels of China of China Hotel Starlight Award (2008)".

(2) Source: "Visitor Arrival Statistics – Oct to Dec 2007 & 2008", Tourism Research Hong Kong Tourism Board; the REIT Manager.

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

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

(5) Source: "Hotel Supply Situation – as at Dec 2008", Tourism Research Hong Kong Tourism Board Feb 2009; the REIT Manager.

(6) Source: "Hotel Room Occupancy Report – Dec 2008", Tourism Research Hong Kong Tourism Board; the REIT Manager.

The ongoing efforts of the Hotel Manager to upgrade services and to effect the improvements to the properties to increase the competitiveness of the Initial Hotels, have permitted room rate increases of 4.8% during the year. Overall, the Initial Hotels achieved a RevPAR growth of 0.7%, which is better than the negative RevPAR growth of the overall market. Moreover, due to increased hotel room capacity and more occupied rooms compared with 2007, the total room revenue increased by 5.5%.

Total Hotel Revenue, Gross Operating Profit and Net Property Income

**For the Initial Hotels from 1st January, 2008 to 31st December, 2008
vs. Same Period Last Year**

	Initial Hotels Combined			Variance (%)
	1st January, 2008 to 31st December, 2008	1st January, 2007 to 31st December, 2007*		
	(HK\$'million)	(HK\$'million)		
Operating Results				
Room revenue	961.1	911.4		5.5
F&B revenue	441.1	417.8		5.6
Other income	48.4	73.1		(33.8)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total hotel revenue	1,450.6	1,402.3		3.4
Operating expenses	(728.3)	(664.7)		9.6
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross operating profit	722.3	737.6		(2.1)
Other expenses	(48.6)	(38.6)		25.9
Net rental income	26.8	23.7		13.1
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net property income	700.5	722.7		(3.1)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Statistics				
Average room rate	HK\$907.78	HK\$866.16		4.8%
Occupancy rate	81.7%	85.0%		(3.9%)
RevPAR	HK\$741.32	HK\$736.31		0.7%
Total available room nights	1,296,372	1,237,732		4.7%
Occupied room nights	1,058,657	1,052,170		0.6%

* For comparison purposes only. Regal REIT acquired the Initial Hotels on 30th March, 2007 in connection with the listing of Regal REIT.

Food and beverage sales benefited from a growing MICE segment in four of the Initial Hotels and from three new restaurants opened in mid-2008 at Regal Riverside Hotel, complementing the restaurant and bar concept "Shatin Soho" with Shanghainese, Vietnamese, Thai and Hong Kong style cuisine.

Operating expenses increased by 9.6% due to increased revenue as well as cost inflation during most of the year, particularly through rising energy costs and cost of goods sold in restaurants and banquet halls. Operating expenses and, in particular, payroll expenses were also negatively affected by the Hotel Manager's efforts to improve and broaden services in the Initial Hotels. The raising of operating standards is part of a longer range plan (supported by the REIT Manager) to increase hotel room rates by way of improving the competitiveness of the Initial Hotels through better services and facilities.

The resultant gross operating profit ("GOP") decreased by approximately HK\$15.3 million and the GOP margin by 2.8 percentage points to 49.8%.

Performance of Regal REIT

Gross Rental Revenue and Net Rental Income

An analysis of the gross rental revenue and net rental income for the year ended 31st December, 2008 compared to the prior period as set out below.

	2008		2007*	
	HK\$'million	%	HK\$'million	%
Base Rent				
Cash Base Rent	700.0	91.9%	475.9	70.7%
Cash Additional Base Rent	1.9	0.2%	—	—
Difference in accounting Base Rent and actual contractual cash Base Rent	21.3	2.8%	70.0	10.4%
Variable Rent	—	—	101.6	15.1%
Other rental-related income				
FF&E Reserve contribution	29.0	3.8%	22.2	3.3%
Other	9.8	1.3%	3.1	0.5%
Gross rental revenue	762.0	100.0%	672.8	100.0%
Property operating expenses	12.0	1.6%	7.1	1.1%
Net rental income	750.0	98.4%	665.7	98.9%

* From the Listing Date to 31st December, 2007

During the year, net rental income represented approximately 98.4% 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 (as defined in the Trust Deed) is "the amount calculated by the REIT Manager (based on the audited financial statements of the Trust for that Financial Year) as representing the consolidated audited net profit after tax of the Trust and the Special Purpose Vehicles (as defined in the Offering Circular) for that Financial Year, as adjusted for the Adjustments". Adjustments are made to the distributable income to eliminate the effects of certain non-cash items and cash items which have been recorded in Regal REIT's consolidated income statement, including "fair value changes of investment properties", "fair value changes of derivative financial instruments", "difference in accounting Base Rent and actual contractual cash Base Rent", "contribution to the FF&E Reserve by the Lessee", "amortisation of debt establishment costs", "REIT Manager fees paid/payable in the form of Units" and "deferred tax (credit)/charge".

Pursuant to the Trust Deed, the REIT Manager is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's Total Distributable Income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year.

At the upcoming Unitholders' annual general meeting to be held on 8th May, 2009, the REIT Manager will propose to modify the distribution policy from distributing 100% of total distributable income to no less than 90% for each financial year commencing from the year ending 31st December, 2009. For further information, please refer to the circular to Unitholders dated 7th April, 2009 issued by the REIT Manager in connection with the proposed modification to distribution policy of Regal REIT.

Distribution for 2008

Based on distributing 100% of the Total Distributable Income, the Directors of the REIT Manager have declared a final distribution of HK\$0.08461 per Unit for the period from 1st July, 2008 to 31st December, 2008. The interim distribution for the period from 1st January, 2008 to 30th June, 2008 was HK\$0.083 per Unit thereby making a total distributions per Unit for 2008 of HK\$0.16761, representing an annualised yield of 17.28% based on the Unit closing price of HK\$0.97 on the last trading day of 2008. The final distribution of HK\$0.08461 per Unit will be payable to Unitholders on the Register of Unitholders on 8th May, 2009.

Total Distributable Income for the year ended 31st December, 2008 amounted to approximately HK\$501.9 million.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 6th May, 2009 to Friday, 8th May, 2009, 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 Tuesday, 5th May, 2009. The relevant distribution warrants are expected to be despatched on or about 20th May, 2009.

Valuation of Investment Properties

As at 31st December, 2008, Regal REIT's investment properties portfolio was valued at HK\$13,020,000,000 as compared with the valuation as at 31st December, 2007 of HK\$16,080,000,000.

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

For the year ended 31st December, 2008, approximately HK\$29.0 million had been contributed to the FF&E Reserve representing 2% of total hotel revenue. Approximately HK\$34.2 million had been expended in 2008 on replacing furniture, fixtures and equipment in the Initial Hotels.

Asset Enhancement Programme

According to the terms of the Sale and Purchase Agreement for the Initial Hotels, Regal International (BVI) Holdings Limited (the "Vendor") undertook to complete an asset enhancement programme (the "AEP") at its cost, including any cost overruns and land premiums. The AEP includes the extension of the hotel room capacity in four of the Initial Hotels by a total of 468 rooms and adding a new swimming pool in Regal Hongkong Hotel.

A total of 194 rooms and the swimming pool were completed in 2007. The remaining part of the AEP entails building three stories on top of the existing structure at Regal Riverside Hotel comprising 274 additional hotel rooms. The target date for the completion of the second stage of the AEP at Regal Riverside Hotel was subsequently extended from 31st December, 2008 (as set out in the Offering Circular) to 30th April, 2009 by the Authorised Person⁽⁷⁾ due to inclement weather and suspension of demolition work as required by the Highways Department to allow for walkway re-paving work as part of the Olympic Equestrian Events street improvement work programme.

Based on the AEP Agent's⁽⁸⁾ report and the REIT Manager's observations, it is expected that completion of the remaining AEP project at Regal Riverside Hotel may be further delayed and extended to around mid-2009. The main reasons for the expected delay are primarily attributable to further introduction of value-enhancing design changes to the room configurations increasing the room count with 6 guest rooms to a total of 280 guest rooms.

Capital Additions Projects

Regal REIT may from time to time undertake to fund Capital Additions projects with the objective of maintaining or improving the competitiveness and the profitability of the hotel businesses and the rental paying capacities of the Initial Hotels. Other Capital Additions projects may be necessary to comply with licensing requirements or to conform with legislation enactments.

During the year under review, Capital Additions projects have been committed with a total cost of about HK\$85 million covering all the Initial Hotels, most of which represents income generating projects which are expected to ultimately be recovered through Additional Base Rent during the years from 2008 to 2010 and be reflected in annual rent reviews from 2010 to 2014 by a jointly appointed independent professional property valuer for the determination of the Market Rental Package (please refer to page 13 above) for the relevant years from 2010 to 2015.

Notable Capital Additions projects that have since been completed included the conversion of space in Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel to add a total of approximately 16,700 square feet of state-of-the-art conference and meeting facilities, the renovation and upgrade of one guest room floor with 51 hotel rooms in Regal Kowloon Hotel to club floor standard, the setting up of 3 additional food outlets in Regal Riverside Hotel offering various choices of specialty cuisine, and the upgrade of the external façade of Regal Oriental Hotel.

Projects scheduled for completion in 2009 include the re-decoration and upgrade of the Chinese restaurant in Regal Kowloon Hotel and the renovation and upgrade of the external façades at Regal Kowloon Hotel and Regal Riverside Hotel.

(7) The Authorised Person is defined in the Building Ordinance (Chapter 123 of the Laws of Hong Kong).
(8) The AEP Agent as defined in the Offering Circular.

Financial Strategy and Financial Review

Regal REIT maintains a conservative capital structure which limits the amount of debt financing used. The REIT Code sets a maximum level of borrowings to 45% of the total gross asset value of Regal REIT 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).

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.

The REIT Manager monitors interest rate movements in the three-month Hong Kong Interbank Offered Rates ("HIBOR") rate on an on-going basis and makes judgements about risk to Regal REIT and its Unitholders. The REIT Manager also intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

As at 31st December, 2008, 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. The revolving credit facility has been drawn down subsequent to the balance sheet date and converted into a term loan. The loan facilities are repayable in full on 30th March, 2012.

The loan facilities bear interest at a floating rate of 60 basis points above three-month HIBOR. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK\$4.35 billion. Under such arrangements, the interest rates effectively borne by Regal REIT are subject to a cap of 7.15% and a floor of 3.80% per annum for the period from 18th January, 2008 to 18th January, 2012.

As at 31st December, 2008, the net aggregate fair value of the interest rate hedging arrangements is reported as a non-current liability of approximately HK\$196.6 million in the consolidated balance sheet.

As at 31st December, 2008, the gearing ratio was 31.3%, being the gross amount of the outstanding loans of HK\$4.35 billion as compared to the total gross assets of Regal REIT of approximately HK\$13.9 billion, which is comfortably below the 45% limit permitted under the REIT Code.

As at 31st December, 2008, the loan-to-value ratio was 32.3%, 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\$13.5 billion, as at 31st December, 2008, and including the AEP and the additional capital expenditures incurred during the year. The loan-to-value ratio is well below the 40% allowed under the bank facility agreements with the lenders.

Regal REIT had a total of approximately HK\$173.8 million in unrestricted and HK\$47.7 million in restricted cash balances and bank deposits as at 31st December, 2008 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, 2008, the Initial Hotels with an aggregate carrying value of HK\$13,020.0 million were pledged to secure bank loan facilities granted to Regal REIT.

OUTLOOK FOR THE HOTEL INDUSTRY

For the year 2009, we expect the hotel business environment in Hong Kong to be very challenging. However, the hotel market in Hong Kong is showing remarkable resilience due to continued positive demand growth from Mainland China. The Hong Kong Tourism Board (the "HKTB") is forecasting 4.1% visitor arrivals growth from the Mainland and overall the projected 2009 arrivals to be limited to a negative 1.6% growth.⁽⁹⁾

The government has declared tourism as one of the "four pillar industries" of Hong Kong and is providing proactive support to facilitate growth. In late December, the Chinese Government announced additional measures to further facilitate Mainland residents to visit Hong Kong under the Individual Visit Scheme covering over 8.6 million⁽¹⁰⁾ Shenzhen residents. As a next step, the Hong Kong Government is collaborating with the Guangdong and Macao Governments to extend the further liberated visitation scheme to the rest of the nearby Guangdong Province with a population of approximately 81.6 million⁽¹¹⁾ permanent registered residents in 2007.

Significant events and initiatives strengthening Hong Kong's destination appeal in 2009 include:

- The Hong Kong 2009 East Asian Games in December with more than 3,000 athletes participating from nine countries and regions and over 10,000 expected visitors⁽¹²⁾.
- Following the Hong Kong Government's exemption of wine duties last year, the HKTB will promote Hong Kong as an Asian wine and gourmet centre jointly with famous wine producers in October 2009 by staging a 2 week "World of Food & Wine Festival"⁽⁹⁾ and street parties in key dining districts. This will also leverage the recent release of the Michelin Guide, Hong Kong and Macau, 2009 edition.
- Other festivals such as "Asian Music Festival", "Hiking Festival" and "Arts and Film Festivals"⁽⁹⁾.
- The HKTB established the dedicated MEHK (Meetings and Exhibitions Hong Kong) office to promote Hong Kong as a premier MICE destination⁽¹⁰⁾.

The Hong Kong Government is expediting investment in major infrastructure projects including the Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Shenzhen Airport Rail Link and Liantang/Heung Yuen Wai Boundary Control Point, thereby continuing the integration with the Pearl River Delta and the Mainland, in a bid to create employment and economic growth⁽¹⁰⁾.

The all important Mainland China economy is expected to continue to expand and in November 2008, the Chinese Government announced a two-year, RMB 4 trillion stimulus package designed to create employment, entice local consumption and maintain a growing economy⁽¹³⁾.

The underlying strength of the growing Mainland China economy and the rising disposable incomes of its citizens, coupled with the ongoing easing of travel restrictions, continue to produce large numbers of new travellers entering tourism markets. Hong Kong's favourable location, its attraction to Mainlanders and other source markets and increased efforts of the Hong Kong Government to strengthen its destination appeal, are all supporting a resilient tourism travel market in Hong Kong.

(9) Source: "2009 Business Overview by Anthony Lau, Executive Director" dated 20th February, 2009, Hong Kong Tourism Board.

(10) Source: "The 2009-2010 Budget, Appropriation Bill 2009, Hong Kong".

(11) Source: Guangdong Statistical Yearbook 2008.

(12) Source: "Hong Kong gears up for 2009 East Asian Games", Press Release dated 16th February, 2009, The official website of Hong Kong 2009 East Asian Games.

(13) Source: "China's 4 trillion yuan stimulus to boost economy, domestic demand", www.chinaview.cn, 9th November, 2008.

GROWTH STRATEGY

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotels and hospitality-related properties. The REIT Manager intends to achieve its 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 programme includes the following elements:

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

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 enhances returns to Unitholders;
- Target Greater China with a focus on Hong Kong, Macao and Mainland China and on markets and locations in urban centres and popular resort areas with growth potential;
- 4 and 5 star-rated (PRC Star rating system) full-service hotels;
- Larger hotels with more than approximately 200 rooms;
- Value-adding opportunities, e.g. properties that may be undermanaged or in need of capital investment and/or which may benefit from market re-positioning and the Regal brand and/or which may be extended or have other asset enhancement opportunities;
- Majority ownership of the asset acquired; and
- Targeting income and cashflow generation properties.

The targeted properties may be unfinished and require furnishing and fit-out. However, the value of unfinished properties should represent less than 10% of Regal REIT's total net asset value at the time of acquisition.

Over the past year, management has actively reviewed numerous hotel investment proposals. However, faced with weakening hotel demand in the region in the wake of the "financial tsunami" and overbuilding in key cities on the Mainland, property values continue to fall in our target markets. It is likely that this trend will continue until the international financial systems have stabilised. In the meantime, the REIT Manager will actively monitor target markets for opportunities while remaining disciplined with the set investment criteria.

Regal REIT intends to hold its properties on a long-term basis. However, if in the future any hotel property no longer fits its investment objectives or when an attractive offer, given prevailing market conditions, is received, the REIT Manager may consider disposing of the property for cash, so that its investment capital can be redeployed according to the investment strategies outlined above.

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

Regal REIT did not enter into any other real estate acquisition or disposal transaction during the year.

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

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

The above repurchases were effected by the REIT Manager pursuant to the mandate from Unitholders. The 13,392,000 repurchased Units were cancelled during the year.

Save as disclosed above, there were no repurchases, sales or redemptions of Units during the year.

EMPLOYEES

Regal REIT is managed by the REIT Manager and the Trustee. By contracting out such services, Regal REIT does not employ any staff in its own right.

MAJOR REAL ESTATE AGENTS AND CONTRACTORS

Save for the 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 year.

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, 2009

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 64, Chairman and Non-Executive Director – Mr. Lo has over 38 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 59, Executive Director, Chief Executive Officer and Responsible Officer – Mr. Ringenson has extensive experience in international hotel management and asset management. During his more than 36 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 66, 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 52, 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 Leslie Lam Kwing Wai, aged 64, Independent Non-Executive Director – Mr. Lam is the chairman and managing director of Golden Resources Development International Limited and the chairman and executive director of Prosperity Investment Holdings Limited, which are listed on the Hong Kong Stock Exchange. He holds a Master of Business Administration degree from the University of California, Berkeley, U.S.A.. He has extensive experience in financial management and investment planning.

Mr. Jimmy Lo Chun To, aged 35, 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, PHL and RHIHL. He is the son of Mr. Lo Yuk Sui.

Hon Abraham Shek Lai Him, J.P., aged 63, 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 and vice chairman of Independent Police Complaints Council. He is also a member of the Council of The Hong Kong University of Science & Technology, a member of the Court of The University of Hong Kong and a director of The Hong Kong Mortgage Corporation Limited. He is an independent non-executive director and a member of the audit committee of Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL (of which RHIHL is the listed associated), Titan Petrochemicals Group Limited, and SJM Holdings Limited and the chairman and independent non-executive director of Chuang's China Investments Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited and MTR Corporation Limited which are listed on the Hong Kong Stock Exchange. He is an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust, the units of which are listed on the Hong Kong Stock Exchange.

EXECUTIVE OFFICER PROFILES

Mr. Eric 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 18 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 24 years of engineering experience. He had been involved in several large projects during his 24 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 16 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 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. Eric 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;
- at least one-third of the Board should be Independent non-executive directors with a minimum of three Independent non-executive directors; and
- the Board must comprise Directors with a broad range of commercial experience including expertise in hotel investment and management, fund and asset management and/or in the property industry.

The seven members Board presently comprises 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 Leslie 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.

Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholder of the REIT Manager to determine in accordance with the provisions of the Compliance Manual and the articles of association of the REIT Manager.

Directors may be nominated for appointment and/or removed by the Board following a recommendation made by the Audit Committee. In considering persons for appointment as Directors, the Board will have regard to a number of matters as set out in the Compliance Manual in assessing whether such persons are fit and proper to be Directors.

Directors' Interests in Contracts

Save as otherwise disclosed, none of the Directors had any beneficial interests, directly or indirectly, in any significant contracts to which Regal REIT or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

None of the Directors had a service contract, which is not determinable within one year without payment of compensation (other than statutory compensation), with Regal REIT or any of its subsidiaries during the year.

Conflicts of Interest

The REIT Manager has instituted the following policies to deal with issues of conflict of interest:

- (i) The REIT Manager is a dedicated manager to Regal REIT and will not manage any other real estate investment trusts or be involved in any other real property businesses.
- (ii) All of the Executive Officers will be employed by the REIT Manager on a full time basis and will not maintain any other roles apart from their roles within the REIT Manager.
- (iii) All connected party transactions are to be managed in accordance with the provisions set out in the Compliance Manual.
- (iv) Where any Director or Executive Officer has a material interest in any transaction relating to Regal REIT or the REIT Manager which gives rise to an actual or potential conflict of interest in relation to such transaction, he or she shall not advise on or deal in relation to such transaction unless he or she has disclosed such material interest or conflict to the Board and has taken all reasonable steps to ensure fair treatment of both the REIT Manager and Unitholders.

Independence of Independent Non-Executive Directors

Each of the Independent Non-Executive Directors of the REIT Manager has made an annual confirmation of independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual.

Board Meetings

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to the members of the Board in order to enable them to discharge their duties.

Four full Board meetings of the REIT Manager were held during the year ended 31st December, 2008 and the attendance rates of the individual Board members were as follows:

Name of Directors	Attendance/ No. of Meetings
<i>Chairman and Non-Executive Director</i> Lo Yuk Sui	4/4
<i>Chief Executive Officer and Executive Director</i> Kai Ole Ringenson	4/4
<i>Non-Executive Directors</i> Donald Fan Tung Jimmy Lo Chun To	4/4 4/4
<i>Independent Non-Executive Directors</i> John William Crawford, J.P. Alvin Leslie Lam Kwing Wai Abraham Shek Lai Him, J.P.	4/4 3/4 4/4

AUDIT COMMITTEE

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

John William Crawford, J.P. (Chairman of the Committee)
Alvin Leslie 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, four formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2008 and the attendance rates of the individual Audit Committee members were as follows:

Name of Audit Committee Members	Attendance/ No. of Meetings
John William Crawford, J.P. (Chairman of the Committee)	4/4
Alvin Leslie Lam Kwing Wai	3/4
Abraham Shek Lai Him, J.P.	4/4

DISCLOSURE COMMITTEE

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

The Disclosure Committee currently comprises the following 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.

Four Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2008 and the attendance rates of the individual Committee members of the REIT Manager were as follows:

Name of Disclosure Committee Members	Attendance/ No. of Meetings
Kai Ole Ringenson (Chairman of the Committee)	4/4
Donald Fan Tung	4/4
John William Crawford, J.P.	4/4

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 appraised of the position of Regal REIT.

GENERAL MEETINGS

Regal REIT will hold a general meeting each year as its annual general meeting in addition to any other meetings deemed necessary during the year. The Trustee or the REIT Manager may (and the REIT Manager will at the request in writing of not less than two Unitholders registered as together holding not less than 10% of the Units for the time being in issue and outstanding) at any time convene a meeting of the Unitholders. Except as otherwise provided in the Trust Deed, at least 14 days' notice in writing of every meeting will be given to Unitholders where an Ordinary Resolution is proposed for consideration at such meeting, and at least 21 days' notice in writing will be given to Unitholders where a Special Resolution is proposed for consideration at such meeting, and such notices will specify the time and place of the meetings and the resolutions to be proposed.

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

To minimise the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the REIT Code and the Trust Deed. Any further issues of Units must be first offered on a pro rata pre-emptive basis to all existing Unitholders except that Units may be issued, or agreed (conditionally or unconditionally) to be issued, in any financial year (whether directly or pursuant to any Convertible Instruments (as defined in the Trust Deed) otherwise than on a pro rata basis to all existing Unitholders and without the approval of Unitholders if:

- (1) the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that financial year, without taking into account:
 - (a) any new Units issued or issuable in that financial year pursuant to any Convertible Instruments issued (whether in that or any prior financial year) pursuant to and in compliance with Clause 5.1.7 of the Trust Deed, to the extent that such new Units are covered by the aggregate number of new Units contemplated under Clause 5.1.7(i)(b) of the Trust Deed at the Relevant Date (as defined in the Trust Deed) applicable to the relevant Convertible Instruments;

- (b) such number of new Units issued or issuable pursuant to any such Convertible Instruments as a result of adjustments arising from the consolidation or sub-division or re-designation of Units;
- (c) any new Units issued in that financial year pursuant to any agreement for the issuance of Units, to the extent that such new Units were previously taken into account in the calculation made under Clause 5.1.7(i)(a) of the Trust Deed (whether in that or any prior financial year) at the Relevant Date applicable to that agreement; and/or
- (d) any new Units issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and in respect of which the specific prior approval of Unitholders in accordance with the relevant requirements of the Trust Deed and under applicable laws and regulations (including the REIT Code) have been obtained;

PLUS

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

Any issue, grant or offer of Units or Convertible Instruments to a connected person of Regal REIT (the "Connected Person") will require specific prior approval of Unitholders by way of an Ordinary Resolution (as defined in the Trust Deed), unless such issue, grant or offer is made under the following circumstances (where, for the avoidance of doubt, no Unitholders' approval will be required):

- (i) the Connected Person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder; or
- (ii) Units are issued to a Connected Person under Clauses 14.1.1 and/or 14.1.2 of the Trust Deed in or towards the satisfaction of the REIT Manager fees; or
- (iii) Units and/or Convertible Instruments are issued to a Connected Person within 14 days after such Connected Person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is/are not its associate(s) (other than any Excluded Associate (as defined in the Trust Deed)), provided always that (a) the new Units and/or Convertible Instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of the placing); and (b) the number of Units and/or Convertible Instruments issued to the Connected Person must not exceed the number of Units and/or Convertible Instruments placed by it.

During the year, Regal REIT allotted and issued 40,075,778 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 year ended 31st December, 2008.

PUBLIC FLOAT

As at 31st December, 2008, the total number of Units outstanding was 3,142,196,102.

As at 31st December, 2008, based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders.

COMPLIANCE

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

REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the annual report of Regal REIT for the year ended 31st December, 2008, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 80 to 81.

CONNECTED PARTY TRANSACTIONS

During the year under review, Regal REIT and the other companies or entities held or controlled by Regal REIT (collectively, the "Regal REIT Group") have entered into a number of continuing transactions with its connected persons (defined in paragraph 8.1 of the REIT Code), as listed below, which constitute connected party transactions of Regal REIT within the meaning of the REIT Code:

- (i) the REIT Manager and the other companies or entities held or controlled by 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") entered into separate Lease Agreements with the Lessee in relation to the Initial Hotels on 16th March, 2007. 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 Company and is entitled to operate and manage the Initial Hotel owned by the Property Company and, accordingly, all income received from the operation of the relevant Initial Hotel shall, during the term of the Lease Agreement, be retained by the Lessee.

In addition, the Lessee 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 to the Property Companies.

During the year, the total contractual lease income under the Lease Agreements amounted to approximately HK\$740.7 million including cash Base Rent, cash Additional Base Rent, FF&E contribution and other rent received.

(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 on 16th March, 2007.

Each Property Company is a party to a Hotel Management Agreement on terms including that, upon the expiry or termination of any Lease Agreement, the Hotel Manager will continue to manage the relevant 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 the Lease Agreements, Regal Asset Holdings Limited shall maintain a cash reserve for furniture, fixtures and equipment for the respective Initial Hotels, to which the Lessee will contribute on a monthly basis, from 30th March, 2007 up to 31st December, 2010, and may continue to contribute after 31st December, 2010, if required pursuant to annual rent reviews.

The 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

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

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

(v) Deed of Trade Mark Licence

Regal International Limited, a member of the RHIHL Connected Persons Group, entered into a deed of trade mark licence with the REIT Manager and Regal REIT Group on 2nd March, 2007. Regal International Limited 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 Programme, the relevant Property Companies, Regal Contracting Agency Limited, a member of the RHIHL Connected Persons Group (the "AEP Agent"), and RHIHL entered into the AEP Agency Deed on 2nd March, 2007, whereby each of the Property Companies appointed 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 aggregating approximately HK\$66.7 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waiver from Strict Compliance

A waiver (the "RHIHL Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the Lease Agreements, Hotel Management Agreements, Lease Guarantees, the Sale and Purchase Agreement, the Deed of Trade Mark Licence and the AEP Agency Deed described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the Offering Circular.

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

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 entered into interest rate hedging arrangements for the term loans with Deutsche Bank AG, a member of the Trustee Connected Persons Group in connection with the listing of Regal REIT for an aggregate notional principal amount of HK\$2.0 billion for the period from 18th January, 2008 to 18th January, 2012.

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

Ordinary Banking Services

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

The Trustee Fees

DB 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\$2.9 million pursuant to the Trust Deed for the year ended 31st December, 2008.

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

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors have reviewed the terms of all relevant connected party transactions including those connected party transactions with the RHIHL Connected Persons Group and the Trustee Connected Persons Group and they are satisfied that those transactions have been entered into:

- (a) in the ordinary and usual course of business of Regal REIT;
- (b) on normal commercial terms (to the extent that they are comparable transactions) or, where 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. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to the REIT Manager, the directors or the chief executives of the REIT Manager, and to persons interested in the Units.

Holdings of Significant Unitholders

As at 31st December, 2008, the following significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) had an interest in the Units as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Notes	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2008
Century City International Holdings Limited ("CCIHL")	i	2,318,808,152	73.80%
Century City BVI Holdings Limited ("CCBVI")	i & ii	2,318,808,152	73.80%
Paliburg Holdings Limited ("PHL")	iii & iv	2,313,521,152	73.63%
Paliburg Development BVI Holdings Limited ("PDBVI")	iii & v	2,313,521,152	73.63%
Regal Hotels International Holdings Limited ("RHIHL")	iii & vi	2,313,521,152	73.63%
Regal International (BVI) Holdings Limited ("RBVI")	iii & vii	2,313,521,152	73.63%
Complete Success Investments Limited	viii	1,817,012,072	57.83%
Great Prestige Investments Limited	viii	373,134,326	11.87%

Notes:

- (i) The interests in 2,318,808,152 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI and RBVI, respectively.
- (ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.
- (iii) The interests in 2,313,521,152 Units held by each of the Unitholders as named above were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.

- (iv) PHL is a listed subsidiary of CCIHL, which held 57.45% shareholding interest in PHL as at 31st December, 2008, and PHL's interests in Units are deemed to be the same interests held by CCIHL.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) RHIHL is a listed associate of PDBVI, which held 47.02% shareholding interest in RHIHL as at 31st December, 2008, and its interests in Units are deemed to be the same interests held by PDBVI.
- (vii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (viii) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.

Save as disclosed herein, there is no person who, as at 31st December, 2008, had an interest in Units which are recorded in the register required to be kept under section 336 of the SFO.

Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager

As at 31st December, 2008, the interests of the REIT Manager, directors and chief executives of the REIT Manager in Units, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the REIT Manager and the Stock Exchange pursuant to the Model Code in the Listing Rules, were as follows:

Name of the REIT Manager, Director and Chief Executive of the REIT Manager	Notes	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2008
LO Yuk Sui	i	2,318,808,152	73.80%
Regal Portfolio Management Limited	ii	5,640,011	0.18%
Kai Ole RINGENSON		254,600	0.01%

Notes:

- (i) The interests in 2,318,808,152 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held 51.86% shareholding interest as at 31st December, 2008.
- (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, 2008, none of the REIT Manager, the directors and chief executive of the REIT Manager had any interests in Units, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the REIT Manager and the Stock Exchange. Save as disclosed herein, the REIT Manager is not aware of any other connected persons (as defined under the REIT Code) of Regal REIT holding any Units.

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	Notes	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
Gross rental revenue	5	761,963	672,787
Property operating expenses		(11,924)	(7,105)
Net rental income		750,039	665,682
Other income	5	4,452	5,433
Excess over the cost of a business combination	24	—	2,044,441
Fair value changes on investment properties	11	(3,133,715)	591,841
REIT Manager fees	6	(66,694)	(53,525)
Trust and other expenses	7	(12,836)	(6,116)
Fair value changes of derivative financial instruments		(23,920)	—
Net interest expense on derivative financial instruments		(22,558)	—
Finance costs - excluding distributions to Unitholders	8	(179,709)	(156,994)
(LOSS)/PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		(2,684,941)	3,090,762
Tax	9	534,770	(240,564)
(LOSS)/PROFIT FOR THE YEAR/PERIOD, BEFORE DISTRIBUTIONS TO UNITHOLDERS		(2,150,171)	2,850,198
Finance costs - distributions to Unitholders		(511,441)	(155,951)
(LOSS)/PROFIT FOR THE YEAR/PERIOD, AFTER DISTRIBUTIONS TO UNITHOLDERS		(2,661,612)	2,694,247
(LOSS)/EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	HK\$(0.688)	HK\$0.917

CONSOLIDATED BALANCE SHEET

As at 31st December, 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Non-current assets			
Investment properties	11	13,020,000	16,080,000
Prepaid construction costs	12	430,000	430,000
Construction in progress	13	16,743	—
Deferred tax assets	21	116,455	21,765
Total non-current assets		13,583,198	16,531,765
Current assets			
Accounts receivable	14	96,144	161,500
Prepayments and other receivables	15	10,272	14,537
Tax recoverable		5,062	—
Restricted cash	16	47,673	85,465
Cash and cash equivalents	17	173,789	140,412
Total current assets		332,940	401,914
Total assets		13,916,138	16,933,679
Current liabilities			
Accounts payable	18	6,887	3,885
Other payables and accruals		57,370	58,429
Total current liabilities		64,257	62,314
Net current assets		268,683	339,600
Total assets less current liabilities		13,851,881	16,871,365
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	4,321,866	4,314,022
Derivative financial instruments	20	196,587	24,382
Deferred tax liabilities	21	1,176,651	1,617,885
Total non-current liabilities		5,695,104	5,956,289
Total liabilities, excluding net assets attributable to Unitholders		5,759,361	6,018,603
Net assets attributable to Unitholders		8,156,777	10,915,076
Number of Units in issue	22	3,142,196,102	3,115,512,324
Net asset value per Unit	23	HK\$2.596	HK\$3.503

The consolidated financial statements on pages 43 to 79 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 26th March, 2009 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 year ended 31st December, 2008

	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
Net assets attributable to Unitholders as at 31st December, 2007 and 1st January, 2008		8,245,211	(24,382)	2,694,247	10,915,076
Changes in fair values of cash flow hedges		—	(179,086)	—	(179,086)
Transfer from hedging reserve to income statement		—	30,801	—	30,801
As payment of REIT Manager fees:					
Units issued	6	42,450	—	—	42,450
Units to be issued	6	30,417	—	—	30,417
Units repurchased	22	(21,172)	—	—	(21,172)
Unit repurchase expenses	22	(97)	—	—	(97)
Loss for the year, after distributions to Unitholders		—	—	(2,661,612)	(2,661,612)
Net assets attributable to Unitholders as at 31st December, 2008		<u>8,296,809</u>	<u>(172,667)</u>	<u>32,635</u>	<u>8,156,777</u>

DISTRIBUTION STATEMENT

For the year ended 31st December, 2008

	Notes	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
		HK\$'000	HK\$'000
(Loss)/profit for the year/period, before distributions to Unitholders		(2,150,171)	2,850,198
Adjustments:			
Excess over the cost of a business combination		—	(2,044,441)
Difference in accounting Base Rent and actual contractual cash Base Rent		(21,310)	(70,010)
Amount set aside on account for the furniture, fixtures and equipment reserve		(29,011)	(22,214)
REIT Manager fees paid/payable in the form of Units		72,867	53,525
Amortisation of debt establishment costs		7,844	5,705
Fair value changes on investment properties		3,133,715	(591,841)
Fair value changes of derivative financial instruments		23,920	—
Deferred tax (credit)/charge		(535,924)	240,564
Distributable income for the year/period	(a)	501,930	421,486
Distributable income at the beginning of the year/period		265,535	—
Distributions paid during the year/period		(511,441)	(155,951)
Distributable income for final distribution	(b) & (d)	256,024	265,535
Distribution per Unit:		HK\$	HK\$
Interim	(a)	0.08300	0.05700
Final	(b) & (c)	0.08461	0.09627
		0.16761	0.15327

Notes:

- (a) 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. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager resolved to make an interim distribution of HK\$0.083 per Unit for the interim period ended 30th June, 2008.

- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 8th May, 2009 in respect of the final distribution for the period from 1st July, 2008 to 31st December, 2008. The final distribution will be paid out to Unitholders on or about 20th May, 2009. The final distribution per Unit to be paid to Unitholders for the period from 1st July, 2008 to 31st December, 2008 is arrived at based on the distributable income 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.
- (c) Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Programme or AEP (as defined hereinafter) at the relevant Initial Hotels (as defined hereinafter). During the period ended 31st December, 2007, the AEP at Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and the first phase of the AEP at Regal Riverside Hotel were completed and, accordingly, AEP Units with respect to these completed AEPs are entitled to the interim and final distributions for the year ended 31st December, 2008. No AEP was completed during 2008. The number of Units expected to be entitled to distribution for the period from 1st July, 2008 to 31st December, 2008 is calculated as follows:

	Number of Units
In issue as at 31st December, 2008	3,142,196,102
Issued on 23rd January, 2009 to the REIT Manager for the REIT Manager Base Fees for November 2008	5,415,600
Issued on 27th February, 2009 to the REIT Manager for the REIT Manager Base Fees for December 2008	4,448,050
To be issued to the REIT Manager for the REIT Manager Variable Fees for the year ended 31st December, 2008	22,605,114
To be issued to the REIT Manager for the REIT Manager Base Fees for January 2009 and February 2009	<u>7,056,684</u>
Units expected to be in issue at the Record Date	3,181,721,550
AEP Units pursuant to the distribution deed dated 2nd March, 2007	(373,134,326)
AEP Units with respect to AEPs completed during the period ended 31st December, 2007	<u>217,455,222</u>
Units expected to be entitled to distribution at the Record Date	<u><u>3,026,042,446</u></u>

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

- (d) The final distribution of HK\$0.08461 per Unit for the period from 1st July, 2008 to 31st December, 2008, involving a total distributable amount of approximately HK\$256.0 million, was resolved and declared by the REIT Manager on 26th March, 2009. Accordingly, the distribution is not reflected as a distribution payable in the consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2009. The final distribution for the period from 1st July, 2007 to 31st December, 2007 of approximately HK\$264.8 million was included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	Notes	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax and distributions to Unitholders		(2,684,941)	3,090,762
Adjustments for:			
Excess over the cost of a business combination	24	—	(2,044,441)
Fair value changes on investment properties	11	3,133,715	(591,841)
Difference in accounting Base Rent and actual contractual cash Base Rent	5	(21,310)	(70,010)
Interest income	5	(4,452)	(5,428)
REIT Manager fees in the form of Units	6	72,867	53,525
Finance costs - excluding distributions to Unitholders	8	179,709	156,994
Fair value changes of derivative financial instruments		23,920	—
		699,508	589,561
Decrease/(increase) in accounts receivable		86,666	(91,490)
Increase in prepayments and other receivables		(8,956)	(1,314)
Decrease/(increase) in restricted cash		14,268	(14,268)
Increase in accounts payable		675	—
Increase in other payables and accruals		2,340	3,825
Cash generated from operations		794,501	486,314
Interest received		4,559	5,320
Interest paid		(174,683)	(110,716)
Hong Kong profits tax paid		(6,216)	—
Net cash inflow from operating activities		618,161	380,918
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Acquisition of subsidiaries	24	—	(6,509,354)
Additions to investment properties		(64,831)	(13,358)
Additions to construction in progress		(10,768)	—
Decrease/(increase) in restricted cash		4,648	(5,255)
Net cash outflow from investing activities		(70,951)	(6,527,967)

	Notes	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new Units		—	2,329,694
Consideration for repurchase of Units		(21,172)	—
Unit issue costs		—	(128,657)
Unit repurchase expenses		(97)	—
New bank borrowings, net of debt establishment costs		—	4,308,317
Distributions paid		(511,441)	(155,951)
Decrease/(increase) in restricted cash		18,877	(65,942)
Net cash inflow/(outflow) from financing activities		(513,833)	6,287,461
NET INCREASE IN CASH AND CASH EQUIVALENTS		33,377	140,412
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		140,412	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		173,789	140,412
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	8,789	7,149
Non-pledged time deposits with original maturities of less than three months when acquired	17	165,000	133,263
		173,789	140,412

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2008

1. GENERAL

Regal Real Estate Investment Trust ("Regal REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units (the "Units") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March, 2007 (the "Listing Date"). Regal REIT is governed by a trust deed (the "Trust Deed") dated 11th December, 2006 (date of establishment), made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as amended by the first supplemental trust deed dated 2nd March, 2007 and the second supplemental trust deed dated 15th May, 2008) and the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC").

The principal activity of Regal REIT and its subsidiaries (collectively, the "Group") is to own and invest in income-producing hotels, hospitality-related properties and other commercial properties with the objectives of producing stable and growing distributions to the unitholders of Regal REIT (the "Unitholders") and to achieve long-term growth in the net asset value per Unit.

The addresses of the registered office of the REIT Manager and the Trustee are Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 48, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, respectively.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. In addition, these consolidated financial statements include the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair values. These consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of Regal REIT.

The consolidated financial statements cover the financial statements of the Group for the year ended 31st December, 2008. Since Regal REIT commenced business when the companies holding the Initial Hotels were acquired by the Group on 30th March, 2007 (i.e. the Listing Date), the corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in net assets attributable to Unitholders, consolidated cash flow statement and related notes for the period from 11th December, 2006 (date of establishment) to 31st December, 2007 may not be comparable with the amounts shown for the current year.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7

Amendments

Amendments to HKAS 39 *Financial Instruments: Recognition and*

Measurement and HKFRS 7 Financial Instruments:

Disclosures - Reclassification of Financial Assets

HKFRS 2 - *Group and Treasury Share Transactions*

Service Concession Arrangements

HKAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 11

HK(IFRIC)-Int 12

HK(IFRIC)-Int 14

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements.

2.3 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 financial statements.

HKFRS 1 and HKAS 27

Amendments

Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS 27*

*Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Joint Controlled Entity or Associate*¹

HKFRS 2 Amendments

Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*¹

*Business Combinations*²

HKFRS 3 (Revised)

HKFRS 7 Amendments

Amendments to HKFRS7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*¹

*Operating Segments*¹

*Presentation of Financial Statements*¹

*Borrowing Costs*¹

*Consolidated and Separate Financial Statements*²

HKFRS 8

HKAS 1 (Revised)

HKAS 23 (Revised)

HKAS 27 (Revised)

HKAS 32 and HKAS 1

Amendments

Amendments to HKAS 32 *Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*¹

HKAS 39 Amendments

Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*²

HK(IFRIC)-Int 9 and

HKAS 39 Amendments

Amendments to HK(IFRIC) - Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement - Embedded Derivatives*⁵

*Customer Loyalty Programmes*³

*Agreements for the Construction of Real Estate*¹

*Hedges of a Net Investment in a Foreign Operation*⁴

*Distribution of Non-cash Assets to Owners*²

*Transfers of Assets from Customers*²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1st July, 2009, the amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

- ¹ Effective for annual periods beginning on or after 1st January, 2009
- ² Effective for annual periods beginning on or after 1st July, 2009
- ³ Effective for annual periods beginning on or after 1st July, 2008
- ⁴ Effective for annual periods beginning on or after 1st October, 2008
- ⁵ Effective for annual periods ending on or after 30th June, 2009

- * Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

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

Construction in progress

Construction in progress represents investment properties under renovation which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or renovation and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to investment properties when completed and ready for commercial use.

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 and 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, economic 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 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 the 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 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) Additional Base Rent, Variable Rent and the furniture, fixtures and equipment reserve contributions are recognised as income in the accounting period in which they are earned in accordance with the terms of 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, based on an evaluation of the terms and conditions of the arrangement, 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 hedging reserve or any ineffective element is recognised in the income statement.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 an independent valuer based on a market value assessment, on an open market, existing use basis. The valuer has relied on the discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cash flow profile. The discounted cash flow projections of each investment property are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases and other contracts and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

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 that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profit projections are reviewed at 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 revenue and other rental-related income received and receivable from investment properties during the year/period.

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

	Notes	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
		HK\$'000	HK\$'000
Gross rental revenue			
Rental income	(a)	723,198	647,526
Other rental-related income	(b)	29,011	22,214
Other		9,754	3,047
		761,963	672,787
Other income			
Bank interest income		4,452	5,428
Other		—	5
		4,452	5,433

Notes:

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

	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
	HK\$'000	HK\$'000
Base Rent:		
Cash Base Rent	700,000	475,900
Cash Additional Base Rent	1,888	—
Difference in accounting Base Rent and actual contractual cash Base Rent	<u>21,310</u>	<u>70,010</u>
	723,198	545,910
Variable Rent	<u>—</u>	<u>101,616</u>
	723,198	647,526

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

- (i) cash base rent (the "Base Rent"), in the form of a pre-determined fixed cash sum per annum payable monthly in advance up to the year ending 31st December, 2010. In 2008, the annual cash Base Rent is fixed at HK\$700 million. In 2007, the annual cash Base Rent was fixed at HK\$630 million and was 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;
- (ii) cash additional base rent (the "Additional Base Rent"), for capital additions (the "Capital Additions") projects which are proposed by the lessee, are approved and funded by the Group and are intended to increase revenue and rental payment capacity of any one of the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"). The Additional Base Rent for such approved Capital Additions projects is payable by the lessee commencing from the date on which the Capital Additions projects have been completed and accepted by the Group, and have been commissioned for operation, to the satisfaction of the Group. The Additional Base Rent will be payable until the year ending 31st December, 2010 and the Additional Base Rent per each financial year shall be equal to such percentage, as is agreed between the Group and the lessee, of the cost of the approved Capital Additions projects to be funded by the Group. Where, with respect to any approved Capital Additions projects in any financial year, Additional Base Rent is payable with respect to a period that is less than a full financial year, the amount of such Additional Base Rent shall be apportioned according to the number of days in such period, based on a 365-day year; and
- (iii) variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments, until the year ending 31st December, 2010, 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 determination of the Base Rent and the Variable Rent is subject to annual rent reviews by an independent property valuer.

- (b) Other rental-related income represents contributions to the furniture, fixtures and equipment reserve (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

	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
	HK\$'000	HK\$'000
Base Fees:		
In the form of Units	50,940	36,200
In the form of cash	(6,839)	—
Variable Fees:		
In the form of Units	21,927	17,325
In the form of cash	666	—
	<hr/>	<hr/>
	66,694	53,525
Total REIT Manager Fees:		
In the form of Units	72,867	53,525
In the form of cash	(6,173)	—
	<hr/>	<hr/>
	66,694	53,525

Under the Trust Deed, the REIT Manager is entitled to receive the following:

- a base fee (the "Base Fee") of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT which is payable monthly (in the form of Units) and subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the balance sheet date for the relevant financial year; and
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income for the financial year as defined in the Trust Deed in respect of each Initial Hotel, which is payable annually.

During the year ended 31st December, 2008, REIT Manager fees of approximately HK\$42.5 million (period ended 31st December, 2007: HK\$28.2 million) were settled by 28,222,178 Units (period ended 31st December, 2007: 10,906,576 Units). REIT Manager fees of approximately HK\$30.4 million (period ended 31st December, 2007: HK\$25.3 million), comprising Base Fees for November 2008 and December 2008 and Variable Fees for the year ended 31st December, 2008, 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

	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
	HK\$'000	HK\$'000
Auditors' remuneration:		
Audit fees	1,320	1,320
Non-audit fees	416	479
Legal and other professional fees	6,869	69
Trustee fees	2,879	2,219
Valuation fees	650	670
Other expenses	702	1,359
	<hr/>	<hr/>
	12,836	6,116
	<hr/>	<hr/>

Regal REIT did not appoint any directors and the Group did not engage any employees during the year ended 31st December, 2008 (period ended 31st December, 2007: Nil) and, accordingly, no directors and employee benefit expenses were incurred during the year (period ended 31st December, 2007: Nil).

8. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
	HK\$'000	HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	147,467	173,501
Fair value changes of derivative financial instruments – cash flow hedge (transfer from hedging reserve)	23,792	(22,726)
Amortisation of debt establishment costs	7,844	5,705
Loan commitment fees	376	284
Loan agency fee	230	230
	<hr/>	<hr/>
	179,709	156,994
	<hr/>	<hr/>

9. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31st December, 2008. No provision for Hong Kong profits tax had been made in the prior period as the Group had available tax losses attached to the holding companies holding the Initial Hotels acquired by the Group to offset the assessable profits generated during the prior period.

	Period from 11th December, 2006 (date of establishment) to 31st December, 2008 HK\$'000	31st December, 2007 HK\$'000
Charge for the year/period	1,154	—
Deferred tax (credit)/charge (note 21)	(535,924)	240,564
Total tax (credit)/charge for the year/period	(534,770)	240,564

A reconciliation of the tax (credit)/charge applicable to (loss)/profit before tax and distributions to Unitholders using the Hong Kong statutory rate of 16.5% (2007: 17.5%) to the tax (credit)/charge at the Group's effective tax rate is as follows:

	Period from 11th December, 2006 (date of establishment) to 31st December, 2008 HK\$'000	31st December, 2007 HK\$'000
(Loss)/profit before tax and distributions to Unitholders	(2,684,941)	3,090,762
Tax at the statutory tax rate	(443,015)	540,883
Effect on opening deferred tax of decrease in rate	(91,207)	—
Income not subject to tax	3,703	(358,727)
Expenses not deductible for tax	(4,251)	58,408
Tax (credit)/charge at the Group's effective rate	(534,770)	240,564

10. (LOSS)/EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic loss per Unit is based on the loss for the year before distributions to Unitholders of approximately HK\$2,150,171,000 (period ended 31st December, 2007: profit of HK\$2,850,198,000) and the weighted average of 3,126,064,726 Units (period ended 31st December, 2007: 3,108,353,881 Units) in issue during the year. The basic loss per Unit for the year amounted to HK\$0.688 (period ended 31st December, 2007: basic earnings per Unit of HK\$0.917).

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

11. INVESTMENT PROPERTIES

	2008 HK\$'000	2007 HK\$'000
At beginning of the year/period	16,080,000	—
Additions through a business combination upon listing (note 24)	—	14,900,000
Fair value changes	(3,133,715)	591,841
Transfer from prepaid construction costs (note 12)	—	570,000
Capital expenditures for the year/period	73,715	18,159
At the end of the year/period	13,020,000	16,080,000

The Group's investment properties were valued on 31st December, 2008 by CB Richard Ellis Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$13,020,000,000 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 26(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 19).

Further particulars of the Group's investment properties are included on page 119.

12. PREPAID CONSTRUCTION COSTS

	2008 HK\$'000	2007 HK\$'000
At beginning of the year/period	430,000	—
Additions through a business combination upon listing (note 24)	—	1,000,000
Transfer to investment properties (note 11)	—	(570,000)
At the end of the year/period	430,000	430,000

This represents the prepaid project costs for the remaining asset enhancement programme (the "AEP" or "Asset Enhancement Programme") including construction costs, fit-out of 280 additional rooms in Regal Riverside Hotel and ancillary facilities, related renovations, land premiums and any other costs in respect of the Asset Enhancement Programme.

During the period ended 31st December, 2007, aggregate prepaid construction costs of HK\$570,000,000 (note 11) were transferred to investment properties upon completion of the Asset Enhancement Programme for certain Initial Hotels.

13. CONSTRUCTION IN PROGRESS

This represents the amount incurred for renovation projects in respect of the Initial Hotels which have not been completed as at the balance sheet date.

14. ACCOUNTS RECEIVABLE

	2008 HK\$'000	2007 HK\$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	91,320	70,010
Cash Additional Base Rent receivables	1,888	—
Variable Rent receivables	—	87,705
FF&E Reserve contribution receivables	2,936	3,785
	<hr/>	<hr/>
	96,144	161,500
	<hr/>	<hr/>

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

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

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

15. PREPAYMENTS AND OTHER RECEIVABLES

	2008 HK\$'000	2007 HK\$'000
Prepayments	1,078	586
Other receivables	2	13,223
REIT Manager Base Fee adjustment receivables	9,192	—
Due from a significant Unitholder	—	728
	<hr/>	<hr/>
	10,272	14,537
	<hr/>	<hr/>

REIT Manager Base Fee adjustment receivables represent an amount due from the REIT Manager arising from an adjustment to REIT Manager Base Fee, which is unsecured, interest-free and repayable within one year.

16. RESTRICTED CASH

At 31st December, 2008, the Group had approximately HK\$47.7 million (2007: HK\$85.5 million) of cash which was restricted to use and mainly to be utilised for the purpose of servicing the finance costs on interest-bearing bank borrowings and funding the furniture, fixtures and equipment reserve for the use in the Initial Hotels. All of the restricted cash is expected to be released within one year from the balance sheet date and is, accordingly, classified as a current asset.

17. CASH AND CASH EQUIVALENTS

	2008 HK\$'000	2007 HK\$'000
Cash and bank balances	8,789	7,149
Time deposits	165,000	133,263
 Cash and cash equivalents	 173,789	 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.

18. ACCOUNTS PAYABLE

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

19. INTEREST-BEARING BANK BORROWINGS

	2008 HK\$'000	2007 HK\$'000
Interest-bearing bank borrowings repayable within five years	4,350,000	4,350,000
Debt establishment costs	(28,134)	(35,978)
 4,321,866	 <hr/>	 4,314,022

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 20.

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 the Group companies.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2008	2007
	HK\$'000	HK\$'000
Interest rate swaps - cash flow hedges	196,587	24,382
	<hr/>	<hr/>

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan (note 19). 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 as at 31st December, 2008 were set out below:

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

The above derivatives are measured at fair values at the balance sheet date and are determined based on discounted cash flow models.

21. DEFERRED TAX

On 26th June, 2008, the Legislative Council of the Hong Kong Special Administrative Region approved the reduction in profits tax rate from 17.5% to 16.5%. According to HKAS 12 *Income Tax*, deferred tax assets and deferred tax liabilities are measured at the tax rate that are expected to apply to the period when the asset is realised or the liability is settled. Accordingly, the newly enacted profits tax rate of 16.5% has been used to determine the deferred tax of the Group for the year.

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

	Depreciation allowances in excess of related depreciation the Initial Hotels	Fair value adjustments arising from revaluations of the Initial Hotels	Losses available for offset against future taxable profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Acquisition of subsidiaries (note 24)	(141,941)	(1,396,019)	182,404	(1,355,556)
Deferred tax charged to the income statement during the period (note 9)	(24,606)	(175,688)	(40,270)	(240,564)
Gross deferred tax assets/(liabilities) at 31st December, 2007 and 1st January, 2008	(166,547)	(1,571,707)	142,134	(1,596,120)
Deferred tax credited/(charged) to the income statement during the year (note 9)	(13,455)	606,875	(57,496)	535,924
Gross deferred tax assets/(liabilities) at 31st December, 2008	(180,002)	(964,832)	84,638	(1,060,196)

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:

	2008 HK\$'000	2007 HK\$'000
Net deferred tax assets recognised in the consolidated balance sheet	116,455	21,765
Net deferred tax liabilities recognised in the consolidated balance sheet	(1,176,651)	(1,617,885)
	(1,060,196)	(1,596,120)

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

22. NUMBER OF UNITS IN ISSUE

	Number of Units 2008	2007
Units in issue:		
At beginning of the year/period	3,115,512,324	—
Issue of new Units upon listing on 30th March, 2007	—	3,104,605,748
REIT Manager fees paid in the form of Units	40,075,778	10,906,576
	<hr/>	<hr/>
	3,155,588,102	3,115,512,324
Units repurchased	<hr/> (13,392,000)	<hr/> —
	<hr/>	<hr/>
At the end of the year/period	3,142,196,102	3,115,512,324
	<hr/>	<hr/>

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

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

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

23. NET ASSET VALUE PER UNIT

The net asset value per Unit is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2008 of approximately HK\$8,156,777,000 (2007: HK\$10,915,076,000) by the number of Units in issue of 3,142,196,102 (2007: 3,115,512,324) as of that date.

24. 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:

	HK\$'000
Investment properties (note 11)	14,900,000
Prepaid construction costs (note 12)	1,000,000
Deferred tax assets (note 21)	31,899
Deferred tax liabilities (note 21)	<u>(1,387,455)</u>
Net assets acquired	14,544,444
Excess over the cost of a business combination recognised in the income statement	<u>(2,044,441)</u>
Total consideration	<u>12,500,003</u>
Consideration satisfied by:	
Cash	6,509,354
Fair value of 2,235,316,748 Units issued	<u>5,990,649</u>
	<u>12,500,003</u>

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.

25. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year ended 31st December, 2008, REIT Manager fees of approximately HK\$72.9 million (period ended 31st December, 2007: HK\$53.5 million) were settled/to be settled in the form of Units, details of which are set out in note 6 to the financial statements.

26. 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, 2008, the total future minimum lease receivables under non-cancellable operating leases with its tenant falling due were as follows:

	2008 HK\$'000	2007 HK\$'000
Within one year	759,094	702,396
In the second to fifth years, inclusive	<u>784,921</u>	<u>1,532,548</u>
	1,544,015	2,234,944

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

(b) As lessee

The Group leases certain premises under an operating lease arrangement. The lease will expire on 1st March, 2010 with an option to renew for another 12 years. During the lease term, the rental is subject to review every three years. At 31st December, 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008 HK\$'000	2007 HK\$'000
Within one year	5,008	2,396
In the second to fifth years, inclusive	<u>835</u>	<u>2,548</u>
	5,843	4,944

During the year ended 31st December, 2008, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK\$5,213,000 (period ended 31st December, 2007: HK\$2,292,000) was charged to the consolidated income statement.

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26(b) above, the Group had the following capital commitments in respect of the Initial Hotels as at 31st December, 2008:

	2008 HK\$'000	2007 HK\$'000
Authorised and contracted for	19,598	3,485
Authorised, but not contracted for	28,332	23,735
	47,930	27,220

28. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with connected and related parties during the year/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	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
		HK\$'000	HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	740,653	602,777
Interest (expense)/income (charged by)/ earned from the Deutsche Bank Group	(ii)	(29,259)	14,443
REIT Manager fees	(iii)	(66,694)	(53,525)
Trustee fees	(iv)	(2,879)	(2,219)
Valuation fees paid/payable to the Valuer	(v)	(650)	(2,220)

Notes:

- (i) The 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 (expense)/income is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. The interest (expense)/income is (incurred)/earned thereon in accordance with the 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) at a rate ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the balance sheet date, including but not limited to the Initial Hotels, subject to a minimum of HK\$66,000 per month.
- (v) The valuation fees are charged by the Valuer in accordance with the terms of the relevant agreements. For the period from 11th December, 2006 (date of establishment) to 31st December, 2007, included in the valuation fees charged by the Valuer were 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 19 to the financial statements, respectively. These amounts were recorded as Unit issue costs in the statement of changes in net assets attributable to Unitholders and debt establishment costs.

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

	Notes	2008 HK\$'000	2007 HK\$'000
Net amount due from/(to) the RHIHL Group:			
Cash Additional Base Rent receivables,			
Variable Rent receivables and FF&E Reserve contribution receivables	(i)	4,824	91,490
REIT Manager Base Fee adjustment receivables	(i)	9,192	—
Accounts payable to related companies	(ii)	(6,887)	(3,885)
Amount due to a related company	(ii)	(103)	—
Amount due from a significant Unitholder	(ii)	—	728
Net amount due to:			
The Trustee	(iii)	(702)	(678)
The Valuer	(iv)	(650)	(670)
Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group	(v)	174,303	142,469

Notes:

- (i) Details of the balances are set out in note 14 and note 15 to the financial statements.
- (ii) The amount is unsecured, interest-free and repayable on demand.
- (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
- (iv) The amount is repayable in accordance with the terms of the relevant agreement.
- (v) The short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the Group and the Trustee. In addition, under the terms of the lease agreements, the RHIHL Group has guaranteed to pay a total Variable Rent, at a minimum, of HK\$220.0 million for the period from 30th March, 2007 to 31st December, 2010.
- (d) Under a deed of trade mark licence, the RHIHL Group had granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	2008	2007
	Loans and receivables	Loans and receivables
	HK\$'000	HK\$'000
Financial assets included in accounts receivable	4,824	91,490
Financial assets included in prepayments and other receivables	9,194	13,951
Restricted cash	47,673	85,465
Cash and cash equivalents	<u>173,789</u>	<u>140,412</u>
	<u>235,480</u>	<u>331,318</u>

Financial liabilities

	2008	
	Financial liabilities at fair value through profit or loss – designated as hedging instruments	Financial liabilities at amortised cost
	HK\$'000	HK\$'000
Accounts payable	—	6,887
Other payables	—	4,163
Derivative financial instruments	<u>196,587</u>	—
Interest-bearing bank borrowings	<u>—</u>	<u>4,321,866</u>
	<u>196,587</u>	<u>4,321,866</u>
	<u>196,587</u>	<u>4,332,916</u>
	<u>196,587</u>	<u>4,529,503</u>

	2007	
	Financial liabilities at fair value through profit or loss – designated as hedging instruments	Financial liabilities at amortised cost
	HK\$'000	HK\$'000
Accounts payable	—	3,885
Other payables	—	133
Derivative financial instruments	<u>24,382</u>	—
Interest-bearing bank borrowings	<u>—</u>	<u>4,314,022</u>
	<u>24,382</u>	<u>4,314,022</u>
	<u>24,382</u>	<u>4,318,040</u>
	<u>24,382</u>	<u>4,342,422</u>

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The REIT Manager reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term bank borrowings with floating interest rates. Interest rate risk is managed by the REIT Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Group has put in place interest rate swap arrangements to limit the variability in cash flows attributable to changes in interest rates. This involves fixing portions of interest payable on its underlying bank borrowings via derivative instruments. Details of interest rate swaps are set out in note 20 to the financial statements. These swaps are designated to hedge underlying bank borrowing obligations.

For Hong Kong dollars bank borrowing, assuming the amount of bank borrowings and interest rate swap contracts outstanding at the balance sheet was outstanding for the whole year, a 100 basis point increase/decrease in interest rates at 31st December, 2008 would have no material impact to the Group's loss before tax and distributions to Unitholders.

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 19 to the financial statements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

	2008			
	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	6,887	—	—	6,887
Other payables	119	4,044	—	4,163
Derivative financial instruments	—	—	196,587	196,587
	7,006	4,044	4,546,587	4,557,637

	2007			
	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
Other payables	34	99	—	133
Derivative financial instruments	—	—	24,382	24,382
	3,919	99	4,374,382	4,378,400

The amount in respect of derivative financial instruments represents the contractual amount to be exchanged for which gross cash flows are exchanged, plus the net amount for receive-floating/pay-fixed interest rate swaps for which net cash flows are exchanged.

Capital management

The objective of the Group is to employ a growth oriented capital structure to maximise cash flows while maintaining flexibility in funding any future acquisitions. The Group's excess borrowing capacity will be available to meet future capital requirements relating to acquisitions of additional properties, as well as capital expenditures associated with the enhancement of the 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 32.3% (2007: 26.4%), being the aggregate amount of the outstanding loans of HK\$4.35 billion (2007: HK\$4.35 billion) as compared to the aggregate market value of the Initial Hotels (including prepaid construction costs under the Asset Enhancement Programme) of approximately HK\$13.5 billion (2007: 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 31.3% (2007: 25.7%), being the gross amount of the outstanding loans of HK\$4.35 billion (2007: HK\$4.35 billion) divided by the total assets of approximately HK\$13.9 billion (2007: HK\$16.9 billion), was below the maximum limit of 45% stipulated under the REIT Code.

31. 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 to their fair values at the balance sheet date.

32. POST BALANCE SHEET EVENTS

- (a) On 23rd January, 2009, 5,415,600 new Units were issued to the REIT Manager at HK\$0.771 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$4.2 million for November 2008.
- (b) On 27th February, 2009, 4,448,050 new Units were issued to the REIT Manager at HK\$0.97 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$4.3 million for December 2008.
- (c) In accordance with the terms of the Trust Deed, 22,605,114 new Units will be issued to the REIT Manager in settlement of the REIT Manager Variable Fee of approximately HK\$21.9 million for the year ended 31st December, 2008.

33. CONTINGENT LIABILITIES

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

34. 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 year/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.

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 43 to 79, which comprise the consolidated balance sheet as at 31st December, 2008, 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 year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 11th December, 2006, as supplemented by the first supplemental trust deed dated 2nd March, 2007 and the second supplemental trust deed dated 15th May, 2008 (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT (continued)

To the Unitholders of Regal Real Estate Investment Trust

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of Regal REIT, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31st December, 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

Ernst & Young

Certified Public Accountants

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

26th March, 2009

PERFORMANCE TABLE

As at 31st December, 2008

	Notes	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
Net assets attributable to Unitholders (HK\$'million)		8,156.8	10,915.1
Net asset value per Unit (HK\$)		2.596	3.503
The highest traded price during the year/period (HK\$)	1&3	2.37	2.79
The lowest traded price during the year/period (HK\$)	3	0.66	1.99
The highest discount of the traded price to net asset value per Unit	3	74.58%	43.19%
Distribution yield per Unit	2&3	17.28%	7.20%
Annualised distribution yield per Unit	2&3	17.28%	9.48%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit reported at the end of those periods. Accordingly, no premium on the traded price to net asset value per Unit is presented.
2. Distribution yield per Unit for the year ended 31st December, 2008 is calculated by dividing the total distributions per Unit of HK\$0.16761 over the closing price of HK\$0.97 as at 31st December, 2008, being the last trading day for the year. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 46.

Distribution yield per Unit for the period ended 31st December, 2007 is calculated by dividing the total distributions 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.

For the period ended 31st December, 2007, the annualised distribution yield per Unit is calculated based on a factor of 365/277.

3. Regal REIT's business operations and trading in Regal REIT Units commenced from 30th March, 2007, the date when the Units of Regal REIT were listed on the Stock Exchange. Therefore, the comparative amounts are in respect of the period from 30th March, 2007 to 31st December, 2007.

TRUSTEE'S REPORT

TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

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

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

DB Trustees (Hong Kong) Limited

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

Hong Kong, 23 March 2009

VALUATION REPORT



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

February 27, 2009

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

48/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, 2008 (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 neither 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.

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 are 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 2008, 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 reference 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 terms, 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 are 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 would draw your attention to the fact that the current volatility in the global financial system has created a significant degree of turbulence in commercial real estate markets across the world. Furthermore, the lack of liquidity in the international capital markets means that it may be very difficult to dispose of these assets in short term. We would therefore recommend that the situation and the valuations are kept under regular review.

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

Ms. Carmen KM Wong MHKIS MRICS RPS(GP)
Assistant Manager
Valuation & Advisory Services

SUMMARY OF VALUES

Property interests	Market Value as at December 31, 2008
1. Regal Airport Hotel 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong	HK\$4,150,000,000
2. Regal Hongkong Hotel 88 Yee Wo Street, Causeway Bay, Hong Kong	HK\$2,890,000,000
3. Regal Kowloon Hotel 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong	HK\$2,990,000,000
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	HK\$1,180,000,000
5. Regal Riverside Hotel 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong ¹	HK\$2,280,000,000 ²
	Total:
	HK\$13,490,000,000³

¹ AEP of Regal Riverside Hotel is expected to be completed in mid 2009.

² The assessed value without AEP was HK\$1,810,000,000.

³ Excluding the AEP of Regal Riverside Hotel, the Market Value of all the Initial Hotel Properties as at December 31, 2008 is HK\$13,020,000,000.

PROPERTY 1

REGAL AIRPORT HOTEL

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

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

1. PROPERTY DESCRIPTION

General Description

Regal Airport Hotel ("RAH"), opened in 1999, is a 14-story (including one basement floor) High Tariff A hotel⁴. 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 passenger terminals of Hong Kong International Airport ("HKIA") by an air-conditioned footbridge.

RAH 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: 897,864 sq ft (83,413.63 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	236	Duplex Suite	2	Spa Cabana	5
Premier	100	Regal Club Superior	68	Spa Suite	2
Deluxe Suite	15	Regal Club Deluxe	94	Presidential Suite	1
Royal Suite	11				
Size Range ⁵	291 sq ft (27 sq m) to 926 sq ft (86 sq m)			TOTAL	1,171

⁴ RAH has been rated as a "High Tariff A Category" effective January 2008, by Hong Kong Tourism Board.

⁵ 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
Regala Café & Dessert Bar	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	627
Meeting Rooms	B/F	13	10,958	1,018
Function 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 centre, 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 in favour of Bauhinia Hotels Limited for a term of 25 years from December 31, 2003 via Memorial No. IS342341 dated August 12, 2004.
- Supplemental Lease (To Sub-Lease of Hotel Memorial No. IS342341) in favor of Bauhinia Hotels Limited via Memorial No. 06112400700018 dated November 08, 2006.
- Bauhinia Debenture in favor of the ABN AMRO Bank N.V. Singapore Branch via Memorial No. 07042400850013 dated March 30, 2007.
- Mortgage and Assignment of Rights in favor of the ABN AMRO Bank N.V. Singapore Branch via Memorial No. 07042400850060 dated March 30, 2007.

3. TENANCIES/LICENSES

Retail Spaces

Total Retail Area (lettable):	40,100 sq ft (3,725 sq m)
Occupied Area (lettable):	11,227 sq ft (1,043 sq m)
Vacant Space (lettable):	28,873 sq ft (2,682 sq m)
Occupancy:	28%
Monthly Base Rent:	HK\$343,744
Range of Terms:	2 years to 3 years (excluding monthly tenancies)

Tenancy Expiry Profile:

Monthly Tenancies	Lettable Area (sq ft)
2009	794
2010	4,880
Latest expiry date:	September 30, 2010
Option to Renew:	one of the tenancies with options to renew for 1 year at pre-determined rent
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 2008

Occupancy: 69%

Average Room Rate: HK\$1,175

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 ⁶
	In any other cases:	2% of the Gross Revenues

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

⁶ 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 GOP⁷ over the Base Fee⁸ and the Fixed Charges⁹

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: Base Rent plus a Variable Rent. Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income¹⁰ ("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.

⁷ Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

⁸ Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

⁹ 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.

¹⁰ Net Property Income, "NPI", as defined in Hotel Management Agreement.

5. MARKET ANALYSIS

In 2008, a total number of 29.5 million visitors¹¹ came to Hong Kong representing a year-on-year increase of 4.7%, mainly contributed by a growth of 8.9% visitors from Mainland China. Following three quarters of the year with strong growth, the global financial tsunami triggered an economic downturn in the fourth quarter of 2008 affecting tourism demand. Notwithstanding the increase in available hotel room supply of about 4.6%¹² contributed mainly by 9 new hotels, the average occupancy rate of all hotels¹³ in Hong Kong dropped merely 1% from 86% to 85%¹⁴ due to an increase in the number of overnight arrivals¹¹ and occupied rooms in all hotels rooms, while the average room rate remained flat for the whole year compared to 2007.

The overall travel and hospitality market is expected to be soft in the short term as a result of the global financial crisis. Nevertheless, Hong Kong is relatively resilient in comparison to other tourist destinations due to the growing economy in Mainland China. Hong Kong's role as a gateway into Mainland China has established its unique position as an international business, aviation and information hub as well as one of the most sought-after tourist destinations¹⁵.

Approximately 12,800 hotel rooms in 66 new and existing hotels are scheduled to be completed between 2009 and 2012.¹⁶ Given the tightening of credit markets and weak investment sentiment, developers may defer, re-prioritize or cancel new hotel projects, which have not yet commenced. A slowdown in hotel room supplies in the medium term is expected to support occupancy and average room rates.

With goals to strengthen the long term economic development together with a strong fiscal position, the Hong Kong government has expedited the planning and the commencement of large-scale infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Kai Tak re-development and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Fiscal policies to position Hong Kong as a Regional Wine Centre (by exempting wine tax) and to earmark an additional HK\$150 million for promoting Hong Kong as an international convention, exhibition and tourism centre, would benefit travel and tourism industries. Tourism is considered one of the major pillars driving the Hong Kong economy. Overall tourism and in particular meetings, incentives, conventions and exhibitions ("M.I.C.E.") activities are expected to improve owing to initiatives such as step-up trade development plans in the Pearl River Delta region, the extension of The Hong Kong Convention and Exhibition Centre ("HKCEC"), the maturing of AsiaWorld-Expo and improvement projects planned by tourism attractions such as Ocean Park and Hong Kong Disneyland, etc.

RAH is located at HKIA and is the only hotel directly linked to the passenger terminals. It benefits from a comprehensive transport infrastructure as well as its proximity to some of Hong Kong's most important tourist attractions and central business districts. Hong Kong Disneyland is a 15-minute shuttle bus journey from RAH while a ride to Central is 23 minutes on the Airport Express railway line. Nearby is the world-class conference and exhibition centre – AsiaWorld-Expo, a state-of-the-art, international meetings, conferences and exhibitions centre with growth potential. In addition, the proposed Hong Kong-Zhuhai-Macao Bridge running from Lantau Island and the direct rail link between the HKIA and the Shenzhen Airport are under planning and are expected to further strengthen the position of HKIA as well as RAH.

¹¹ Source: "Visitor Arrivals Statistics - Dec 2008", Tourism Research Hong Kong Tourism Board.

¹² Source: "Hotel Room Occupancy Reports Jan. - Dec., 2007-2008" and "Hong Kong Tourism Board Hotel Classification System-2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; CBRE Research.

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

¹⁴ Source: "Hotel Room Occupancy Report - Dec 2008", Tourism Research Hong Kong Tourism Board.

¹⁵ According to the "Top City Destinations Ranking" published in December 2008 by Euromonitor International, one of the world's leading independent providers of business information and research on Tourism industry, Hong Kong ranked second in the International's Top City Destinations in 2007.

¹⁶ Source: "Hotel Supply Situation - as at Dec 2008", Tourism Research Hong Kong Tourism Board.

RAH was recognized as "Best Airport Hotel in the World 2008" by Business Traveller, UK Magazine in 2008 and "Best Airport Hotel in Asia-Pacific" by Business Traveller Asia-Pacific Magazine and TTG Asia Media Pte Limited since 2001 and 2005 respectively.

RAH serves transit airline passengers, airline crews, trade show participants and exhibitors, conference delegates, leisure tourist groups and individual tourists. Demand is drawn from both commercial business and leisure due to the excellent locality and the facilities. The commercial business and leisure segments recorded approximately 38% and 21% of hotel room demand respectively with the balance primarily being airline related businesses in 2008. RAH also signed a contract with the ground handling unit of Hong Kong International Airport Services Limited¹⁷, granting RAH the exclusive right to accommodate all layover guests handled by this company.

There are two hotels with approximately 1,100 hotel rooms competing in the airport catchment area including Novotel Citygate Hong Kong in Tung Chung and Hong Kong SkyCity Marriott Hotel next to AsiaWorld-Expo. However, these new hotels are not considered to be in direct competition with RAH in certain key market segments due to differences in location and target markets.

Based on the long term growth in airport traffic turnover, the competitive strengths and characteristics of RAH and Regal Hotel's strong distribution through Preferred Hotel Group¹⁸ and various distribution networks in Mainland China, it is expected the average room rate will be stable in 2009 and will be strong in the long run for RAH.

6. CONCLUSION

- Market value as at December 31, 2008 was **HK\$4,150,000,000** (HONG KONG DOLLARS FOUR BILLION ONE HUNDRED FIFTY MILLION) assuming a sale subject to the existing tenancies and licence agreements as well as the above mentioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 7.7%

¹⁷ A ground handling company for all emergency layovers of flight for almost all airlines except British Airways and airlines of China.

¹⁸ Preferred Hotel Group is a global hotel distribution network which provides comprehensive reservation solutions to more than 680 independent hotels and resorts in 75 countries worldwide.

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 ("RHK") opened in 1993. After its AEP completed in December 2007, it became a 38-story (including four basement floors) High Tariff A hotel with number of room increased from 424 to 474. The existing Presidential Suite is undergone a conversion from a mega size suite to 6 Regal Royale guest rooms and 3 suites to cater for the market needs. Upon the conversion, the total number of rooms will increase from 474 to 482. The hotel 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: 269,988 sq ft (25,082.53 sq m) or Covered Floor Area: 343,864 sq ft (31,945.75 sq m) In addition, the owner of RHK has also rented some spaces on G/F to 3/F of 68 Yee Wo Street. The first tenancy is related to hotel ancillary use of 10,510 sq ft lettable area. The current monthly rent is HK\$417,300 with expiration on March 1, 2010 encompassing an option to renew for 12 years. The second one of a lettable area of 3,437 sq ft has expired on March 28, 2008. The owner of RHK is currently paying a mesne profit of \$96,496.80 per month.
Room Configuration	

Room Type	Number	Room Type	Number	Room Type	Number
Standard	34	Premier	39	Royal Suite	8
Superior	210	Regal Royale	24	Imperial Suite	1
		Summit Room			
Deluxe	117	Regal Royale	19	Presidential Suite	1 ¹⁹
		Platinum Room			
Deluxe Suite	20	Regal Royale Suite	1		
Size Range ²⁰ 258 sq ft (24 sq m) to 1,647 sq ft (153 sq m)				TOTAL	474

¹⁹ Upon the conversion of the hotel in April 2009, the existing presidential suite will be replaced by 6 Regal Royale Guest Rooms and 3 Regal Royale Suites.

²⁰ Except Presidential Suite which is of 6,975 sq ft (648 sq m).

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Tiffany Lounge	G/F	Lobby Lounge	109
Regal Patisserie	G/F	Cake Shop	—
Café Rivoli	1/F	Coffee Shop	316
Regal Palace	3/F	Chinese	746
Zeffirino Ristorante	31/F	Italian	170

Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Meeting Room	2/B	5	3,694	344
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 centre, 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. 07042400850058 dated March 30, 2007.

3. TENANCIES/LICENSES

Mobile Phone Base Stations/Antennae

Number of Licences: 4

Monthly licence fee: HK\$84,200

Latest expiry date: December 31, 2009

4. HOTEL OPERATION

Performance in 2008

Occupancy: 85%

Average Room Rate: HK\$1,233

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:
In any other cases:

1% of the Gross Revenues²¹
2% of the Gross Revenues

Annual Incentive Fee: For so long as the Lease is in subsistence:

In any other cases:

1% of the excess of the Adjusted
GOP²² over the Base Fee²³
and the Fixed Charges²⁴
5% of the excess of the Adjusted
GOP over the Base Fee and
the Fixed Charges

²¹ 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.

²² Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

²³ Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

²⁴ 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: Base Rent plus a Variable Rent. Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income²⁵ ("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\$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.

²⁵ Net Property Income, "NPI", as defined in Hotel Management Agreement.

5. MARKET ANALYSIS

In 2008, a total number of 29.5 million visitors²⁶ came to Hong Kong representing a year-on-year increase of 4.7%, mainly contributed by a growth of 8.9% visitors from Mainland China. Following three quarters of the year with strong growth, the global financial tsunami triggered an economic downturn in the fourth quarter of 2008 affecting tourism demand. Notwithstanding the increase in available hotel room supply of about 4.6%²⁷ contributed mainly by 9 new hotels, the average occupancy rate of all hotels²⁸ in Hong Kong dropped merely 1% from 86% to 85%²⁹ due to an increase in the number of overnight arrivals²⁶ and occupied rooms in all hotels rooms, while the average room rate remained flat for the whole year compared to 2007.

The overall travel and hospitality market is expected to be soft in the short term as a result of the global financial crisis. Nevertheless, Hong Kong is relatively resilient in comparison to other tourist destinations due to the growing economy in Mainland China. Hong Kong's role as a gateway into Mainland China has established its unique position as an international business, aviation and information hub as well as one of the most sought-after tourist destinations³⁰.

Approximately 12,800 hotel rooms in 66 new and existing hotels are scheduled to be completed between 2009 and 2012.³¹ Given the tightening of credit markets and weak investment sentiment, developers may defer, re-prioritize or cancel new hotel projects, which have not yet commenced. A slowdown in hotel room supplies in the medium term is expected to support occupancy and average room rates.

With goals to strengthen the long term economic development together with a strong fiscal position, the Hong Kong government has expedited the planning and the commencement of large-scale infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Kai Tak re-development and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Fiscal policies to position Hong Kong as a Regional Wine Centre (by exempting wine tax) and to earmark an additional HK\$150 million for promoting Hong Kong as an international convention, exhibition and tourism centre, would benefit travel and tourism industries. Tourism is considered one of the major pillars driving the Hong Kong economy. Overall tourism and in particular M.I.C.E. activities are expected to improve owing to initiatives such as step-up trade development plans in the Pearl River Delta region, the extension of HKCEC, the maturing of AsiaWorld-Expo and improvement projects planned by tourism attractions such as Ocean Park and Hong Kong Disneyland, etc.

²⁶ Source: "Visitor Arrivals Statistics - Dec 2008", Tourism Research Hong Kong Tourism Board.

²⁷ Source: "Hotel Room Occupancy Reports Jan. - Dec., 2007-2008" and "Hong Kong Tourism Board Hotel Classification System-2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; CBRE Research.

²⁸ All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Tourism Research Hong Kong Tourism Board.

²⁹ Source: "Hotel Room Occupancy Report - Dec 2008", Tourism Research Hong Kong Tourism Board.

³⁰ According to the "Top City Destinations Ranking" published in December 2008 by Euromonitor International, one of the world's leading independent providers of business information and research on Tourism industry, Hong Kong ranked second in the International's Top City Destinations in 2007.

³¹ Source: "Hotel Supply Situation - as at Dec 2008", Tourism Research Hong Kong Tourism Board.

RHK is located in Causeway Bay, one of Hong Kong's most popular tourism and retail destinations which benefits from extensive transport links with the rest of the territory. Nearby is Hong Kong's landmark conference and exhibition centre, the HKCEC, which has undergone an extension of its exhibition and meeting space to a total of approximately one million square feet. HKCEC provides an important base for RHK's high-yield frequent individual traveler ("FIT") business segment from traders and exhibitors and from multi-national companies, which have established strong ties with RHK over the years. Moreover, the 40,000-seat Hong Kong Stadium and Victoria Park are within a 10-minute walk from RHK. This gives RHK the advantages of serving visitors attending different international sports events. Owing to the excellent facilities and the popularity of the location, the business and leisure segments both recorded approximately 45% of hotel room demand in 2008 for RHK.

The Michelin Guide, Hong Kong and Macao 2009 edition recognized RHK with awarding one star to its Cantonese restaurant Regal Palace.

Through its close cooperation with the HKCEC, AsiaWorld-Expo, the Trade Development Council and the partnership with a global hotel distribution network, Preferred Hotel Group³², RHK receives bookings from source markets globally.

There are 33 hotels with approximately 9,000 rooms in Wanchai/Causeway Bay including Park Lane Hotel, Excelsior Hotel and Metropark Hotel in Causeway Bay, and Renaissance Harbour View Hotel in Wanchai. New hotels in the vicinity include Empire Hotel and Crowne Plaza Causeway Bay with a total of approximately 540 rooms are scheduled to open in 2009. The new hotels are unlikely to apply significant pressure on RHK's occupancy and average room rates due to differences in target markets. Moreover, future new competition to RHK is constrained due to limited hotel land supply in the medium to long term.

Based on the long term outlook for hotel room demand in Hong Kong, the anticipated demand from business travelers and other FIT segments, the competitive strengths and characteristics of RHK and Regal Hotel's strong distribution in Mainland China and in the region, modest growths in occupancy and average room rates are expected.

6. CONCLUSION

- Market value as at December 31, 2008 was **HK\$2,890,000,000** (HONG KONG DOLLARS TWO BILLION EIGHT HUNDRED NINETY MILLION) assuming a sale subject to the existing licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 4.7%

³² Preferred Hotel Group is a global hotel distribution network which provides comprehensive reservation solutions to more than 680 independent hotels and resorts in 75 countries worldwide.

PROPERTY 3

REGAL KOWLOON HOTEL

71 Mody Road
Tsimshatsui, Kowloon, Hong Kong

Kowloon Inland Lot No. 10474

1. PROPERTY DESCRIPTION

General Description

Regal Kowloon Hotel ("RKH"), opened in 1982, 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 Centenary Garden or Mody Square.

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

Town Planning Zoning "Commercial" under the current Tsimshatsui 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	53	Royal Suite	7
Superior	186	Regal Club Superior	30	Presidential Suite	1
Deluxe	147	Deluxe Suite	30		
Premier	63				

Size Range 226 sq ft (21 sq m) to 1,744 sq ft (162 sq m) **TOTAL** **600**

Food and Beverage Outlets

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

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	233

Other Facilities

Other facilities include a business centre, a fitness room, a shopping arcade, a sauna, a night club and a karaoke club. The sauna and the clubs have been leased 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 /LICENSES³³

Retail Spaces

Total Retail Area (lettable):	40,354 sq ft (3,749 sq m)
Occupied Area (lettable):	35,943sq ft (3,339 sq m)
Vacant Space (net):	4,411 sq ft (410 sq m)
Occupancy:	89.07%
Monthly Base Rent:	HK\$948,636.10
Range of Terms: (excluding monthly tenancies):	1 year to 3 years

Tenancy Expiry Profile:

Monthly Tenancies
2008
2009
2010
2011

Latest expiry date: 10 May, 2011

Option to Renew: one 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.

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

Lettable Area (sq ft)
2,752
699
20,932
11,106
454

4. HOTEL OPERATION

Performance in 2008

Occupancy: 84%

Average Room Rate: HK\$1,021

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 Revenues³⁴
In any other cases: 2% of the Gross Revenues

³³ 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.

³⁴ 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 GOP³⁵ over the Base Fee³⁶ and the Fixed Charges³⁷

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.

Rental: 2007 to 2010: Base Rent plus a Variable Rent. Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income³⁸ ("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.

³⁵ Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

³⁶ Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

³⁷ 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.

³⁸ Net Property Income, "NPI", as defined in Hotel Management Agreement.

5. MARKET ANALYSIS

In 2008, a total number of 29.5 million visitors³⁹ came to Hong Kong representing a year-on-year increase of 4.7%, mainly contributed by a growth of 8.9% visitors from Mainland China. Following three quarters of the year with strong growth, the global financial tsunami triggered an economic downturn in the fourth quarter of 2008 affecting tourism demand. Notwithstanding the increase in available hotel room supply of about 4.6%⁴⁰ contributed mainly by 9 new hotels, the average occupancy rate of all hotels⁴¹ in Hong Kong dropped merely 1% from 86% to 85%⁴² due to an increase in the number of overnight³⁹ arrivals and occupied rooms in all hotels rooms, while the average room rate remained flat for the whole year compared to 2007.

The overall travel and hospitality market is expected to be soft in the short term as a result of the global financial crisis. Nevertheless, Hong Kong is relatively resilient in comparison to other tourist destinations due to the growing economy in Mainland China. Hong Kong's role as a gateway into Mainland China has established its unique position as an international business, aviation and information hub as well as one of the most sought-after tourist destinations⁴³.

Approximately 12,800 hotel rooms in 66 new and existing hotels are scheduled to be completed between 2009 and 2012.⁴⁴ Given the tightening of credit markets and weak investment sentiment, developers may defer, re-prioritize or cancel new hotel projects, which have not yet commenced. A slowdown in hotel room supplies in the medium term is expected to support occupancy and average room rates.

With goals to strengthen the long term economic development together with a strong fiscal position, the Hong Kong government has expedited the planning and the commencement of large-scale infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Kai Tak re-development and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Fiscal policies to position Hong Kong as a Regional Wine Centre (by exempting wine tax) and to earmark an additional HK\$150 million for promoting Hong Kong as an international convention, exhibition and tourism centre, would benefit travel and tourism industries. Tourism is considered one of the major pillars driving the Hong Kong economy. Overall tourism and in particular M.I.C.E. activities are expected to improve owing to initiatives such as step-up trade development plans in the Pearl River Delta region, the extension of HKCEC, the maturing of AsiaWorld-Expo and improvement projects planned by tourism attractions such as Ocean Park and Hong Kong Disneyland, etc.

RKH is located at the heart of Tsim Sha Tsui East, a traditional recreational and tourist hub in Hong Kong. It is within a 5-minute walking distance to the East Tsim Sha Tsui Station of the Mass Transit Railway ("MTR"), which is directly linked to major districts in Hong Kong as well as to HKIA and Mainland China. The proximity of RKH to Tsimshatsui, a well established retail, entertainment and commercial centre, is a significant factor in the attractiveness of the hotel.

RKH enjoys demand from both commercial business and leisure due to the popularity of its location and its excellent facilities and accessibility. Through the partnership with Preferred Hotel Group⁴⁵ and other distribution channels in Mainland China, RKH enjoys demand for rooms from major trade events and source markets globally. The commercial business and leisure segments recorded approximately 37% and 52% of hotel room demand respectively in 2008.

³⁹ Source: "Visitor Arrivals Statistics - Dec 2008", Tourism Research Hong Kong Tourism Board.

⁴⁰ Source: "Hotel Room Occupancy Reports Jan. - Dec., 2007-2008" and "Hong Kong Tourism Board Hotel Classification System-2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; CBRE Research.

⁴¹ All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Tourism Research Hong Kong Tourism Board.

⁴² Source: "Hotel Room Occupancy Report - Dec 2008", Tourism Research Hong Kong Tourism Board.

⁴³ Source: According to the "Top City Destinations Ranking" published in December 2008 by Euromonitor International, one of the world's leading independent providers of business information and research on Tourism industry, Hong Kong ranked second in the International's Top City Destinations in 2007.

⁴⁴ Source: "Hotel Supply Situation - as at Dec 2008", Tourism Research Hong Kong Tourism Board.

⁴⁵ Preferred Hotel Group is a global hotel distribution network which provides comprehensive reservation solutions to more than 680 independent hotels and resorts in 75 countries worldwide.

There are 35 hotels with approximately 13,700 rooms in Tsimshatsui while approximately 380 rooms in Hyatt Regency Hong Kong and 280 rooms in the proposed hotel at 17 Science Museum Road are scheduled to open in 2009 and 2010 respectively. Due to differences in target groups and pricing levels, they are not considered as competitors of RKH.

Based on the long term outlook for hotel room demand in Hong Kong, the characteristics of RKH and Regal Hotel's connections in Mainland China and in the region, it is anticipated that RKH would achieve modest growths in occupancy and average room rates.

6. CONCLUSION

- Market value as at December 31, 2008 was **HK\$2,990,000,000** (HONG KONG DOLLARS TWO BILLION NINE HUNDRED NINETY MILLION) assuming a sale subject to the existing tenancies and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 4.7%

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 I/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 ("ROH"), 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 Floor 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 HKIA.

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/K10/20 dated November 4, 2008

Floor Areas Gross Floor Area: 240,079 sq ft (22,303.94 sq m) and 14,200 sq ft (1,319.19 sq m) in Po Sing Court, totally 254,279 sq ft (23,623.14 sq m)
Total Covered Floor Area: 294,154 sq ft (27,327.61 sq m)

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	54	Premier	29	Regal Club Premier	11
Superior	76	Regal Club Superior	38	Royal Suite	1
Deluxe	178	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	1/B	Coffee Shop	535
Regal Patisserie	1/B	Cake Shop	—
China Coast Pub & Bar	G/F	Bar	328 (indoor) 33 (outside seating)
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
Function Rooms	1/F	7	3,364	313
Function Rooms	2/F	10	3,793	352

Other Facilities

In addition to the above, there are also a business centre 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 Ltd. 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. 07042400850026 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. 07042400850026 dated March 30, 2007.

3. TENANCIES/LICENSES⁴⁶

Retail Spaces

Total Retail Area (lettable): 13,923 sq ft (1,293 sq m)
Tenanted Area (lettable): N/A
Vacant Space (lettable): 13,923 sq ft (1,293 sq m)
Occupancy: 0%

Licences for Mobile Phone Base Stations and Antennae

Number of Licences:	3
Monthly Licence Fee:	HK\$37,600
Latest Expiry Date:	Dec 31, 2009

4. HOTEL OPERATION

Performance in 2008

Occupancy: 92%
Average Room Rate: HK\$614

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: In any other cases:	1% of the Gross Revenues ⁴⁷ 2% of the Gross Revenues
Annual Incentive Fee:	For so long as the Lease is in subsistence: In any other cases:	1% of the excess of the Adjusted GOP ⁴⁸ over the Base Fee ⁴⁹ and the Fixed Charges ⁵⁰ 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

⁴⁶ 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.

⁴⁷ 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.

⁴⁸ Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

⁴⁹ Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

⁵⁰ 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: Base Rent plus a Variable Rent. Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income⁵¹ ("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

In 2008, a total number of 29.5 million visitors⁵² came to Hong Kong representing a year-on-year increase of 4.7%, mainly contributed by a growth of 8.9% visitors from Mainland China. Following three quarters of the year with strong growth, the global financial tsunami triggered an economic downturn in the fourth quarter of 2008 affecting tourism demand. Notwithstanding the increase in available hotel room supply of about 4.6%⁵³ contributed mainly by 9 new hotels, the average occupancy rate of all hotels⁵⁴ in Hong Kong dropped merely 1% from 86% to 85%⁵⁵ due to an increase in the number of overnight arrivals⁵² and occupied rooms in all hotels rooms, while the average room rate remained flat for the whole year compared to 2007.

⁵¹ Net Property Income, "NPI", as defined in Hotel Management Agreement.

⁵² Source: "Visitor Arrivals Statistics - Dec 2008", Tourism Research Hong Kong Tourism Board.

⁵³ Source: "Hotel Room Occupancy Reports Jan. - Dec., 2007-2008" and "Hong Kong Tourism Board Hotel Classification System-2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; CBRE Research.

⁵⁴ All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Tourism Research Hong Kong Tourism Board.

⁵⁵ Source: "Hotel Room Occupancy Report - Dec 2008", Tourism Research Hong Kong Tourism Board.

The overall travel and hospitality market is expected to be soft in the short term as a result of the global financial crisis. Nevertheless, Hong Kong is relatively resilient in comparison to other tourist destinations due to the growing economy in Mainland China. Hong Kong's role as a gateway into Mainland China has established its unique position as an international business, aviation and information hub as well as one of the most sought-after tourist destinations⁵⁶.

Approximately 12,800 hotel rooms in 66 new and existing hotels are scheduled to be completed between 2009 and 2012.⁵⁷ Given the tightening of credit markets and weak investment sentiment, developers may defer, re-prioritize or cancel new hotel projects, which have not yet commenced. A slowdown in hotel room supplies in the medium term is expected to support occupancy and average room rates.

With goals to strengthen the long term economic development together with a strong fiscal position, the Hong Kong government has expedited the planning and the commencement of large-scale infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Kai Tak re-development and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Fiscal policies to position Hong Kong as a Regional Wine Centre (by exempting wine tax) and to earmark an additional HK\$150 million for promoting Hong Kong as an international convention, exhibition and tourism centre, would benefit travel and tourism industries. Tourism is considered one of the major pillars driving the Hong Kong economy. Overall tourism and in particular M.I.C.E. activities are expected to improve owing to initiatives such as step-up trade development plans in the Pearl River Delta region, the extension of HKCEC, the maturing of AsiaWorld-Expo and improvement projects planned by tourism attractions such as Ocean Park and Hong Kong Disneyland.

ROH is overlooking the former Kai Tak Airport with many rooms commanding harbour views. Kowloon City is expected to develop rapidly in the coming years. The Kai Tak redevelopment project, encompassing approximately 328 hectares of land, includes a cruise ship terminal, a multi-function stadium, a commercial area, a high quality residential area, as well as the MTR Shatin to Central Link, which will pass through Kowloon City.

The developments are expected to enhance the market mix of potential hotel and restaurant customers for ROH. Moreover, with the development of nearby Kowloon Bay and Kwun Tong industrial districts into commercial business districts, ROH is anticipated to benefit strongly from the profound changes in the demographics of the district and ensuing demand from both business and tourist travelers.

ROH is offering a full range of facilities and benefits from a new lobby, a sleek looking façade, 49 new rooms of the branded i-club concept⁵⁸ and 7 new meeting rooms on the first floor.

There were significant improvements in the competitive strengths of ROH over the last few years and are likely to continue. With the partnership with Preferred Hotel Group⁵⁹ and other distribution channels, the hotel enjoys demand from both commercial business and leisure due to competitive pricing, its facilities and the popularity of the hotel location. The commercial business and leisure segments recorded approximately 28% and 72% of hotel room demand respectively in 2008.

⁵⁶ Source: According to the "Top City Destinations Ranking" published in December 2008 by Euromonitor International, one of the world's leading independent providers of business information and research on Tourism industry, Hong Kong ranked the second in the International's Top City Destinations in 2007.

⁵⁷ Source: "Hotel Supply Situation - as at Dec 2008", Tourism Research Hong Kong Tourism Board.

⁵⁸ Regal i-Club concept is designed by Regal Hotels to target young business travelers. i-Club rooms are designed with chic interior and equipped with amenities including club lounge, fitness room and business centre.

⁵⁹ Preferred Hotel Group is a global hotel distribution network which provides comprehensive reservation solutions to more than 680 independent hotels and resorts in 75 countries worldwide.

The Harbour Plaza 8 Degrees Hotel with approximately 700 rooms is scheduled to open nearby ROH in Tokwawan in 2009. Due to the market positioning and the different target clientele, the new supply is not considered as a direct competitor to ROH and it is expected to induce a minor impact on the occupancy and average room rates of ROH.

In light of the Kai Tak redevelopment project, the long term outlook for hotel room demand in Hong Kong, and Regal Hotel's connections in Mainland China and in the region, a steady growth in the average room rate is expected.

6. CONCLUSION

- Market value as at December 31, 2008 was **HK\$1,180,000,000** (HONG KONG DOLLARS ONE BILLION ONE HUNDRED EIGHTY MILLION) assuming a sale subject to the existing licence agreements as well as the abovementioned Lease Agreement and Management Agreement.
- Estimated Net Yield: 5.0%

PROPERTY 5

REGAL RIVERSIDE HOTEL

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

Shatin Town Lot No. 160

1. PROPERTY DESCRIPTION

General Description

Regal Riverside Hotel ("RRH"), 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 on top of the existing building. After its AEP scheduled to be completed in mid 2009, the number of hotel rooms will become 1,138.

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

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

Floor Areas (After AEP) Gross Floor Area: 642,268 sq ft (59,668.12 sq m) or
Covered Floor Area: 743,529 sq ft (69,075.56 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
Size Range 323 sq ft (30 sq m) to 1,561 sq ft (145 sq m)		TOTAL		858	

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Vi	G/F	Vietnam	149
Moon River	G/F	24-Hrs Dining	99
Dragon Inn	G/F	Chinese	118
Scene Bar	G/F	Bar	207 (Indoor) 38 (Outside Seating)
Avanti Ristorante	G/F	Italian	154 (Indoor) 35 (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	Coffee Shop	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
Forum	1/F	1	5,575	518
Meeting Rooms	2/F	5	3,434	319
Meeting Rooms	3/F	5	3,281	355

Other Facilities

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

Asset Enhancement Program ("AEP")

- 280 new rooms, which are expected to be completed in mid 2009, will come from the construction of three additional stories.
- After the AEP, the number of rooms will increase to 1,138.
- Outstanding construction cost is estimated to be about HK\$107 million. The construction cost is to be paid by the Former Vendor.
- The floor areas will increase to 642,268 sq ft (59,668.12 sq m) in terms of gross floor area or 743,529 sq ft (69,075.56 sq m) in terms of covered floor area.

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.
- Statutory Declaration as to Loss of Title Deeds via Memorial No. ST1145794 dated March 21, 2000.
- Regal Riverside Debenture in favor of the ABN AMRO Bank N.V. Singapore Branch via Memorial No. 07042400850040 dated March 30, 2007.
- Modification Letter via Memorial No. 07111601000553 dated November 14, 2007.

3. TENANCIES/LICENSES⁶⁰

Retail Spaces

Total Retail Area (lettable):	3,663 sq ft (340 sq m)
Occupied Area (lettable):	3,663 sq ft (340 sq m)
Vacant Space (lettable):	N/A
Occupancy:	100% ⁶¹
Monthly Base Rent:	HK\$95,778
Range of Terms:	2 years to 3 years (excluding monthly tenancies):

Tenancy Expiry Profile:

	Lettable Area (sq ft)
Monthly Tenancies	966
2009	1,973
2010	724
Latest expiry date:	September 14, 2010
Option to Renew:	N/A
Summary of Terms:	The landlord is to be responsible for structural maintenance and payment of Government Rent.

4. HOTEL OPERATION

Performance in 2008

Occupancy:	91%
Average Room Rate:	HK\$543

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: In any other cases:
	1% of the Gross Revenues ⁶² 2% of the Gross Revenues

⁶⁰ 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.

⁶¹ Excluding outlets operated by hotel.

⁶² 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 GOP⁶³ over the Base Fee⁶⁴ and the Fixed Charges⁶⁵

In any other cases:

5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

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: Base Rent plus a Variable Rent. Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income⁶⁶ ("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.

⁶³ Under the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

⁶⁴ Under the Hotel Management Agreement, "Base Fee" refers to the "Annual Base Fee" indicated above.

⁶⁵ 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.

⁶⁶ Net Property Income, "NPI", as defined in Hotel Management Agreement.

5. MARKET ANALYSIS

In 2008, a total number of 29.5 million visitors⁶⁷ came to Hong Kong representing a year-on-year increase of 4.7%, mainly contributed by a growth of 8.9% visitors from Mainland China. Following three quarters of the year with strong growth, the global financial tsunami triggered an economic downturn in the fourth quarter of 2008 affecting tourism demand. Notwithstanding the increase in available hotel room supply of about 4.6%⁶⁸ contributed mainly by 9 new hotels, the average occupancy rate of all hotels⁶⁹ in Hong Kong dropped merely 1% from 86% to 85%⁷⁰ due to an increase in the number of overnight arrivals⁶⁷ and occupied rooms in all hotels rooms, while the average room rate remained flat for the whole year compared to 2007.

The overall travel and hospitality market is expected to be soft in the short term as a result of the global financial crisis. Nevertheless, Hong Kong is relatively resilient in comparison to other tourist destinations due to the growing economy in Mainland China. Hong Kong's role as a gateway into Mainland China has established its unique position as an international business, aviation and information hub as well as one of the most sought-after tourist destinations⁷¹.

Approximately 12,800 hotel rooms in 66 new and existing hotels are scheduled to be completed between 2009 and 2012.⁷² Given the tightening of credit markets and weak investment sentiment, developers may defer, re-prioritize or cancel new hotel projects, which have not yet commenced. A slowdown in hotel room supplies in the medium term is expected to support occupancy and average room rates.

With goals to strengthen the long term economic development together with a strong fiscal position, the Hong Kong government has expedited the planning and the commencement of large-scale infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Kai Tak re-development and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. Fiscal policies to position Hong Kong as a Regional Wine Centre (by exempting wine tax) and to earmark an additional HK\$150 million for promoting Hong Kong as an international convention, exhibition and tourism centre, would benefit travel and tourism industries. Tourism is considered one of the major pillars driving the Hong Kong economy. Overall tourism and in particular M.I.C.E. activities are expected to improve owing to initiatives such as step-up trade development plans in the Pearl River Delta region, the extension of HKCEC, the maturing of AsiaWorld-Expo and improvement projects planned by tourism attractions such as Ocean Park and Hong Kong Disneyland, etc.

RRH located in Shatin is commanding a scenic river view and is within easy access to Hong Kong Island, Kowloon and Shenzhen through the East Rail Line of MTR. Although it is not a traditional tourist destination, nearby attractions include the Sha Tin Racecourse and Shing Mun River where the annual International Dragon Boat Races are hosted and the Hong Kong 2009 East Asian Games will be held in December.

⁶⁷ Source: "Visitor Arrivals Statistics - Dec 2008", Tourism Research Hong Kong Tourism Board.

⁶⁸ Source: "Hotel Room Occupancy Reports Jan. - Dec., 2007-2008" and "Hong Kong Tourism Board Hotel Classification System-2008". All hotels available room supplies are calculated based on hotel available room supplies in High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels shown in the monthly "Hotel Room Occupancy Reports" for the relevant periods; CBRE Research.

⁶⁹ All hotels include High Tariff A Hotels, High Tariff B Hotels and Medium Tariff Hotels, Tourism Research Hong Kong Tourism Board.

⁷⁰ Source: "Hotel Room Occupancy Report - Dec 2008", Tourism Research Hong Kong Tourism Board.

⁷¹ Source: According to the "Top City Destinations Ranking" published in December 2008 by Euromonitor International, one of the world's leading independent providers of business information and research on Tourism industry, Hong Kong ranked second in the International's Top City Destinations in 2007.

⁷² Source: "Hotel Supply Situation - as at Dec 2008", Tourism Research Hong Kong Tourism Board.

RRH is the largest hotel in Shatin. It features the "Shatin Soho"⁷³, a restaurant and bar concept with choices of international, Italian, Cantonese, Shanghai, Vietnamese, Thai, and Japanese food and two bars all under one roof. Upon the completion of additional 5,575 sq ft meeting and conference facilities in 2008, an upgrade of the façade facing the river in 2009 and the completion of AEP with 280 branded i-Club concept rooms⁷⁴ in mid 2009, the market mix of the hotel customers as well as the food and beverage revenue are expected to improve.

Owing to the popularity of its central location in the New Territories, RRH enjoys bookings from corporations and organizations which have close business links in Mainland China. In addition, through the partnership with Preferred Hotel Group⁷⁵ and other booking channels in Mainland China, the business and leisure segments recorded approximately 26% and 73% of hotel room demand respectively in 2008.

Upon the opening of the Hyatt Regency in Tai Po in February, 2009, there are two hotels, including the Royal Park in Shatin, with a total of approximately 1,010 rooms competing with RRH. Due to the locality difference, the Hyatt Regency is not considered as a direct competitor to RRH in certain key segments, but it will exert pressure on commercial accounts generated by The Chinese University of Hong Kong, Hong Kong Science & Technology Parks and Tai Po Industrial Estate.

Facing the new competition, the room rate of RRH is expected to drop in 2009. On the other hand, based on the long term outlook for hotel room demand in Hong Kong, the characteristics of RRH, its pricing strategy and Regal Hotel's connections in Mainland China and in the region, it is expected that the average room rate would grow firmly over the long term.

6. CONCLUSION

- Market value as at December 31, 2008 was **HK\$2,280,000,000** (HONG KONG DOLLARS TWO BILLION TWO HUNDRED EIGHTY MILLION) assuming a sale subject to the existing tenancies and licence agreements as well as the abovementioned Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost being fully paid by the Former Vendor.
- Estimated Net Yield: 5.7%
- If there is no Asset Enhancement Program of the additional 3 stories, the market value of the property as at December 31, 2008 was **HK\$1,810,000,000** (HONG KONG DOLLARS ONE BILLION EIGHT HUNDRED TEN MILLION) assuming a sale subject to the existing tenancies and licence agreements as well as the abovementioned Lease Agreement and Management Agreement.

⁷³ "Shatin Soho" is a dining and entertainment development introduced by Regal Riverside Hotel. It comprises of bars and restaurants which offers a number of cuisines from different parts of the world.

⁷⁴ Regal i-Club concept is designed by Regal Hotels to target young business travelers. i-Club rooms are designed with chic interior and equipped with amenities including club lounge, fitness room and business centre.

⁷⁵ Preferred Hotel Group is a global hotel distribution network which provides comprehensive reservation solutions to more than 680 independent hotels and resorts in 75 countries worldwide.

SUMMARY OF PROPERTIES

As at 31st December, 2008

PROPERTIES FOR INVESTMENT

	Description	Use	Lease	Gross Floor Area (sq.ft.)	Covered Floor Area (sq.ft.)
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	774,880	897,864
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	269,988	343,864
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	341,714	468,355
(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	Hotel	Medium term	254,279	294,154
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	642,268	743,529

SUMMARY FINANCIAL INFORMATION

The summary of the results, the distributions and the assets and liabilities of the Group, as extracted from the published audited consolidated financial statements, is set out below.

Summary of the results and distributions

	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000 (Note 1)
Gross rental revenue	761,963	672,787
Net rental income	750,039	665,682
(Loss)/profit before tax and distributions to Unitholders	(2,684,941)	3,090,762
(Loss)/profit for the year/period, before distributions to Unitholders	(2,150,171)	2,850,198
Distributable income for the year/period	501,930	421,486
Total distributions per Unit	HK\$0.16761	HK\$0.15327

Summary of the assets and liabilities

	2008 HK\$'000	2007 HK\$'000
Non-current assets		
Investment properties	13,020,000	16,080,000
Prepaid construction costs	430,000	430,000
Other non-current assets	133,198	21,765
Current assets	332,940	401,914
Total assets	13,916,138	16,933,679
Current liabilities	64,257	62,314
Non-current liabilities	5,695,104	5,956,289
Total liabilities, excluding net assets attributable to Unitholders	5,759,361	6,018,603
Net assets attributable to Unitholders	8,156,777	10,915,076
Net asset value per Unit	HK\$2.596	HK\$3.503

Note:

- 1 Regal REIT's business operations and trading in Regal REIT Units commenced from 30th March, 2007, the date when the Units of Regal REIT were listed on the Stock Exchange. Therefore, the comparative amounts are in respect of the period from 30th March, 2007 to 31st December, 2007.

