IMPORTANT

If you are in any doubt about the contents of this Offering Circular, you should consult your stockbroker, bank manager, solicitor, professional accountant or other independent professional adviser.

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))

Managed by

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

Regal Portfolio Management Limited

GLOBAL OFFERING

Number of Units under the Global Offering	:	869,289,000 (subject to adjustment and the Over-allotment Option)
Number of Units under the Hong Kong Public Offering	:	86,930,000 (subject to adjustment and reallocation)
Number of Units under the International Offering	:	782,359,000 (subject to adjustment, reallocation and the Over-allotment Option)
Maximum Offer Price	:	HK$3.38 per Unit payable in full on application in Hong Kong dollars, plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%, subject to refund
Stock Code	:	1881

Joint Global Coordinators, Joint Bookrunners and Joint Lead Underwriters

Merrill Lynch
Merrill Lynch Far East Limited

Deutsche Bank
Deutsche Bank AG, Hong Kong Branch

Goldman Sachs
Goldman Sachs (Asia) L.L.C.

Sole Listing Agent and Sole Financial Adviser

Merrill Lynch
Merrill Lynch Far East Limited

Co-Lead Manager

ABN·AMRO ROTHSCHILD

ABN AMRO Rothschild

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The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), Regal and the REIT Manager on the Price Determination Date. The Price Determination Date is expected to be Friday, March 23, 2007. The Offer Price will not be more than HK$3.38 and is currently expected to be not less than HK$2.68. Applicants for Hong Kong Public Offering Units and the Reserved Units are required to pay, on application, the Maximum Offer Price of HK$3.38 for each Hong Kong Public Offering Unit or Reserved Unit together with brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%, subject to refund if the Offer Price is lower than the Maximum Offer Price. If, for any reason, the Joint Global Coordinators, Regal and the REIT Manager are unable to agree on the Offer Price, the Global Offering will not proceed.

The Joint Global Coordinators (with the consent of Regal and the REIT Manager) may reduce the indicative Offer Price range below that stated in this Offering Circular (which is HK$2.68 to HK$3.38 per Unit) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In such a case, notices of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. If applications for Hong Kong Public Offering Units and/or Reserved Units have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering (as the case may be), then even if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set forth in the sections headed "Other Information — Structure of the Global Offering" and "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units" in this Offering Circular.

The obligations of the Hong Kong Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applications for the subscription of, the Hong Kong Public Offering Units, are subject to termination by the Joint Global Coordinators if certain grounds arise prior to 8:00 a.m. on the day that trading in the Units commences on the Hong Kong Stock Exchange. Such grounds are set forth in the section headed "Other Information — Underwriting" in this Offering Circular. It is important that you refer to that section for further details.

March 19, 2007

HIGHLIGHTS OF REGAL REIT

The following summary is derived from, and should be read in conjunction with, the full text of this Offering Circular. This section contains highlights of certain matters arising from the structure of Regal REIT that investors are urged to take note of. More detailed information on such matters is contained elsewhere in this Offering Circular. Please also refer to pages ii to iv. Capitalized terms in this summary are defined in the section headed "Definitions" in this Offering Circular.

- The hotel business is generally cyclical and sensitive to the prevailing economic environment, political developments and any outbreak of a health epidemic, such as SARS. To satisfy the REIT Code requirement that a REIT should generate recurrent rental income, Regal REIT has entered into long-term Lease Agreements granting operating leases of the Initial Hotel Properties to the Lessee in return for Base Rent and Variable Rent payments.

- Base Rents are payable to Regal REIT regardless of the profitability of the operations of the Initial Hotel Properties. Base Rents for each of the years from 2007 to 2010 are predetermined under the Lease Agreements at an escalating scale of HK$630 million (pro-rated from the Listing Date to December 31, 2007 at HK$475.9 million), HK$700 million, HK$750 million and HK$780 million, respectively.

- Variable Rents are payable only if the total Net Property Income (which refers to income derived from hotel operations, including renting of hotel rooms, letting of retail space and food and beverage sales, and minus hotel operating expenses, hotel management fees and fixed charges such as taxes and rates) of the Initial Hotel Properties during the respective year exceeds the Base Rents for the relevant year. Regal has guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate.

- It should be noted that in the ten-year period from 1996 to 2005, the Initial Hotel Properties did not generate an annual total Net Property Income that was above the lowest annual Base Rents under the Lease Agreements.

- For the years from 2011 to 2015, the rental package for the Initial Hotel Properties will be reviewed annually. In the worst case scenario, total rental could be as low as HK$400 million per annum (the "Floor Rent") and Regal REIT may not receive any Variable Rents or other additional income.

- Rental payments are dependent on the Initial Hotel Properties' performance and Regal's ability to meet its obligations under the Lease Agreements and the Lease Guarantees. The Hotel Manager and the Lessee are wholly-owned subsidiaries of Regal and as such, the rental income of Regal REIT would be affected by the financial standing of Regal. While Regal is obliged to maintain a bank guarantee amounting to HK$1 billion in respect of Regal's payment obligations due to Regal REIT, such bank guarantee amount will be maintained only until June 30, 2011 (and will be adjusted thereafter for the years from 2011 to 2015) whereas the aggregate of the Base Rents and the guaranteed Variable Rents from the Listing Date to December 31, 2010 amounts to HK$2.9 billion. There is no assurance that the amount of the guarantee would be sufficient to cover the entire shortfall (if any) of Regal's payment obligations due to Regal REIT.

Lease Term and Rental Income Structure

- Under the Lease Agreements, Regal REIT will receive escalating Base Rents and Variable Rents (which are linked to the Collective NPI Excess) for the period from the Listing Date to December 31, 2010. The annual Base Rents for the Initial Hotel Properties is HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007, being HK$475.9 million) and HK$700 million, HK$750 million and HK$780 million for the years ending December 31, 2008, 2009 and 2010, respectively.

- The annual Variable Rents for each year from 2007 to 2010 are payable if the total Net Property Income of the Initial Hotel Properties during the respective year exceeds the Base Rents for the relevant year, in the amount of 100%, 70%, 60% and 50% of the Collective NPI Excess for each of the years from 2007 to 2010, respectively. Regal has guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate, subject to downward adjustments.

- An annual rent review will take place in respect of the years from 2011 to 2015, under which the Lessees shall pay to Regal REIT the higher of (a) the market rental package as determined by a jointly appointed independent professional property valuer and (b) the Floor Rent (HK$400 million) per annum for the Initial Hotel Properties.

Investors should note that:

- The annual total Net Property Income of the Initial Hotel Properties during the ten-year period from 1996 to 2005 was below the lowest annual Base Rents under the Lease Agreements. See the section headed "Hotel Industry in Hong Kong", for details on Hong Kong's hotel industry, including the recent industry changes that have affected the dynamics of the industry since 2003.

- If the Floor Rent is adopted upon rental review, the total rental income of Regal REIT for each of the years from 2011 to 2015 would be significantly less than the Base Rents for each of the years from 2007 to 2010 by 36.5% to 48.7%. As a result, Total Distributable Income of Regal REIT may be adversely affected. See the section headed "Risk Factors — Risks Relating to Investing in Hotels and Real Estate".

Unconditional and Irrevocable Guarantee of HK$1 billion

- Regal has procured an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations for the period up to June 30, 2011. For the period from July 1, 2011 until the termination of the Lease Agreements, the amount to be covered by the bank guarantee will be adjusted to the highest of (i) 50% of the Floor Rent, (ii) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, and (iii) 50% of the annual base rent as determined by such valuer.

Investors should note that:

- There is no assurance that the amount of the unconditional and irrevocable guarantee would be sufficient to cover the entire shortfall (if any) of Regal's payment obligations due to Regal REIT. It should be noted that the aggregate of the Base Rents and the guaranteed minimum aggregate Variable Rents from the Listing Date to December 31, 2010 amounts to HK$2.9 billion.

Termination of the Lease Agreements and/or the Hotel Management Agreements

- The Lease Agreements will expire on December 31, 2015 and the Hotel Management Agreements will expire in March 2027. Both the Lease Agreements and the Hotel Management Agreements can be early terminated due to certain termination events, such as default, force majeure or change of control, as described in the sections headed "Material Agreements — Lease Agreements" and "Material Agreements — Hotel Management Agreements".

- If the Lease Agreements are no longer in place, the hotel management base fee and incentive fee payable by Regal REIT to the Hotel Manager will increase from 1% to 2% of Gross Revenues and from 1% to 5% of the excess of Adjusted GOP over the hotel management base fee and Fixed Charges, respectively.

- In the event of early termination of a Lease Agreement due to the default of the Lessee and Regal REIT has terminated the relevant Hotel Management Agreement, Regal REIT has to pay liquidated damages to the Hotel Manager (if the Hotel Manager is not in default) in an amount up to the aggregate of the hotel management base fee and incentive fee for the three fiscal years preceding the early termination of the Hotel Management Agreement as described in the section headed "Material Agreements — Hotel Management Agreements".

Investors should note that:

- Any future disposal of any of the Initial Hotel Properties will be subject to the terms of the Lease Agreements and the Hotel Management Agreements, which may limit the ability of Regal REIT to dispose of the Initial Hotel Properties and may have an adverse impact on the value or terms offered by potential buyers for such acquisition.

- The subsistence of the Hotel Management Agreements at the time of early termination or expiry of any Lease Agreement may limit the flexibility of Regal REIT in engaging a replacement lessee.

- After the expiry of the Lease Agreements, if the REIT Manager was not able to secure a replacement lessee on similar or better terms or at all, Regal REIT would no longer receive a fixed rental payment and would therefore be directly exposed to the risks of hotel operations, which are subject to cyclicality. In such event, Regal REIT would also be subject to paying higher hotel management fees. Distributions by Regal REIT may then be adversely affected.

Asset Enhancement Program

- The Vendor has undertaken to complete the Asset Enhancement Program ("AEP") for the Initial Hotel Properties, at its own and full cost (including any cost overrun), which is estimated to be approximately HK$320 million (not including the land premium for Regal Riverside Hotel, which will also be borne by Regal) whereby no less than 468 rooms are expected to be added to the Initial Hotel Properties in stages by the end of 2008.
- The Regal Group has agreed to waive any distributions in respect of the AEP Units subscribed for by it, which account for 12.0% and 9.5% of the total number of Units outstanding based on the Minimum Offer Price and the Maximum Offer Price, respectively, as of the Listing Date, until the completion of the AEP for each of the Initial Hotel Properties, as described in the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular.

Investors should note that:

- The Appraised Value of the Initial Hotel Properties, which forms the basis of the price of the Acquisition for the Initial Hotel Properties, is inclusive of the value of the future benefits to be derived from the AEP upon completion in the amount of HK$1 billion.
- There will not be any upward or downward adjustments to the Base Rents for each of the years from 2007 to 2010.
- As and when the AEP Units become entitled to receive distributions, the total number of Units entitled to distributions will increase, which will result in dilution of the distributions receivable by investors. In the absence of a corresponding increase in the Total Distributable Income, the distribution per Unit would decrease.

KEY INVESTMENT INFORMATION AND HIGHLIGHTS

Dispatch of **BLUE** Application Forms on or before	Monday, March 19, 2007
Hong Kong Public Offering and Preferential Offering commence and WHITE and YELLOW Application Forms available from	9:00 a.m. on Monday, March 19, 2007
Application lists open[2]	11:45 a.m. on Thursday, March 22, 2007
Latest time to lodge **WHITE**, **YELLOW** and **BLUE** Application Forms	12:00 noon on Thursday, March 22, 2007
Latest time to give **electronic application instructions** to HKSCC[3]	12:00 noon on Thursday, March 22, 2007
Application lists close	12:00 noon on Thursday, March 22, 2007
Expected Price Determination Date[4]	Friday, March 23, 2007
Announcement of the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Public Offering Units and the final number of Hong Kong Public Offering Units comprised in the Hong Kong Public Offering Pool A and Pool B, respectively, to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on or before	Thursday, March 29, 2007
Dispatch of Unit certificates in respect of wholly or partially successful applications on[5]	Thursday, March 29, 2007
Dispatch of refund checks in respect of wholly or partially unsuccessful applications on or before[5][6]	Thursday, March 29, 2007
Dealings in Units on the Hong Kong Stock Exchange to commence on	Friday, March 30, 2007

Notes:

(1) All times refer to Hong Kong local time, except where otherwise stated. Details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering and the Preferential Offering, are set out in the section headed "Other Information — Structure of the Global Offering" and "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular.

(2) If there is a "black" rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 8:00 a.m. and 12:00 noon on Thursday, March 22, 2007 the application lists will not open on that day. See the sections headed "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units — How to apply for Hong Kong Public Offering Units — When to apply for Hong Kong Public Offering Units — Effect of bad weather on the opening of the application lists" and "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units — How to apply for Reserved Units — Effect of bad weather on the opening of the application lists" in this Offering Circular for further information.

(3) Applicants who apply for Hong Kong Public Offering Units by giving **electronic application instructions** to HKSCC should refer to the section headed "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units — How to apply for Hong Kong Public Offering Units — How to make applications — Applying by giving **electronic application instructions** to HKSCC via CCASS" in this Offering Circular.

(4) The Price Determination Date for the purposes of the Global Offering is expected to be on or about Friday, March 23, 2007. Notwithstanding that the Offer Price may be fixed at below the Maximum Offer Price, applicants who apply for Hong Kong Public Offering Units and/or Reserved Units must pay on application the Maximum Offer Price of HK$3.38 per Unit together with brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%. Such applicants will be refunded the surplus application monies, if any, in accordance with the section headed "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering — Refund of money — additional information" in this Offering Circular.

(5) Applicants who apply for 1,000,000 or more Hong Kong Public Offering Units or Reserved Units by using Application Forms and who have indicated in their Application Forms their wish to collect refund checks or, in the case of applicants using **WHITE** and **BLUE** Application Forms only, to collect Unit certificates in person may do so from the Unit Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, March 29, 2007 (or any other dates notified by the REIT Manager in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) as the date of dispatch and availability of Unit certificates and refund checks). Applicants being individuals who opt for personal collection cannot authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by personal authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Unit Registrar. Uncollected Unit certificates and refund checks will be dispatched by ordinary post to the addresses specified in the relevant Application Forms at the applicants' own risk. Details of the arrangements are set out in the section headed "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units" and "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular.

(6) Refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the Maximum Offer Price.

Unit certificates are expected to be issued by Thursday, March 29, 2007 but will only become valid at 8:00 a.m. on Friday, March 30, 2007 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Other Information — Underwriting — Underwriting Arrangements — Grounds for termination by the Hong Kong Underwriters" in this Offering Circular has not been exercised.

This Offering Circular is being distributed in electronic format on CD ROM, or in printed form upon request, to Qualifying Regal Shareholders. The CD ROM may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose. Neither the CD ROM nor any of its contents is an offer of securities for sale in the United States and/or any other jurisdiction outside Hong Kong. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any offering of securities will be made by means of a printed Offering Circular that may be obtained from Regal REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited, which contains detailed information about Regal REIT, as well as financial statements. Neither the CD ROM, any of its contents nor any copy of it may be taken or transmitted into the United States, Canada, the PRC or Japan or distributed, directly or indirectly, in the United States, Canada or the PRC, or distributed or redistributed in Japan or to any resident thereof. By accepting the CD ROM, Qualifying Regal Shareholders are deemed to agree to be bound by the foregoing instructions. Qualifying Regal Shareholders may obtain a printed copy of this Offering Circular from Regal REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited, during business hours at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. on Monday, March 19, 2007 to 12:00 noon on Thursday, March 22, 2007.

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APPENDICES

The following summary is derived from, and should be read in conjunction with, the full text of this Offering Circular. This section is only a general summary of the more detailed information contained elsewhere in this Offering Circular. You should read carefully the entire Offering Circular to understand Regal REIT's business, statement of distributions, the Trust Deed, the rights attached to the Units, and tax and other considerations that are important to your decision to invest in the Units. As an investment in the Units involves risks, you should pay particular attention to the section headed "Key Investment Information and Highlights — Risk Factors" in this Offering Circular.

In making your investment decision, you should rely only on the information contained in this Offering Circular. Regal REIT has not authorized anyone to provide you with information that is different from that contained in this Offering Circular.

Statements contained in this summary that are not historical facts may be forward-looking statements. Such statements are based on certain assumptions. While the REIT Manager considers such assumptions to be reasonable, there are certain risks and uncertainties, which could cause actual results to differ materially from those projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Joint Global Coordinators, the REIT Manager, Regal REIT, the Trustee or any other person or that these results will be achieved or are likely to be achieved. Capitalized terms not defined in this summary are defined in the section headed "Definitions" in this Offering Circular.

A REIT as an investment vehicle

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income-producing real estate assets and uses the income to provide returns to its unitholders. Purchasing a unit in a REIT allows investors to share the benefits and risks of owning the real estate assets held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code and offers the following benefits:

- certainty as to business focus, as a REIT does not have the discretion to diversify outside the real estate sector or to own significant non-real estate assets;
- a distribution which is required by the REIT Code to be at least 90% of the REIT's audited net income after tax for each financial year subject to certain adjustments (and, in the case of Regal REIT, as stated below, by a requirement under the Trust Deed to be at least 90%, and a policy to distribute an amount equivalent to 100% of Total Distributable Income for each financial year, which may be different from the net profit recorded for the relevant financial year after making the Adjustments (as defined in the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular));
- significantly enhanced liquidity in comparison to direct investments in real estate;
- a manager licensed and regulated on an ongoing basis by the SFC; and
- a statutory and regulatory corporate governance framework and an internal corporate governance framework overseen by an independent trustee.

Overview of Regal REIT

Regal REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. The REIT Manager believes the formation of Regal REIT follows a global trend to separate hotel ownership from hotel operation, allowing hotel managers and franchisors to focus on hotel operation and brand extension, and hotel REITs to focus on asset ownership and growth opportunities. Regal REIT is the first hotel REIT in Hong Kong and will focus on hotel ownership and seek hotel managers and franchisors to manage its hotel properties.

Regal REIT's primary objective will be to provide stable distributions to Unitholders and to achieve long-term capital growth in NAV per Unit. The REIT Manager intends to achieve such objectives by way of (1) internal growth through asset enhancement opportunities and operational improvements, (2) external growth through potential acquisitions that meet the REIT Manager's investment criteria and (3) financing through an appropriate capital structure.

Upon the completion of the Global Offering, Regal REIT will own five hotel properties in Hong Kong, namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (the "**Initial Hotel Properties**"). The Initial Hotel Properties are strategically located across different districts in Hong Kong, and currently have an aggregate of 3,348 rooms and over 30 food and beverage outlets. They offer a diverse range of accommodation and facilities catering to various market segments. The properties are well maintained and four out of the five hotels have been upgraded as a result of renovations from 2004 to 2006. RevPAR for the Initial Hotel Properties was HK$327.5, HK$521.8, HK$576.1 and HK$639.0 in 2003, 2004, 2005 and 2006, respectively. The occupancy rate for the Initial Hotel Properties was 81.2% and the average room rate was HK$786.9 in 2006.

The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Variable Rents allow Unitholders to share the upside of the Initial Hotel Properties' Net Property Income. During the years from 2007 to 2010, the aggregate annual Base Rent for the Initial Hotel Properties is HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007, being HK$475.9 million) and for the years ending December 31, 2008, 2009 and 2010 amounts to HK$700 million, HK$750 million and HK$780 million, respectively. The determination of the amount of Variable Rent payable is based on the NPI Excess of all the Initial Hotel Properties on a collective basis, and so the positive NPI Excess of one may be offset by the negative NPI Excess of another. During the years from 2007 to 2010, Variable Rents payable by the Lessee are in the amount of 100%, 70%, 60% and 50% of the Collective NPI Excess respectively.

A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

Pursuant to each Lease Guarantee, Regal has guaranteed the Lessee's obligations to pay rent to the Lessors under the Lease Agreements. Regal has also procured, at its sole cost and expense, an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a current credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Regal has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement shall remain in place and effective until the end of the term of the Lease Agreements upon the same terms and at an amount equal to the highest of (i) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, (ii) 50% of the annual base rent as determined by such valuer upon each annual rent review and (iii) 50% of the Floor Rent. In addition, Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

In addition, Regal has itself guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate, which amount shall be subject to downward adjustments as a result of, inter alia, any payment received by Regal REIT under the Distributable Income Guarantee Deed and any liquidated damages for failure to complete the Asset Enhancement Program on time, as described in the section headed "Material Agreements — Lease Agreements" in this Offering Circular.

The Hotel Manager, also a wholly-owned subsidiary of Regal, will manage and operate the Initial Hotel Properties to prescribed operating standards and will be subject to performance tests pursuant to the Hotel Management Agreements, which have a 20-year term. Regal is one of the largest hotel operators in Hong Kong by number of rooms and has more than 20 years of hotel operation experience.

The Regal Group will subscribe for Units concurrently with, but separate from, the Global Offering and will hold approximately 72.0% of the Units following the completion of the Global Offering (or approximately 67.8% if the Over-allotment Option is exercised in full), in each case, including AEP Units. The Regal Group has agreed to a six-month lock-up period in respect of its Units (other than the AEP Units in respect of which the lock-up period continues until a certain time after the corresponding portion of the Asset Enhancement Program is completed) and has informed the REIT Manager that it intends to be a long-term investor in Regal REIT. The Vendor has undertaken to complete the Asset Enhancement Program, at its own and full cost, including any cost overruns and land premium payable, whereby no less than 468 rooms are expected to be added to the Initial Hotel Properties in stages by the end of 2008. Furthermore, the Regal Group has undertaken not to receive distributions in respect of the AEP Units subscribed for by it until a certain time after the corresponding portion of the Asset Enhancement Program is completed.

Key Investment Highlights of Regal REIT

The REIT Manager believes that Regal REIT presents Unitholders with an attractive proposition in light of the following factors:

- first hotel REIT in Hong Kong;
- Lease Agreements are structured to provide stable distributions until December 31, 2015 with upside potential;
- growth opportunities through asset enhancement opportunities and potential acquisitions;

- strong alignment of interests between the Regal Group and Unitholders; and
- experienced management team.

First hotel REIT in Hong Kong

Regal REIT will be the first hotel REIT, and one of the largest hotel owners by number of rooms, in Hong Kong, providing Unitholders with exposure to the growing Hong Kong tourism sector and hotel industry. Fundamentals in Hong Kong's hotel industry are expected to remain strong with high occupancy rates and rising room rates, driven by (1) overall strong economic growth prospects, (2) expected increases in both business and leisure travel flow and (3) greater long-term growth in demand for hotel accommodation compared to growth in supply of such accommodation.

These factors are described in more detail below.

- *Strong economic growth*. According to the Market Consultant, the GDP of Hong Kong has grown at an average annual rate of 4.3% in real terms during the past five years. The growth rate is expected to increase slightly during the next five years, averaging approximately 5.1% per annum between 2006 and 2010. The REIT Manager believes that the projected strong economic growth in Hong Kong, coupled with expected continued economic growth in mainland China and the rest of Asia, will continue to increase travel numbers to Hong Kong and result in increased overnight stays at Hong Kong hotels.

- *Expected increases in business and leisure travel flow*. As a leading international trade, financial and transportation center, Hong Kong has one of the region's most vibrant business travel flows. According to the Market Consultant, the number of business overnight travelers to Hong Kong has increased by approximately 18% from 3.0 million in 2003 to 3.5 million in 2005, at a compound annual growth rate ("**CAGR**") of 8.7% from 2003 to 2005, representing 24% of total visitor arrivals (overnight visitors). In addition, the continued close economic ties between mainland China and Hong Kong, and Hong Kong's role as a key gateway into mainland China, are expected to further increase business travel. With Hong Kong's enhanced business infrastructure and exhibition venues, such as the recent opening of the AsiaWorld-Expo and SkyPlaza at the Hong Kong International Airport, the number of business travelers is expected to continue to increase.

  In addition, the REIT Manager expects new tourism infrastructure in Hong Kong to further develop and result in increased leisure travel to Hong Kong. Hong Kong is renowned for its food, shopping and sightseeing attractions and has been one of the favorite tourist destinations in Asia for leisure travelers. In addition to the opening of Hong Kong Disneyland in September 2005 and the cable car system to the world's largest outdoor seated Buddha in September 2006, many other new projects are also underway including the expansion of Ocean Park.

  Mainland Chinese visitors make up a significant number of leisure tourist arrivals to Hong Kong and this growth is expected to continue. According to the Market Consultant, since the introduction of the Individual Visit Scheme, which allowed mainland Chinese residents from certain provinces to travel to Hong Kong and Macau on an individual basis, the total number of mainland Chinese visitors to Hong Kong increased by approximately 61% from 8.5 million in 2003 to 13.6 million in 2006, representing approximately 54% of total visitor arrivals to Hong Kong. As the scheme is being extended to other parts of China, the REIT Manager expects the growth in the number of mainland Chinese visitors to continue.

- *Long-term growth in room demand compared to growth in supply of such accommodation.* The Hong Kong hotel sector has shown strong growth and demonstrated its ability to absorb recent increases in room supply. According to the Market Consultant, while the supply of hotel rooms in Hong Kong increased by 7.4% from 2005 to 2006, RevPAR increased by 18.2% over the same period. This was a result of a sharp increase of average room rates by 16.8%, while occupancy rates increased from 86% to 87% during the same period.

  According to the Market Consultant, the future demand for hotel rooms is expected to exceed supply even though hotel developers will attempt to keep pace by adding more rooms. Based on its forecast, projected CAGR for hotel rooms in Hong Kong occupied per day from 2006 to 2008 will be 10.9% while projected CAGR for total numbers of rooms available for sale per day will be 9.3% for the same period. The longer term (2009 and 2010) supply of new rooms is also expected to fall short of future demand. According to the Market Consultant, the projected strong demand for, and tight availability of, rooms provide a solid foundation for increases in occupancy rate and average room rates.

Lease Agreements are structured to provide stable distributions with upside potential

One of Regal REIT's primary objectives will be to provide Unitholders with stable distributions. The REIT Manager expects to distribute not less than HK$0.1527 per Unit based on the Minimum Offer Price and not less than HK$0.1488 per Unit based on the Maximum Offer Price for the Forecast Period. Based on a total distribution amount of HK$0.1527 per Unit for the Forecast Period, the implied annualized distribution yield at the Minimum Offer Price is 7.51% and based on a total distribution amount of HK$0.1488 per Unit for the same period, the implied annualized distribution yield at the Maximum Offer Price is 5.80%. During the Forecast Period, the AEP Units will not be entitled to distributions pursuant to the Distribution Deed. Such Units will become entitled to distributions only at a certain time after the corresponding portion of the Asset Enhancement Program is completed (currently scheduled to be completed in stages by the end of 2008 and, accordingly, the AEP Units will not receive any distributions for the Forecast Period) or when the Trustee receives cash compensation pursuant to the Sale and Purchase Agreement if the Asset Enhancement Program is not completed by the relevant Long-Stop Dates. In the event that the AEP Units become entitled to distributions, the total number of Units entitled to distributions will increase, which may result in dilution of DPU in the absence of any increase in Total Distributable Income. For illustrative purposes only, assuming all the AEP Units would be entitled to distributions during the Forecast Period (but total rental income remains unchanged), which is not permitted under the Distribution Deed, the annualized distribution yield of Regal REIT would be 6.61% and 5.25% for the Forecast Period based on the Minimum Offer Price and the Maximum Offer Price, respectively. The financial forecast and profit projection from which this information is extracted are based on various assumptions set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular.

Regal has entered into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which Regal has guaranteed that it shall, in the event that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007), in aggregate, is less than HK$420.3 million, pay to the Trustee an amount which represents the shortfall. Such guarantee of Total Distributable Income translates into a DPU for the Forecast Period of HK$0.1527 per Unit based on the estimated 3,124.9 million Units for the Forecast Period (excluding the AEP Units) under the Minimum Offer Price and HK$0.1488 per Unit based on the estimated 3,120.7 million Units for the Forecast Period (excluding the AEP Units) under the Maximum Offer Price. However, Regal's obligation is not a guarantee of DPU. If such number of Units were to increase for reasons such as acquisitions or payment of the REIT Manager's fees in Units by say 3%, the guarantee would translate into a DPU for the Forecast Period of HK$0.1483 per Unit based on the Minimum Offer Price and HK$0.1445 per Unit based on the Maximum Offer Price, respectively.

As one of Regal REIT's primary objectives is to provide Unitholders with stable distributions, Regal REIT has leased the Initial Hotel Properties to the Lessee with escalating Base Rents and Variable Rents. The Lease Agreements are designed to provide Regal REIT with a visible and stable income stream until December 31, 2015 minimizing exposure to hotel industry risks (including cyclicality), while providing Regal REIT (by way of the Variable Rents) with the ability to share a portion of any potential upside in Net Property Income based on the performance of the Initial Hotel Properties.

During the years from 2007 to 2010, the aggregate annual Base Rent for the Initial Hotel Properties is HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007, being HK$475.9 million) and for the years ending December 31, 2008, 2009 and 2010 amounts to HK$700 million, HK$750 million and HK$780 million, respectively. Variable Rents are payable in the amount of 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010, respectively. Regal has guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate, subject to downward adjustments as a result of, inter alia, any payment received by Regal REIT under the Distributable Income Guarantee Deed and any liquidated damages for failure to complete the Asset Enhancement Program on time, as described in the section headed "Material Agreements — Lease Agreements" in this Offering Circular.

A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

The Lease Agreements also contain a number of provisions designed to protect the interests of Unitholders, including cross-default provisions (which entitle the Lessor to early terminate the other Lease Agreements when a notice of termination has been served under a Lease Agreement) and a requirement on the Lessee to maintain the Initial Hotel Properties in good condition and to prescribed operating standards. The cross-default provisions give the REIT Manager greater flexibility and more options when sourcing a new lessee(s) and require the Lessee to evaluate the Initial Hotel Properties as a portfolio thus preventing the Lessee from terminating the lease of some of the Initial Hotel Properties which it may no longer wish to lease while retaining the lease of the more attractive Initial Hotel Properties. Pursuant to the Lease Guarantees, Regal has guaranteed the Lessee's obligations to pay rents to the Lessors under the Lease Agreements. Regal has also procured an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a current credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Regal has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement shall remain in place and effective until the end of the term of the Lease Agreements upon the same terms and at an amount equal to the highest of (i) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, (ii) 50% of the annual base rent as determined by such valuer upon each annual rent review and (iii) 50% of the Floor Rent. In addition, Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

Details of the terms of the Lease Agreements and the Lease Guarantees are set out in the sections headed "Material Agreements — Lease Agreements" and "Material Agreements — Lease Guarantees" in this Offering Circular.

Growth opportunities through asset enhancement opportunities and potential acquisitions

Upon completion of the Global Offering, Regal REIT will own the Initial Hotel Properties strategically located across different districts in Hong Kong, with a total Gross Floor Area of approximately 2.1 million sq.ft. and a Covered Floor Area of approximately 2.6 million sq.ft. and currently an aggregate of 3,348 rooms and over 30 food and beverage outlets. The Initial Hotel Properties offer a diverse range of accommodation and facilities catering to various market segments. The REIT Manager aims to maintain and grow an investment portfolio of hotel properties in Hong Kong, and later extending to other cities in Greater China when suitable opportunities arise, subject to obtaining any necessary regulatory and Unitholders' approvals. The REIT Manager intends to achieve growth by way of (1) internal growth through asset enhancement opportunities and operational improvements, (2) external growth through potential acquisitions and (3) financing through an appropriate capital structure.

Internal Growth: The REIT Manager intends to deliver a stable income for Unitholders and will be actively seeking asset return maximization, primarily through monitoring the Lessee's performance under the Lease Agreements. The REIT Manager also intends to seek asset enhancement opportunities to maximize the Initial Hotel Properties' potential value and revenue generation and to ensure that the FF&E Reserve is properly applied to enhance the asset quality of the Initial Hotel Properties.

The REIT Manager seeks to ensure that the Hotel Manager leverages the expected increased demand from economic and tourism growth and supply dynamics of the Hong Kong hotel market to improve occupancy rates and average room rates for the Initial Hotel Properties.

No less than 468 rooms are expected to be added to four of the Initial Hotel Properties, resulting in a 14% increase in the total current available rooms to 3,816 rooms, with the cost to be fully borne by the Vendor, including any cost overruns and land premium payable, under the Asset Enhancement Program. The program is expected to be completed in stages from the third quarter of 2007 to the end of 2008. The completion of the Asset Enhancement Program will not result in any adjustment to the Base Rents payable under the Lease Agreements as the escalating Base Rents have already taken into account the completion of the Asset Enhancement Program.

External Growth: The REIT Manager intends to selectively acquire additional hotel properties that meet its investment criteria. The REIT Manager believes that the introduction of hotel REITs in Asia may improve market liquidity for hotel properties. The REIT Manager will actively seek acquisition opportunities to enhance yield and cashflow. Under the Deed of Non-Competition, if Regal or any of its subsidiaries becomes aware of any opportunity to acquire any majority interest (or such level of interest as Regal REIT is permitted to acquire from time to time) of any hotel in operation, completed or substantially completed, in Greater China, it shall, among others, notify the REIT Manager after such acquisition opportunity is identified, direct such opportunity to the REIT Manager, and shall provide, and liaise with the proposed seller to provide, to the REIT Manager the information and documents necessary for the REIT Manager to evaluate such opportunity. In addition, if the Regal Group wishes to sell any majority interest (or such level of interest as Regal REIT is permitted to acquire from time to time) it has in any hotel in operation, completed or substantially completed, in Greater China pursuant to an offer or genuine indication of an offer from a third party prospective purchaser, it shall, among others, notify the REIT Manager after receiving such offer, offer or procure an offer is made to the REIT Manager on the same or better terms than those proposed to the Regal Group, and provide to the REIT Manager the information and documents necessary for the REIT Manager to evaluate such offer.

The Deed of Non-Competition will commence on the Listing Date for a term of at least ten years and thereafter shall remain in full force until the earlier of the Units ceasing to be listed on the Hong Kong Stock Exchange and the Regal Group ceasing to beneficially own and control 30% or more of the outstanding Units of Regal REIT.

Details of the terms of the Deed of Non-Competition are set out in the section headed "Material Agreements — Deed of Non-Competition" in this Offering Circular.

Financing Strategy: The REIT Manager intends to employ a growth oriented capital structure to maximize cash flow while maintaining flexibility in funding any future acquisitions.

Details of Regal REIT's internal and external growth and financing strategies are set out in the section headed "Business and Strategy — Strategy" in this Offering Circular.

Strong alignment of interests between the Regal Group and Unitholders

The Regal Group's interests are substantially aligned with the interests of Unitholders. The Regal Group will subscribe for Regal Subscription Units concurrently with, but separate from, the Global Offering under the Subscription Agreement and will hold approximately 72.0% of Units following the completion of the Global Offering (or approximately 67.8% if the Over-allotment Option is exercised in full). The Regal Group has agreed to a six-month lock-up period pursuant to the Public Offer Underwriting Agreement and has informed the REIT Manager that it intends to be a long-term investor in Regal REIT beyond the expiry of the lock-up period.

The Vendor will, at its own and full cost including any costs overruns and land premium payable, provide the full funding required for the completion of the Asset Enhancement Program, which is expected to enhance the Initial Hotel Properties' revenue generation capabilities and profitability.

To align its interests in, and obligations for the completion of, the Asset Enhancement Program, the Regal Group will not be entitled to distributions in respect of the AEP Units (representing 12.0% and 9.5% of the total number of Units outstanding based on the Minimum Offer Price and the Maximum Offer Price, respectively) and will not be able to dispose of such Units, until a certain time after the corresponding portion of the Asset Enhancement Program is completed. See the section headed "Material Agreements — Subscription Agreement" in this Offering Circular. If the Asset Enhancement Program is not completed by the relevant Long-Stop Date, the Trustee (at the direction of the REIT Manager) shall have the right to demand cash compensation from Regal. See the section headed "Material Agreements — Sale and Purchase Agreement" in this Offering Circular.

The Regal Group, via the Hotel Manager of the Initial Hotel Properties upon the completion of the Global Offering, has further aligned its interests with Regal REIT by agreeing to subordinate its hotel management fees (payable by the Lessee to the Hotel Manager) to the rents (payable by the Lessee to the Lessors) for so long as the Lease Agreements are in place.

Experienced Management Team

The REIT Manager believes that hotel property ownership requires specialized knowledge and experience which is distinct from office or retail property management and is important in monitoring a hotel operator's activities to ensure that asset performance is maximized. The REIT Manager's senior management team has an average of 28 years of relevant experience as follows. Mr. Kai Ringenson, the chief executive officer of the REIT Manager, has more than 35 years of hotel and asset management experience in Asia, Europe and the United States. He also has extensive experience in hotel investment, acquisition and disposition as well as in negotiating hotel leases and management agreements. Ms. Phyllis Kan, the investment and investor relations manager, has over 25 years of working experience in both the private and public sectors and has held a variety of senior positions in different organisations. Mr. Thomas Wan, the asset management manager, has over 25 years of experience in asset management, property management and mechanical engineering.

Summary Property Statistics

The following table summarizes the key property information relating to the Initial Hotel Properties as at the Latest Practicable Date.

Initial Hotel Property	Location	HKTB Rating(1)	Opening Year	Number of rooms	Number of Stories	Gross Floor Area (sq. ft.)	Covered Floor Area (sq.ft.)
Regal Airport Hotel	Hong Kong International Airport	High Tariff B	1999	1,104	14 (including one basement floor)	774,445	897,034
Regal Hongkong Hotel	Causeway Bay	High Tariff A	1993	424	37 (including four basement floors)(2)	215,736	320,417
Regal Kowloon Hotel	Tsim Sha Tsui	High Tariff A	1982	600	20 (including four basement floors)	341,714	468,355
Regal Oriental Hotel	Kowloon City	High Tariff B	1982	390	17 (including two basement floors)	243,167(3)	294,154(3)
Regal Riverside Hotel	Shatin	High Tariff B	1986	830	17 (including two basement floors)(2)	519,046	662,123
Total				3,348(4)		2,094,108	2,642,083

Notes:

(1) The Hong Kong Tourism Board classifies hotels into High Tariff A, High Tariff B, Medium Tariff and unclassified, based on facilities, location, staff-to-room ratio, achieved room rate and business mix of the hotels. In 2006, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK$1,906, HK$831 and HK$537, respectively.

(2) The number of stories of Regal Hongkong Hotel and Regal Riverside Hotel will increase to 39 and 20, respectively, after completion of the Asset Enhancement Program.

(3) This Gross Floor Area and Covered Floor Area include 14,200 sq.ft. of Po Sing Court, of which Gala Hotels Limited owns 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel.

(4) Includes 12 house-use rooms (e.g. rooms for general managers of the hotels).

The following table sets forth the RevPAR, average room rates and occupancy rates of the Initial Hotel Properties for the years ended December 31, 2003 to 2006.

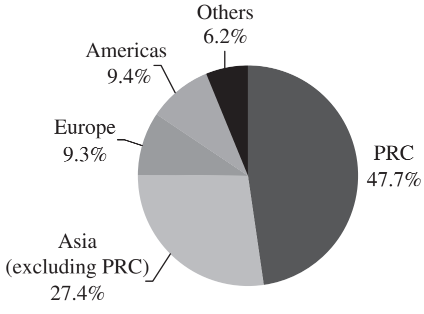
Initial Hotel Property	**RevPAR (HK$)**				**Average Room Rate (HK$)**				**Occupancy Rate (%)**			
	For the year ended December 31,				**For the year ended December 31,**				**For the year ended December 31,**			
	2003	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**	**2003**	**2004**	**2005**	**2006**
Regal Airport Hotel	376.6	572.2	610.9	658.5	725.6	780.6	925.6	1,027.3	51.9	73.3	66.0	64.1
Regal Hongkong Hotel	467.3	749.0	865.5	978.7	701.6	813.2	962.7	1,086.2	66.6	92.1	89.9	90.1
Regal Kowloon Hotel	354.7	551.7	647.4	761.3	582.5	655.2	768.9	889.4	60.9	84.2	84.2	85.6
Regal Oriental Hotel	229.1	395.8	424.1	466.7	334.4	434.5	463.0	518.6	68.5	91.1	91.6	90.0
Regal Riverside Hotel	219.9	376.9	402.7	434.9	346.9	418.3	440.6	471.7	63.4	90.1	91.4	92.2
Initial Hotel Properties(1)	327.5	521.8	576.1	639.0	545.0	621.9	706.0	786.9	60.1	83.9	81.6	81.2

Note:

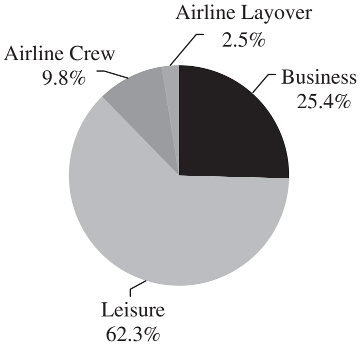
(1) RevPAR of the Initial Hotel Properties is defined as the average room rate multiplied by the occupancy rate of the Initial Hotel Properties during the relevant period. Average room rate of the Initial Hotel Properties is defined as the total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in these calculations.

The following charts set forth information on visitor mix at the Initial Hotel Properties for the year ended December 31, 2006.

The Initial Hotel Properties — Visitor Geographical Origin Mix by Number of Room Nights(1) (for the year ended December 31, 2006)



The Initial Hotel Properties — Visitor Mix by Number of Room Nights(1) (for the year ended December 31, 2006)



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

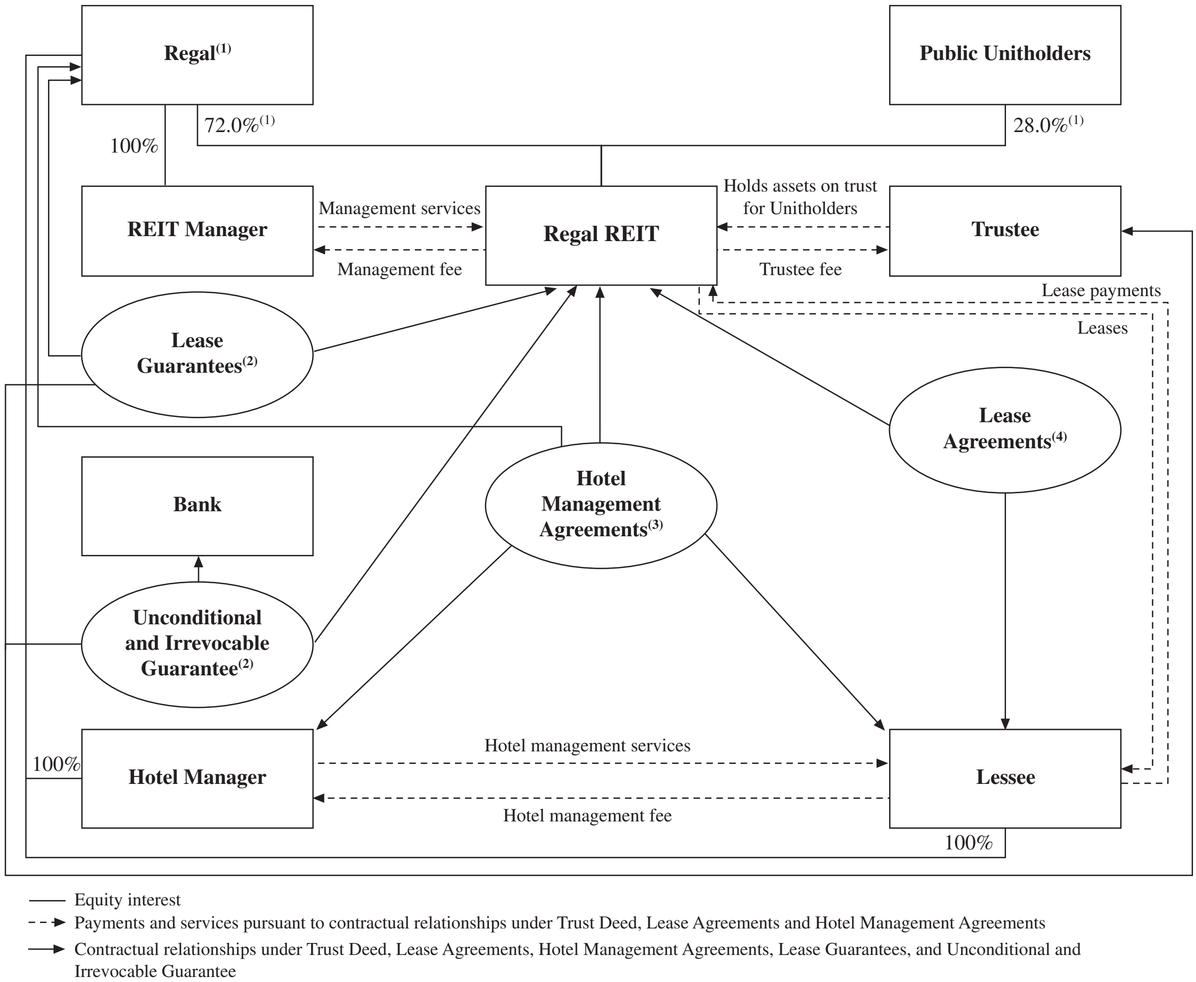
The following table sets forth information relating to the Appraised Value of the Initial Hotel Properties as at December 31, 2006 as determined by the Independent Property Valuer.

Initial Hotel Property	Appraised Value with the Asset Enhancement Program (HK$ million)	Appraised Value without the Asset Enhancement Program (HK$ million)
Regal Airport Hotel	5,290	5,160
Regal Hongkong Hotel	3,220	2,940
Regal Kowloon Hotel	3,310	3,310
Regal Oriental Hotel	1,240	1,110
Regal Riverside Hotel	2,840	2,380
Initial Hotel Properties	15,900	14,900

The Initial Hotel Properties will be purchased at a total discount of 7.8% (based on the Maximum Offer Price) to 21.4% (based on the Minimum Offer Price) to the aggregate Appraised Value of the Initial Hotel Properties (inclusive of the Appraised Value of the Asset Enhancement Program of HK$1 billion) of HK$15.9 billion (as at December 31, 2006) as determined by the Independent Property Valuer. See "Appendix IV — Independent Property Valuer's Valuation Report".

Overview of Regal REIT Structure

The following simplified diagram provides a general overview of the ownership structure of Regal REIT and the primary structural and contractual relationships among Regal REIT, the public Unitholders, the REIT Manager, the Trustee, the Lessee, the Hotel Manager and Regal, upon completion of the Global Offering.



Notes:

(1) Assuming the Over-allotment Option is not exercised. Two subsidiaries of Regal, namely Complete Success Investments Limited and Great Prestige Investments Limited, failing whom, Regal, have agreed to subscribe for an aggregate of 2,235,316,748 Units.

(2) Regal has guaranteed to pay all amounts from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements. In addition, Regal has procured an unconditional and irrevocable guarantee for HK$1 billion until June 30, 2011 to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee in the form of a letter of credit. For further details, please refer to the section headed "Material Agreements — Lease Guarantees" in this Offering Circular.

(3) Regal REIT (through Holding SPV and the Lessors) has entered into separate Hotel Management Agreements with the Lessee, the Hotel Manager and Regal. For further details, please refer to the detailed diagram in the section headed "Structure and Management — Structure and Organization of Regal REIT" in this Offering Circular.

(4) Regal REIT (through the Lessors) has entered into separate Lease Agreements with the Lessee. For further details, please refer to the detailed diagram in the section headed "Structure and Management — Structure and Organization of Regal REIT" in this Offering Circular.

The REIT Manager

Regal Portfolio Management Limited (the "**REIT Manager**"), a wholly-owned subsidiary of Regal, was incorporated in Hong Kong on February 20, 2006 for the sole purpose of managing the assets of Regal REIT.

The REIT Manager's responsibilities pursuant to the Trust Deed include the overall management of the Initial Hotel Properties. In particular, the REIT Manager is responsible for monitoring the performance of the obligations of the Lessee under the Lease Agreements, the Hotel Manager under the Hotel Management Agreements, and the Finance Companies under the Financing Agreement, via a seat on the boards of directors of Holding SPV, the Lessors and the Finance Companies, as well as the future formation and operation of relevant Special Purpose Vehicles. The REIT Manager is also responsible for Regal REIT's investment and financing strategies and asset enhancement, acquisition and disposal policies.

The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management. The REIT Manager is independent of the Trustee and possesses the skill and resources to perform and discharge its functions in relation to Regal REIT effectively and responsibly. In discharging such functions, the REIT Manager is required to observe high standards of corporate governance.

As at the Latest Practicable Date, the REIT Manager had a paid-up share capital of HK$9,611,937.

For details of the corporate governance policies and procedures of the REIT Manager, see the sections headed "Structure and Management — REIT Manager" and "Structure and Management — Corporate Governance" in this Offering Circular.

Objectives and Strategies

The REIT Manager has formulated objectives and certain strategies with a view to enhancing the value of Units to Unitholders. For further details, see the section headed "Business and Strategy — Strategy" in this Offering Circular.

Corporate Governance

A compliance manual containing detailed corporate governance policies and procedures has been established by the REIT Manager to promote the operation of Regal REIT in a transparent manner, with built-in checks and balances. The Trustee and the REIT Manager are independent of each other and their respective roles in relation to Regal REIT are set out in the REIT Code and the Trust Deed. The REIT Manager is required by the REIT Code to act in the best interests of Unitholders, to whom the Trustee also owes fiduciary duties.

The REIT Manager has a Board which comprises seven members including three independent non-executive directors.

At all times, at least one-third of the Board will comprise independent non-executive directors and there will be a minimum of three independent non-executive directors.

Policies and procedures have been established for, among other things, enforcing the performance of the Regal Group's obligations to Regal REIT and monitoring and supervising dealings in Units by Directors and the REIT Manager. For further details, see the section headed "Structure and Management — Corporate Governance" in this Offering Circular.

The Trustee

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited. The Trustee is a wholly-owned subsidiary of Deutsche Bank AG and is a company incorporated in Hong Kong and registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code. As at the Latest Practicable Date, the Trustee had a paid-up share capital of HK$10 million.

For details of the Trustee's obligations under the Trust Deed and the REIT Code, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

Summary Historical Financial Information

The following table sets forth a summary of financial information and operating statistics on a combined historical basis for the Predecessor Group. The Predecessor Group comprises the ownership and operation of the Initial Hotel Properties by the Property Companies as part of the Regal Group, prior to the acquisition of the Property Companies by Regal REIT. No historical information for Regal REIT is presented because it has not undertaken any corporate activities since its formation on December 11, 2006.

The historical combined income statement data for each of the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006, the combined balance sheet data as at December 31, 2003, 2004 and 2005 and September 30, 2006, and the combined cash flow statement data for each of the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006 have been derived from the Predecessor Group's audited combined financial information and related notes thereto which have been included in Appendix I to this Offering Circular. These audited combined financial information and the related notes thereto have been prepared in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS (including Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been audited by Ernst & Young, independent auditors. The combined operating statistics for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006 and for the nine months period ended September 30, 2005 and 2006, the combined income statement data for the nine months ended September 30, 2005 and the cash flow statement data for the nine months ended September 30, 2005 have not been audited (as the Predecessor Group was not historically operated as a single standalone group, these audited combined financial information may not give an accurate depiction of the performance of the Initial Hotel Properties as if they had been operated as a standalone group).

The historical combined financial information and operating statistics for the Predecessor Group included below and set forth in Appendix I to this Offering Circular are for reference purposes only and may not be indicative of Regal REIT's future performance, in particular given the different legal, financial and operating structure under which the Initial Hotel Properties will be owned but not operated by Regal REIT. You should read the following summary financial information and operating statistics together with the section headed "The Initial Hotel Properties", "Financial Information and

Profit Forecast — Management's Discussion and Analysis of Financial Condition and Results of Predecessor Group", "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations" and the historical financial information for the Predecessor Group and related notes thereto set forth in Appendix I to this Offering Circular.

The Initial Hotel Properties will be leased to the Lessee pursuant to the Lease Agreements. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Variable Rents allow Unitholders to share the upside of the Initial Hotel Properties' Net Property Income. Variable Rents are payable only if the total Net Property Income of the Initial Hotel Properties during the year exceeds the aggregate Base Rents for the relevant year. Under such circumstances, any Lessor whose Initial Hotel Property generates an NPI Excess shall be entitled to receive a fraction of the aggregate Variable Rent equal to the fraction that its NPI Excess represents of the aggregate NPI Excess of all such Lessors.

Combined income statement data

	For the year ended December 31,			For the nine months ended September 30,	
	2003	2004	2005	2005	2006
	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)	(HK$ thousands) (unaudited)	(HK$ thousands)
Revenue					
Hotel income:					
Room	398,991	636,703	700,853	486,462	546,289
Food and beverage	256,278	290,087	307,581	216,568	235,912
Other	37,849	43,836	42,714	31,817	34,959
Gross rental income from hotel properties	25,099	22,877	26,014	18,406	24,370
Total revenue	718,217	993,503	1,077,162	753,253	841,530
Cost of sales	(528,301)	(601,968)	(620,396)	(451,752)	(454,303)
Gross profit	189,916	391,535	456,766	301,501	387,227
Other income and gains	2,347	1,956	24,143	23,733	152
Administrative expenses	(11,928)	(8,884)	(11,367)	(6,443)	(6,911)
Other operating expenses	(2,929)	(875)	—	—	—
Write-back of impairment of hotel buildings	644,001	1,149,230	964,370	—	—
Operating profit before depreciation and amortization	821,407	1,532,962	1,433,912	318,791	380,468
Depreciation and amortization	(139,550)	(146,557)	(174,615)	(125,885)	(149,727)
Operating profit	681,857	1,386,405	1,259,297	192,906	230,741
Finance costs	(111,860)	(109,912)	(174,248)	(116,911)	(158,578)
Profit before tax	569,997	1,276,493	1,085,049	75,995	72,163
Tax	50,431	20,914	97,193	12,147	(2,328)
Profit for the year/period	620,428	1,297,407	1,182,242	88,142	69,835

Combined balance sheet data

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)
Property, plant and equipment	4,345,979	5,415,509	6,299,746	6,225,726
Prepaid land lease payments	831,723	809,071	786,419	769,430
Total assets	5,284,809	6,347,137	7,330,142	7,249,345
Total bank loan	1,042,342	1,383,480	1,386,784	1,389,262
Amount due to a fellow subsidiary company	5,983,472	5,410,222	5,179,739	5,073,778
Loan from a fellow subsidiary company	2,386,000	2,386,000	2,386,000	2,386,000
Total liabilities	9,584,115	9,349,036	9,149,799	8,999,167
Total equity	(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)

Combined cash flow statement data

	For the year ended December 31,			For the nine months ended September 30,	
	2003	2004	2005	2005	2006
	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)	(HK$ thousands) (unaudited)	(HK$ thousands)
Net cash inflow from operating activities	180,345	402,934	458,084	285,541	335,821
Net cash outflow from investing activities	(17,967)	(42,798)	(63,216)	(36,471)	(64,379)
Net cash outflow from financing activities	(166,681)	(352,113)	(388,102)	(251,759)	(275,026)
Net increase/(decrease) in cash and cash equivalents	(4,303)	8,023	6,766	(2,689)	(3,584)

Operating Information

	For the year ended December 31,			
	2003	2004	2005	2006
Total number of rooms[(1)]	3,348	3,348	3,348	3,348
Occupancy rate (%)[(2)]	60.1	83.9	81.6	81.2
Average room rate (HK$)[(3)]	545.0	621.9	706.0	786.9
RevPAR (HK$)[(4)]	327.5	521.8	576.1	639.0

Notes:

(1) Includes 13, 13, 13 and 12 house-use rooms (e.g. rooms for general managers of the hotels) for the years ended December 31, 2003, 2004, 2005 and 2006, respectively.

(2) Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(3) Average room rate of the Initial Hotel Properties is defined as the total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(4) RevPAR of the Initial Hotel Properties is defined as the average room rate multiplied by the occupancy rate of the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

Summary Profit Forecast

Statements contained in the Summary Profit Forecast set out below that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set forth in the section headed "Financial Information and Profit Forecast — Profit Forecast — Bases and Assumptions" in this Offering Circular and are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected.

Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction by Regal REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent, Regal, the Vendor or any other person that the underlying assumptions used in preparing the profit forecast will materialize or that the profit forecast results will be achieved or are likely to be achieved. See the section headed "Key Investment Information and Highlights — Risk Factors — Risks relating to an investment in the Units — Forward-looking information in this Offering Circular, including the Profit Forecast, may prove inaccurate" in this Offering Circular.

The following forecast and calculations made in preparing the profit forecast have been reviewed by Ernst & Young and the Sole Listing Agent. Please refer to Appendix III to this Offering Circular for letters from Ernst & Young and the Sole Listing Agent on the accounting policies adopted and calculations made in arriving at the profit forecast. The REIT Manager and the Sole Listing Agent consider the assumptions made in arriving at the profit forecast to be reasonable.

The profit forecast assumes that the Listing Date will be March 30, 2007 and will vary if the Listing Date is different.

The following table sets forth Regal REIT's forecast consolidated profit and loss data and distribution for the Forecast Period.

	Forecast[1]
	For the period from the Listing Date to December 31, 2007
	(HK$ million)
Revenue	
Rental income	
Base Rent	545.9
Variable Rent	97.3
Other revenue	28.3
Operating expenses	
REIT Manager's fee	
Base Fee	(36.6)
Variable Fee	(17.9)
Trustee's fees	(2.2)
Administrative expenses	(6.7)
Change in fair value of investment properties[2]	—
Finance costs	(155.7)
Profit before tax	452.4
Taxation for the period	—
Deferred tax	(70.8)
Net profit for the period	381.6
Distribution data	
Net profit for the period	381.6
Adjustments[3]	38.7
Total Distributable Income	420.3

	Forecast[1] For the period from the Listing Date to December 31, 2007	
	Minimum Offer Price	Maximum Offer Price
Offer price (HK$)	2.68	3.38
Assumed number of Units outstanding as of Record Date for the Forecast Period (million)[4]	3,124.9	3,120.7
Number of AEP Units (million)	373.1	295.9
Forecast distribution per Unit (HK$)	0.1527	0.1488
Forecast annualized profit yield after taxation[5]	**6.82%**	**5.27%**
Forecast annualized distribution yield after taxation[6]	**7.51%**	**5.80%**

During the Forecast Period, the AEP Units will not be entitled to distributions pursuant to the Distribution Deed. Such Units will become entitled to distribution only at a certain time after the corresponding portion of the Asset Enhancement Program is completed (currently scheduled to be completed in stages by the end of 2008 and accordingly, the AEP Units will not receive any distributions for the Forecast Period) or when the Trustee receives cash compensation pursuant to the Sale and Purchase Agreement if the Asset Enhancement Program is not completed by the relevant Long-Stop Dates. In the event that the AEP Units become entitled to distributions, the total number of Units entitled to distributions will increase, which may result in dilution of DPU in the absence of any increase of Total Distributable Income.

The following table sets forth the profit yield and distribution yield of Regal REIT, for illustrative purposes only, assuming all the AEP Units would be entitled to distributions during the Forecast Period (but total rental income remains unchanged), which is not permitted under the Distribution Deed.

	Forecast[1] For the period from the Listing Date to December 31, 2007	
	Minimum Offer Price	Maximum Offer Price
Forecast annualized profit yield after taxation without taking into account the distribution waived in respect of the AEP Units[7]	6.00%	4.77%
Forecast annualized distribution yield after taxation without taking into account the distribution waived in respect of the AEP Units[8]	6.61%	5.25%

Notes:

(1) In preparing the profit forecast for the Forecast Period, the REIT Manager has excluded: (a) any goodwill or excess over the cost of business combination; and (b) the estimated costs and expenses of obtaining the listing status of Regal REIT of approximately HK$2.7 million which have to be charged to the income statement. The REIT Manager considers that these items are non-recurring in nature and the inclusion of such items will distort the comparability of profit/loss from period to period. In any case, such items will have no impact on the Total Distributable Income of Regal REIT.

(2) The REIT Manager considers that there is no reliable basis for forecasting the market values of the Initial Hotel Properties as of any future date. Accordingly, for the purpose of the profit forecast, the REIT Manager has assumed that the market value of the Initial Hotel Properties as of December 31, 2007 will be the same as the Appraised Value. Changes in the fair value of investment properties will affect the REIT Manager's fees and Trustee's fees.

(3) Refers to the following adjustments:

	Forecast For the period from the Listing Date to December 31, 2007 (HK$ million)
Difference in accounting Base Rent and actual contracted cash Base Rent[(i)]	(70.0)
Amortization of debt establishment cost	5.7
REIT Manager's fee paid in Units[(ii)]	54.5
Deferred tax[(iii)]	70.8
Amount set aside on account of the FF&E Reserve[(iv)]	(22.3)
Total Adjustments	38.7

(i) Base Rent is recognized as revenue on a straight-line basis over the lease term in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS.

(ii) The arrangement for payment of the REIT Manager's fee in Units is described in more detail in the paragraphs titled "REIT Manager's Base Fee" and "REIT Manager's Variable Fee" in the section headed "Financial Information and Profit Forecast — Profit Forecast".

(iii) Deferred taxation relating to temporary differences in respect of tax depreciation and available tax losses is a non-cash item.

(iv) As required under the Hotel Management Agreements.

(4) For the purpose of calculating the DPU (HK$) of the Units held by Unitholders as of the Record Date for the 2007 Distribution Period set forth in the table above, it is assumed the number of Units issued and outstanding remains unchanged save for the estimated number of Units issued as the REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period. Investors are advised that the DPU for the 2007 Distribution Periods take into account the distribution waived in respect of the AEP Units, and such effect will diminish when the AEP Units become entitled to distribution pursuant to the Distribution Deed.

(5) The forecast annualized profit yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period assuming no change in fair value of investment properties / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period - AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(6) The forecast annualized distribution yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period - AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(7) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized profit yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(8) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized distribution yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

Investors should note that the distribution yield after taxation is different from the profit yield after taxation. The difference between the distribution yield and the profit yield is due to the Adjustments as described in note 3 above.

None of Regal REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent, the Vendor or any other person guarantees the performance of Regal REIT, the repayment of capital or the payment of any distributions, or any particular return on the Units other than Regal pursuant to the Lease Guarantees and the Distributable Income Guarantee. The profit forecast and projected profit and distribution yields stated in the table above are calculated based on the Maximum Offer Price and the Minimum Offer Price. Such profit and distribution yields will vary for investors who purchase Units in the secondary market at a market price that differs from the Maximum Offer Price and the Minimum Offer Price.

Certain Fees and Charges

The following is a summary of certain fees and charges payable by Unitholders in connection with the subscription of Units under the Global Offering:

	Payable by Unitholders directly	Amount Payable
(a)	Brokerage	1% of the Maximum Offer Price, subject to refund [(1)]
(b)	Hong Kong Stock Exchange trading fee	0.005% of the Maximum Offer Price, subject to refund [(1)]
(c)	SFC transaction levy	0.004% of the Maximum Offer Price, subject to refund [(1)]

Note:

(1) Subject to refund, if and to the extent the Offer Price is lower than the Maximum Offer Price.

The following is a summary of certain fees payable by Regal REIT in connection with the establishment and on-going management of Regal REIT:

Payable by Regal REIT	Amount Payable
(a) REIT Manager's management fees	Base Fee Currently 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of the Deposited Property, payable monthly in arrears. Variable Fee Currently 3% per annum, subject to a maximum cap of 5% per annum, of Net Property Income, payable annually. See the section headed "Structure and Management — REIT Manager — Fees, Costs and Expenses of the REIT Manager" in this Offering Circular.
(b) Trustee's fee	0.015% to 0.025% per annum of the value of the Deposited Property payable quarterly in arrears, subject to a minimum of HK$66,000 per month and a maximum cap of 0.06% per annum of the value of the Deposited Property. Based on the Appraised Value of the Initial Hotel Properties of HK$15.9 billion, the rate of the Trustee's fee in respect of the Initial Hotel Properties would be 0.0165% per annum. Regal REIT will also pay to the Trustee a one-time inception fee of HK$200,000. Additional fees may be payable to the Trustee in certain circumstances. The Trustee may also charge Regal REIT additional fees on a time-cost basis at a rate to be agreed with the REIT Manager from time to time, if the Trustee were to undertake duties that are of an exceptional nature or otherwise outside the scope of its normal duties in the ordinary course of normal day-to-day business operation of Regal REIT, such as acquisition or divestment of investments by Regal REIT after the IPO. Such fees shall be subject to the following limits: (i) where such fees relate to a transaction, an aggregate amount not exceeding 0.05% of the acquisition price or sale price (as the case may be) of the real estate; and (ii) the aggregate amount of such fees that do not relate to any specific transaction described in (i) above shall be limited to 30% of the Trustee's ongoing fees (as stated above) for that financial year.

	Payable by Regal REIT	Amount Payable
		See the section headed "Material Agreements — Trust Deed — Trustee's Fee" in this Offering Circular.
(c)	Acquisition fee (payable to the REIT Manager)	Currently 1% of the purchase price of property acquired by Regal REIT (but no acquisition fee is payable in respect of the Acquisition).
(d)	Divestment fee (payable to the REIT Manager)	Currently 0.5% of the sale price of property divested by Regal REIT.
(e)	Others	Regal REIT will also need to pay certain other ongoing fees and expenses for the daily operations of Regal REIT, such as annual listing fees, financial report printing fees, auditors' fees, legal advisers' fees, fees of its appointed independent property valuer and fees of other professional advisers and service providers.

Regal REIT	Regal Real Estate Investment Trust is a collective investment scheme constituted as a unit trust by the Trust Deed and authorized under section 104 of the SFO.
The REIT Manager	Regal Portfolio Management Limited.
The Trustee	DB Trustees (Hong Kong) Limited.
The Hong Kong Public Offering	An initial offer of 86,930,000 Units to the public in Hong Kong, subject to reallocation.
The International Offering	An initial offer of 782,359,000 Units to institutional, professional and other investors, subject to reallocation and the exercise of the Over-allotment Option.
The Preferential Offering	An initial offer of 49,877,375 Units to Qualifying Regal Shareholders out of the Units being offered under the International Offering.
The Global Offering	A total offering of 869,289,000 Units and consisting of the Hong Kong Public Offering, the International Offering and the Preferential Offering (as part of the International Offering) (subject to reallocation and the exercise of the Over-allotment Option).
Reallocation of Units	The Units to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated between these offerings. See the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.
Structure	The Units are being offered and sold outside the United States in reliance on Regulation S and inside the United States in reliance on Rule 144A. The Units have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.
Offer Price Range	The Offer Price of the Units (which will be denominated in Hong Kong dollars) will not be more than HK$3.38 and is currently expected to be not less than HK$2.68.
Charges Payable by Investors	In addition to the Maximum Offer Price, investors applying for Units in the Global Offering must pay brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

Over-allotment Option	Merrill Lynch International (on behalf of the International Underwriters) is expected to be granted an Over-allotment Option by Regal (through Complete Success Investments Limited, its wholly owned subsidiary), exercisable in full or in part, on one or more occasions on or after the Listing Date but before the expiry of 30 days after the last day for lodging Application Forms under the Hong Kong Public Offering, to purchase from Complete Success Investments Limited up to an aggregate of 130,393,350 Units. The exercise of the Over-allotment Option will not increase the total number of outstanding Units. The total number of Units subject to the Over-allotment Option will constitute approximately 15% of the total number of Units under the Global Offering.
Use of Proceeds	See the section headed "Key Investment Information and Highlights — Use of Proceeds" in this Offering Circular for details of how the proceeds from the Global Offering will be applied.
Subscription by Regal	Separate from the Global Offering, Regal and two of its wholly-owned subsidiaries have entered into the Subscription Agreement with the REIT Manager pursuant to which they have agreed to subscribe for a total of 2,235,316,748 Regal Subscription Units (which include the AEP Units) at the Offer Price, conditional upon the Underwriting Agreements having been entered into by all parties thereto and not having been terminated pursuant to their terms on or prior to the Listing Date.
Lock-ups	The Regal Group have entered into certain lock-up arrangements with the Underwriters for a period of six months from the Listing Date, subject to certain exceptions and, with the Trustee and the REIT Manager in the case of the AEP Units, until the applicable Relevant Date, subject, in each case, to certain exceptions. See the sections headed "Other Information — Underwriting" and "Material Agreements — Subscription Agreement" in this Offering Circular.
Market Capitalization	HK$10,494 million, based on the Maximum Offer Price or HK$8,320 million, based on the Minimum Offer Price.
NAV per Unit Upon Completion of the Global Offering	HK$3.33, based on the Maximum Offer Price or HK$3.30, based on the Minimum Offer Price.

Listing and Trading

Prior to the Global Offering, there has been no market for the Units. Preliminary approval has been granted by the Hong Kong Stock Exchange for the listing of, and permission to deal in, all the Units on the Main Board of the Hong Kong Stock Exchange. Dealings in Units on the Hong Kong Stock Exchange are expected to commence on Friday, March 30, 2007. If the Hong Kong Stock Exchange grants formal approval for the listing of, and permission to deal in, the Units on the Main Board of the Hong Kong Stock Exchange and Regal REIT complies with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS, with effect from the date of commencement of dealings in the Units on the Hong Kong Stock Exchange or any other date that HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Units to be admitted into CCASS.

Stabilization

In connection with the Global Offering, Merrill Lynch Far East Limited, as the Stabilizing Manager, may over-allot or effect transactions for a period of 30 days after the last date for lodging Application Forms under the Hong Kong Public Offering with a view to supporting the market price of Units at a level higher than that which might otherwise prevail. Such transactions, if effected, may be discontinued at any time.

No Redemption Right for Unitholders

Unitholders have no right to request that the REIT Manager redeem their Units at any time. Listing of the Units on the Hong Kong Stock Exchange does not guarantee a liquid market for the Units.

Profit Forecast (for the period from the Listing Date to December 31, 2007)	The REIT Manager forecasts that, in the absence of unforeseen circumstances and on the basis and assumptions set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular, the net profit after tax of Regal REIT for the period from the Listing Date to December 31, 2007 will not be less than HK$381.6 million. For further details, including the principal assumptions on which the forecasts are based, see the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular.
Distributions	The REIT Manager's current policy is to distribute to Unitholders as distributions an amount equivalent to 100% of Regal REIT's Total Distributable Income for each financial year, as more fully described in the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular. Pursuant to the Trust Deed, Regal REIT is, in any event, required to distribute at least 90% of its Total Distributable Income for each financial year (subject to the provisions of the Trust Deed). Distributions will be declared in Hong Kong dollars. See the section headed "Key Investment Information and Highlights — Risk Factors" in this Offering Circular for a discussion of factors that may adversely affect the ability of Regal REIT to make distributions to Unitholders.
Distributable Income Guarantee	Regal has entered into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which Regal has guaranteed that it shall, in the event that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007), in aggregate, is less than HK$420.3 million, pay to the Trustee an amount which represents the shortfall.
Statement of Distributions	The REIT Manager expects to distribute not less than HK$0.1527 per Unit based on the Minimum Offer Price or HK$0.1488 per Unit based on the Maximum Offer Price for the period from the Listing Date to December 31, 2007, representing an annualized distribution yield of 7.51% based on the Minimum Offer Price and 5.80% based on the Maximum Offer Price (excluding transaction costs), respectively.

During the Forecast Period, the AEP Units will not be entitled to distributions pursuant to the Distribution Deed. Such Units will become entitled to distributions only at a certain time after the corresponding portion of the Asset Enhancement Program is completed (currently scheduled to be completed in stages by the end of 2008 and, accordingly, the AEP Units will not receive any distribution for the Forecast Period) or when the Trustee receives cash compensation pursuant to the Sale and Purchase Agreement if the Asset Enhancement Program is not completed by the relevant Long-Stop Dates. In the event that the AEP Units become entitled to distributions, the total number of Units entitled to distributions will increase, which may result in dilution of DPU in the absence of any increase in Total Distributable Income.

For illustrative purposes only, assuming all the AEP Units would be entitled to distributions during the Forecast Period (but total rental income remains unchanged), which is not permitted under the Distribution Deed, the annualized distribution yield of Regal REIT would be 6.61% and 5.25% for the Forecast Period based on the Minimum Offer Price and the Maximum Offer Price, respectively.

See the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular for a detailed calculation of the implied yields based on the Minimum Offer Price and the Maximum Offer Price.

Tax Considerations	See the section headed "Other Information — Taxation" in this Offering Circular for further information on certain tax consequences of the purchase, ownership and disposition of the Units.
Governing Law	The Trust Deed, pursuant to which Regal REIT is constituted, is governed by Hong Kong law.
Termination of Regal REIT	Regal REIT may be terminated by the Trustee or the REIT Manager in the circumstances set out in the Trust Deed. See the section headed "Material Agreements — Trust Deed" in this Offering Circular for further information.
Risk Factors	Prospective investors should carefully consider the risks connected with an investment in Units. Certain of these risks are discussed in the section headed "Key Investment Information and Highlights — Risk Factors" in this Offering Circular.

REIT Manager's Responsibility for the Contents of this Offering Circular

The REIT Manager and the Directors (whose names appear in the section headed "Key Investment Information and Highlights — Parties Involved in the Global Offering" in this Offering Circular) collectively and individually accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statement in this Offering Circular misleading.

SFC Authorization

Regal REIT has been authorized by the SFC under section 104 of the SFO. The SFC does not take any responsibility for the financial soundness of Regal REIT or for the correctness of any statements made or opinions expressed in this Offering Circular and other documents relating to Regal REIT. Authorization by the SFC does not imply an official recommendation.

Underwriting

This Offering Circular is published solely in connection with the Hong Kong Public Offering and the Preferential Offering, which form part of the Global Offering. For applicants under the Hong Kong Public Offering, this Offering Circular and the **WHITE** and **YELLOW** Application Forms contain the terms and conditions of the Hong Kong Public Offering. For applicants under the Preferential Offering, this Offering Circular and the **BLUE** Application Form set out the terms and conditions of the Preferential Offering. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Public Offer Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters. Pursuant to the International Purchase Agreement, the International Offering, which includes the Preferential Offering, is expected to be underwritten by the International Underwriters. Further details of the Underwriters and the underwriting arrangements are contained in the section headed "Other Information — Underwriting" in this Offering Circular.

Distribution and Selling Restrictions

The Hong Kong Public Offering Units and Reserved Units are offered solely on the basis of the information contained and representations made in this Offering Circular and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Hong Kong Public Offering and Preferential Offering or to make any representation not contained in this Offering Circular, and any information or representation not contained herein must not be relied upon as having been authorized by the REIT Manager, the Joint Global Coordinators, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering.

Units have not been registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S. No action has been or will be taken in any jurisdiction that would permit a public offering of the Units or the possession, circulation or distribution of this Offering Circular or any other offering or publicity material relating to Regal REIT or the Units in any country or jurisdiction other than Hong Kong. In addition, until 40 days after the later of the commencement of this Global Offering and the completion of the distribution of Units, an offer or sale of Units within the United States by any dealer (whether or not participating in this Global Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made other than in accordance with Rule 144A, or pursuant to another exemption from, or in a transaction not subject to, such registration requirements. Neither the U.S. Securities and Exchange Commission nor any state securities commission in the United States or any other U.S. regulatory authority has approved or disapproved of Units or determined if this Offering Circular is accurate or complete. Any representation to the contrary is a criminal offence in the United States. Units may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material, circular, form of application or advertisement in connection with the Global Offering of the Units may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each person acquiring Units will be required to confirm, or by the acquisition of Units will be deemed to have confirmed, that he is aware of the restrictions on offers of Units described in this Offering Circular.

Applicants for Units are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in Units.

Application for Listing on the Hong Kong Stock Exchange

Prior to the Global Offering, there has been no market for the Units. Preliminary approval has been granted by the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Units on the Main Board of the Hong Kong Stock Exchange (including the Units which may be sold pursuant to the Over-allotment Option). Dealings in the Units on the Hong Kong Stock Exchange are expected to commence on Friday, March 30, 2007.

Eligibility for Admission into CCASS

Subject to the granting of formal approval for the listing of, and permission to deal in, the Units on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Hong Kong Stock Exchange or any other date that HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Units to be admitted into CCASS.

Stamp Duty

No Hong Kong stamp duty is payable in connection with the initial issue of Units to successful applicants under the Hong Kong Public Offering or the Preferential Offering. Subsequent dealings in Units will be subject to Hong Kong stamp duty.

Professional Tax Advice Recommended

Persons who are unsure about the taxation implications of the subscription, purchase, holding, disposal of, dealing in, or the exercise of any rights in relation to the Units should consult a professional adviser.

None of Regal REIT, the Trustee, the REIT Manager, the Directors, the Underwriters nor any other person involved in the Global Offering accepts any responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposal of, dealing in or the exercise of any rights in relation to the Units.

Offer Price

The Maximum Offer Price is HK$3.38 and the Offer Price is expected to be determined by agreement between Regal, the REIT Manager and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date. See the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.

All applicants are required to pay the Maximum Offer Price of HK$3.38 per Unit (plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%). See the sub-section headed "Procedures for Application for Hong Kong Public Offering Units and Reserved Units" immediately below.

Procedures for Application for Hong Kong Public Offering Units and Reserved Units

The procedures for applying for the Hong Kong Public Offering Units and Reserved Units are set out in the sections headed "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units" and "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular and in the relevant Application Forms.

Conditions of the Hong Kong Public Offering and the Preferential Offering

Details of the conditions of the Hong Kong Public Offering and the Preferential Offering are set out in the section headed "Other Information — Structure of the Global Offering — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular.

Structure of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.

Rounding

For the purpose of consistency, where applicable and not otherwise stated, percentage figures in this Offering Circular have been rounded to up to one decimal place and certain financial figures have been rounded to the nearest thousand or million, or up to one decimal place, as applicable. Such figures and calculations derived from such figures are therefore subject to rounding adjustments.

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding adjustments.

Regal REIT	As constituted by the Trust Deed entered into on December 11, 2006 in Hong Kong
REIT Manager	Regal Portfolio Management Limited Unit No. 1504, 15/F 68 Yee Wo Street Causeway Bay Hong Kong
Directors and Officers of the REIT Manager	
Chairman	Mr. Lo Yuk Sui
Executive Director	Mr. Kai Ole Ringenson
Independent Non-Executive Directors	Hon Abraham Shek Lai Him, J.P. Mr. Alvin Lam Kwing Wai Mr. John William Crawford, J.P.
Non-Executive Directors	Mr. Lo Yuk Sui Mr. Donald Fan Tung Mr. Jimmy Lo Chun To
Responsible Officers of the REIT Manager	Mr. Kai Ole Ringenson Ms. Phyllis Kan Lai Ping Mr. Thomas Wan Chuen Fai
Approved Person	Ms. Peony Choi Ka Ka
Trustee	DB Trustees (Hong Kong) Limited 55/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
Unit Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Underwriters	Merrill Lynch Far East Limited 17/F, ICBC Tower 3 Garden Road, Central Hong Kong Deutsche Bank AG, Hong Kong Branch 55/F, Cheung Kong Center 2 Queen's Road Central Hong Kong

	Goldman Sachs (Asia) L.L.C. 68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
Sole Listing Agent and Sole Financial Adviser	Merrill Lynch Far East Limited 17/F ICBC Tower 3 Garden Road, Central Hong Kong
Tax Consultant to the REIT Manager	Ernst & Young Tax Services Limited 18/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
Auditors and Reporting Accountants	Ernst & Young 18/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
Legal Advisers to the REIT Manager	*As to Hong Kong law* Johnson Stokes & Master 16-19/F, Prince's Building 10 Chater Road, Central Hong Kong *As to United States federal and New York state law* Weil, Gotshal & Manges LLP 38/F Tower 2 Plaza 66 1366 Nanjing Road West Shanghai, PRC
Legal Advisers to the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Underwriters	*As to Hong Kong law and United States law* Allen & Overy 9/F, Three Exchange Square Central Hong Kong
Legal Advisers to the Trustee	*As to Hong Kong law* Simmons & Simmons 35/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
Independent Property Valuer	CB Richard Ellis Limited Suite 3401, Central Plaza 18 Harbour Road Wanchai Hong Kong

Building Surveying Consultant	Savills Project Consultancy Limited 805-13, Cityplaza One Taikoo Shing Hong Kong
Market Consultant	Savills Valuation and Professional Services Limited 23/F, Two Exchange Square Central Hong Kong
Receiving Bankers	The Bank of East Asia, Limited Hang Seng Bank Limited The Hongkong and Shanghai Banking Corporation Limited Industrial and Commercial Bank of China (Asia) Limited Standard Chartered Bank (Hong Kong) Limited

An investment in the Units involves significant risks. Prospective investors should consider carefully, together with all other information contained in this Offering Circular, the risk factors described below before deciding whether to invest in the Units.

As an investment in a collective investment scheme is meant to produce return over the long-term, investors should not expect to obtain short-term gains.

Investors should be aware that the price of units in a collective investment scheme, and the income from them, may rise or fall. Investors should note that they may not get back their original investment and that they may not receive any distributions.

Before deciding to invest in the Units, prospective investors should seek professional advice from their relevant advisers regarding their prospective investment in the context of their particular circumstances.

RISKS RELATING TO REGAL REIT'S ORGANIZATION AND OPERATIONS

The agreed Base Rents in the Lease Agreements for the period until December 31, 2010 may not necessarily be indicative of future rents for the Initial Hotel Properties.

There can be no assurance that rents similar to or higher than the Base Rents for the period from the Listing Date until December 31, 2010 (which range from HK$630 million per annum to HK$780 million per annum) can be obtained from an independent third party lessee, or from the Lessee for the period after 2010. In particular, you should be aware that a rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package (including Base Rent, Variable Rent and a contribution to the FF&E Reserve) as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. Accordingly, the Floor Rent is less than each of annualized Base Rents payable by the Lessee under the Lease Agreements for periods ending up to and including December 31, 2010. If the base rent determined in accordance with the Lease Agreements for the years beginning January 1, 2011 and ending December 31, 2015 are equal to or more than the Floor Rent, but less than the Base Rents payable by the Lessee under the Lease Agreements up to December 31, 2010, the level of distributions could be materially affected. The level of rent that Regal REIT may be able to obtain for its Initial Hotel Properties after 2010 will depend on prevailing market conditions and a number of other risks and uncertainties, including those described under "Risk Factors — Risks Relating to Investing in Hotels and Real Estate" below. Any failure by Regal REIT to secure rental income from the Initial Hotel Properties for the period following 2010 at levels similar to or higher than the rents under the Lease Agreements could have a material adverse effect on the value of the Initial Hotel Properties and on Regal REIT's financial condition and the level of distributions to Unitholders and therefore on the trading price and liquidity of the Units in the market.

Regal REIT depends on the ability of the REIT Manager, the Lessee and the Hotel Manager, all of which are wholly-owned subsidiaries of Regal, to operate and manage the Initial Hotel Properties in an efficient and effective manner.

Regal REIT's operations and its real estate assets will be managed by the REIT Manager, a wholly-owned subsidiary of Regal. Subject to the overall management and supervision of the REIT Manager, the Lessee and the Hotel Manager, which are wholly-owned subsidiaries of Regal, will have control and discretion in the management, operation and promotion of the Initial Hotel Properties.

The failure of the Hotel Manager to manage the Initial Hotel Properties in an efficient and effective manner could have a material adverse effect on Regal REIT's potential to earn Variable Rent, the value of the Initial Hotel Properties and Regal REIT's ability to make distributions.

Any adverse changes in the REIT Manager's relationship with the Lessee or the Hotel Manager could hinder the REIT Manager's ability to manage Regal REIT's operations and the Initial Hotel Properties.

The gross profit from the operation of the Initial Hotel Properties may not be sufficient to cover the annual Base Rent payments, and the obligations under the Lease Guarantees and the bank guarantee may not be fulfilled and may not be sufficient to ensure that the payment obligations under the Lease Agreements are performed in full.

The Lessee's sole business is to derive income from the Hotel Manager's operation of the Initial Hotel Properties on its behalf and the Lessee is not expected to engage in other activities. The gross profit from the operation of the Initial Hotel Properties in each of the years in the ten-year period 1996-2005 would not have been sufficient to cover any of the aggregate annual Base Rent payments. In the event that the Lessee fails to derive sufficient income from the Initial Hotel Properties and to pay the required rents under the relevant Lease Agreements, the relevant Lessor may enforce that Lease Agreement and both the Lessor and the Trustee may enforce the relevant Lease Guarantee. Under the Lease Guarantees, Regal is obliged to make up any shortfall in the Lessee's required rental payments under the Lease Agreements and to pay all damages, losses and expenses arising from any failure of the Lessee to perform its obligations under the Lease Agreement. Regal has procured an unconditional and irrevocable guarantee by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee in an aggregate amount of HK$1 billion until June 30, 2011, and for the remaining term of the Lease Agreements, in an amount determined pursuant to the Lease Guarantees which shall be not less than 50% of the Floor Rent (i.e. HK$200 million). However, the effectiveness of these various security features to provide uninterrupted rental payments to Regal REIT is not assured as Regal may not fulfil its obligations under the Lease Guarantees and the bank may not fulfil its obligations under the bank guarantee, and these features may not be sufficient to cover all obligations due to Regal REIT, including when demand is made under the bank guarantee but the amount demanded exceeds the aggregate amount guaranteed. Any adverse development in the financial condition or status of the Regal Group could have a material adverse effect on Regal's ability to fulfill its obligations under the Lease Guarantees.

If the Lease Agreements and the Hotel Management Agreements are terminated early, the owner may have to pay damages to the Hotel Manager and Regal REIT may not be able to enter into new leases and hotel management agreements in the future on similar terms.

The Lease Agreements provide for escalating Base Rents and a guaranteed minimum amount of aggregate Variable Rent for the period from the Listing Date until December 31, 2010. In the event of a default by the Lessee under one Lease Agreement, Regal REIT has the right to terminate all other Lease Agreements, as well as the corresponding Hotel Management Agreements. In addition, Regal REIT may terminate a Lease Agreement if the corresponding Hotel Management Agreement is terminated as a result of default by the Lessee as "Owner" thereunder. The Lessee may also terminate a Lease Agreement where any of the Initial Hotel Properties is damaged to such an extent that the cost of repair and rebuilding or replacement would exceed the Restoration Threshold (as defined in the section headed "Material Agreements — Lease Agreements — Suspension of Rental" in this Offering Circular) or in certain circumstances, in the case of a force majeure event.

If (a) a Hotel Management Agreement is terminated by the Lessor on the ground that it has also terminated the relevant Lease Agreement due to a breach of the Lessee or (b) a Hotel Management Agreement is terminated due to the damage or destruction of the relevant Initial Hotel Property, the Owner shall pay the Hotel Manager, as liquidated damages, a sum equal to the hotel management base fee and the hotel management incentive fee paid for the past three fiscal years or the remaining term of the Hotel Management Agreement, whichever is the shorter (see "Damage/Condemnation" under the section headed "Material Agreements — Hotel Management Agreements" in this Offering Circular).

Upon termination or expiration of a Lease Agreement or a Hotel Management Agreement, subject to market conditions, the REIT Manager may not be able to substitute the Lessee or the Hotel Manager, as applicable, of the relevant Initial Hotel Property in a timely manner, or on terms similar to those under the Lease Agreement or the Hotel Management Agreement, as the case may be. During any period where there is no lessee or hotel manager in place, the REIT Manager will have to directly operate the relevant hotel and Regal REIT will be directly exposed to the operating results of such hotel which would increase the volatility of Regal REIT's operating results and, in turn, affect its ability to make stable distributions to Unitholders.

If the Lease Agreements are no longer in place and the Hotel Management Agreement is not terminated, the Hotel Manager will be entitled to a hotel management base fee of 2% of Gross Revenues (instead of 1%) and a hotel management incentive fee of 5% of the excess of Adjusted GOP over the hotel management base fee and the Fixed Charges (instead of 1%) and the obligation to pay such fees will no longer be subordinated to the replacement lessee's obligation to pay rent to Regal REIT, as more fully described in the section headed "Material Agreements — Hotel Management Agreements" in this Offering Circular. The higher hotel management fees may impact on negotiations with potential lessees, which may have a negative effect on distributions to Unitholders.

DPU may be diluted after the completion of the Asset Enhancement Program when AEP Units become entitled to distributions.

The Asset Enhancement Program is expected to be completed in phases from the third quarter of 2007 until the end of 2008. The Regal Group will not be entitled to receive distributions in respect of AEP Units allotted to it until the corresponding portion of the Asset Enhancement Program is completed. See the section headed "The Initial Hotel Properties — Asset Enhancement Program" in this Offering Circular for target completion dates.

After the completion of the Asset Enhancement Program, assuming completion prior to the applicable Long-Stop Date, the total number of Units entitled to distributions will increase because a certain number of AEP Units will be released from the distribution waiver arrangement upon satisfactory completion and delivery of the relevant portion of the Asset Enhancement Program. AEP Units will also be released from the distribution waiver arrangement and become entitled to receive distributions even if the Asset Enhancement Program cannot be completed by the applicable Long-Stop Date provided Regal REIT receives cash compensation. The AEP Units account for 12.0% and 9.5% of the total number of Units outstanding based on the Minimum Offer Price and the Maximum Offer Price respectively. In the absence of any increase in Total Distributable Income, DPU will be diluted when the AEP Units are released from the distribution waiver arrangement.

For illustrative purposes only, assuming all the AEP Units would be entitled to distributions during the Forecast Period (but total rental income remains unchanged), the annualized distribution yield of Regal REIT would be 6.61% and 5.25% for the Forecast Period based on the Minimum Offer Price and the Maximum Offer Price, respectively.

The Asset Enhancement Program involves construction work and may not be completed on schedule.

Although the Vendor has undertaken to complete, and to procure the completion of, at its own cost, including any cost overruns and land premium payable, the Asset Enhancement Program pursuant to the Sale and Purchase Agreement, the Asset Enhancement Program may not be completed on schedule, due to approvals not being available or for other reasons outside the control of Regal. The Appraised Value of the Asset Enhancement Program, in aggregate, is HK$1 billion and the estimated construction cost of the Asset Enhancement Program, which is to be borne by the Vendor, is HK$320 million. The consideration under the Sale and Purchase Agreement represents the value of the Initial Hotel Properties as if the Asset Enhancement Program has already been completed. The Sale and Purchase Agreement confers various rights on the REIT Manager and the Trustee in the event that the Asset Enhancement Program is not completed in accordance with terms set out therein. These rights include the right to receive liquidated damages and cash compensation. However, in such circumstances, Regal REIT will not have the benefit of the Asset Enhancement Program. Moreover, there is no assurance that any such delay or construction work will not affect the results of operations of the relevant hotel and, in turn, affect the potential amount of Variable Rent and the NAV per Unit. See the section headed “Material Agreements — Sale and Purchase Agreement” in this Offering Circular.

Regal REIT will initially depend on a single brand name.

Each of the Initial Hotel Properties is branded and marketed as a “Regal” hotel. The “Regal” brand name is owned by a member of the Regal Group and as at the Latest Practicable Date, there were only seven “Regal” hotels — five in Hong Kong and two in Shanghai. Any degradation or adverse market developments relating to the “Regal” brand name or any negative publicity affecting one or more “Regal” hotels or the Regal Group in general could adversely affect the results of operations of the Initial Hotel Properties and may also affect Regal REIT indirectly since Regal REIT’s name itself includes the “Regal” name. This may be the case for a variety of reasons, including concerns based simply upon Regal REIT’s close association with the Regal Group. Any future financial challenges experienced by the Regal Group may in some circumstances result in negative perceptions of Regal REIT, which could have a material adverse effect on Regal REIT’s financial condition, operating results and, in turn, its ability to make distributions to Unitholders.

Regal REIT will depend on the Regal Group to settle payments under the AEP Contracts on behalf of the Property Companies and to procure that project managers, consultants and other professional advisers discharge their duties under the AEP Contracts.

The Property Companies have entered into, or will enter into, the AEP Contracts on behalf of Regal REIT. Therefore, the Property Companies are liable to pay the contractors for all sums due under the AEP Contracts. The Regal Group has undertaken to indemnify the Property Companies from and against all costs, losses and liabilities arising from the AEP Contracts, to settle all payments on behalf of the Property Companies when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the AEP Contracts. Any failure by the Regal Group to fulfill these obligations may have a material adverse effect on Regal REIT's financial condition, operating results and, in turn, its ability to make distributions to Unitholders.

The REIT Manager and Regal REIT are each newly established entities with no established operating histories for investors to rely on in making an investment decision.

The REIT Manager was incorporated on February 20, 2006 and Regal REIT was established on December 11, 2006. Accordingly, neither the REIT Manager nor Regal REIT has an operating history by which its past performance may be judged and you may find it difficult to evaluate their respective future prospects. In particular, the REIT Manager has no previous experience of managing a REIT. Therefore, there can be no assurance that the REIT Manager will be able to successfully operate Regal REIT as a REIT or as a publicly-listed entity, and there can be no assurance that Regal REIT will be able to generate sufficient revenue from operations to make distributions in line with those set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular. The historical financial information and operating statistics included in this Offering Circular in relation to the Predecessor Operations should not be used as a basis for evaluating Regal REIT's results of operations in the future. See the section headed "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations" in this Offering Circular.

Regal, as the single largest Unitholder of Regal REIT upon Completion, will have significant influence on Regal REIT.

Upon completion of the Global Offering, the Regal Group will own (including AEP Units) approximately 72.0% (or approximately 67.8% if the Over-allotment Option is exercised in full) of the Units. The Regal Group has indicated that it intends to hold its ownership interest in Regal REIT as a long term investment. In addition, until December 31, 2010, all of the REIT Manager's fees in respect of the Initial Hotel Properties will be paid in Units, which will further increase the ownership interest of the Regal Group in Regal REIT. Regal will therefore be in a position to determine the outcome of Regal REIT's corporate actions requiring Unitholders' approvals but Regal will be required to abstain from voting if it has a material interest in the outcome of the vote and that interest is different from that of other Unitholders under the REIT Code and/or the Trust Deed. See the section headed "Structure and Management — Corporate Governance — Matters to be Decided by Unitholders by Special Resolution" in this Offering Circular. Under such circumstances, there can be no assurance that the interests of Regal will not conflict with those of Regal REIT.

Conflicts of interests between Regal REIT and the Regal Group may arise.

Regal and its subsidiaries and associates are engaged in and/or may engage in, among other things, investment in, and the development and management of, hotel properties in Hong Kong or elsewhere. Therefore, there may be circumstances in which Regal REIT will compete directly with Regal and/or its subsidiaries/associates for acquisitions involving parties other than the Regal Group, as well as for guests.

The three non-executive Directors of the REIT Manager are also directors of Regal and/or its affiliated companies and, as a result, they may have a conflict of interest with regard to their involvement in the business, policies and other affairs of both Regal REIT and Regal and/or its relevant affiliated companies. Connected party transactions must be approved by the Independent Non-executive Directors or a committee thereof, and with prior approval of Unitholders in certain circumstances including when such a transaction has a value of 5% or more of the latest net asset value of Regal REIT as disclosed in its most recent audited accounts. The REIT Manager must demonstrate to the Audit Committee that any connected party transactions satisfy certain prescribed procedures and criteria. The independent non-executive directors, independent auditors and independent property valuers will also be involved in future rent review procedures and other decisions related to the Lease Agreements and Hotel Management Agreements. Unitholders' approvals for certain connected party transactions and decisions under the various agreements, including the Lease Agreements and Hotel Management Agreements, are also required whereby Regal will be required to abstain from voting if it has a material interest in the outcome of the vote and that interest is different from that of other Unitholders under the REIT Code and/or the Trust Deed (see the sections headed "Structure and Management — REIT Manager — Independence of Directors", "Structure and Management — Corporate Governance — Conflicts of Interest", "Structure and Management — Connected Party Transactions" in this Offering Circular). However, conflicts of interests between Regal REIT and the Regal Group may nevertheless arise.

The REIT Manager's ability to effectively monitor the obligations of the Hotel Manager under the Hotel Management Agreements and to actively manage the Initial Hotel Properties is limited.

The REIT Manager intends to achieve long-term growth of both distributions and NAV per Unit partly through active asset management of Regal REIT's hotel portfolio. While the REIT Manager believes that the Lease Agreements and the Hotel Management Agreements contain suitable provisions to ensure that the Initial Hotel Properties will be adequately maintained and that the Lessee and the Hotel Manager are incentivized to increase Collective NPI and to enhance the quality and value of the Initial Hotel Properties, the REIT Manager's ability to actively manage the Initial Hotel Properties is limited by the provisions of the Lease Agreements and the Hotel Management Agreements. Under the terms of the Lease Agreements, the Lessee will manage and operate (or procure the Hotel Manager to manage and operate) the Initial Hotel Properties and under the Hotel Management Agreements, the Hotel Manager will have full control and discretion in the management, operation and promotion of the Initial Hotel Properties, subject to certain matters requiring the approval of the Lessee, the Lessors or Holding SPV. During the term of the Lease Agreements, although the REIT Manager will monitor the performance by the Lessee and the Hotel Manager of their obligations under the relevant agreements and cooperate with the Lessee and the Hotel Manager to develop and implement plans to improve the performance of the Initial Hotel Properties, the REIT Manager has no direct contractual rights against the Hotel Manager and hence cannot enforce the provisions of the Hotel Management Agreements, or seek damages under the Hotel Management Agreements in the event of any breach occurring thereunder.

The REIT Manager's ability to successfully implement its external growth strategy may be limited.

The REIT Manager intends to pursue a strategy of selective acquisitions of additional hotels in Hong Kong and, if suitable opportunities arise and any necessary regulatory approvals are obtained, in other cities in Greater China. While the market for the sale and purchase of hotel properties in Hong Kong has historically not been particularly active or liquid, the REIT Manager believes that the presence of Regal REIT in the market, and the development of other REITs, will create an environment which may improve liquidity in this area. However, the REIT Manager's ability to pursue this external growth strategy successfully will depend to a large extent on its ability to identify suitable acquisition targets that meet its investment criteria, to obtain financing on favorable terms and, with respect to any opportunities in the PRC, will be subject to applicable regulatory approvals and Unitholder approval.

Under the REIT Code, Regal REIT will be required to distribute at least 90% of its audited annual net income after tax to Unitholders and its aggregate borrowings shall not at any time exceed 45% of the total gross asset value of Regal REIT. Regal REIT will therefore need to rely primarily on external funding, either by issuing additional Units or by increasing its borrowings, to fund any future acquisitions. There can, however, be no assurance that the REIT Manager would be able to incur additional debt or issue new Units in amounts sufficient to finance any acquisition opportunities when strategic opportunities arise, or on terms that could be expected to lead to enhanced returns to its existing Unitholders.

Any future acquisitions of additional hotel properties will also expose Regal REIT to the risks and uncertainties associated with investing in real estate generally and hotel properties in particular. See the section headed "Risks Relating to Investing in Hotels and Real Estate" below. Because these and other risks and uncertainties are beyond the REIT Manager's control, distributions and the NAV per Unit may fail to increase or may even decline as a result of any future acquisitions, and any failure by the REIT Manager to implement its external growth strategy successfully could have a material adverse effect on Regal REIT's financial condition and its ability to make distributions to Unitholders.

The operations of the Regal Hongkong Hotel are dependent on the RHK Supporting Premises which are leased by Cityability Limited from a third party.

Certain essential mechanical, electrical and kitchen facilities of the Regal Hongkong Hotel, as well as its business center and some function rooms, are located in the RHK Supporting Premises in an adjoining building owned by an independent third party, Treasure Spot Investments Limited. The RHK Supporting Premises are currently leased by Cityability Limited (the owner of that hotel) and made available to the Hotel Manager for the operation of Regal Hongkong Hotel. Upon Completion, Cityability Limited will be acquired by Regal REIT and Regal Hongkong Hotel will be let by Cityability Limited to the Lessee under the relevant Lease Agreement. Cityability Limited will continue to lease the RHK Supporting Premises pursuant to the RHK Supporting Premises Tenancy Agreement which expires in 2010 (or 2022, if the renewal option is exercised).

The operations of Regal Hongkong Hotel are therefore dependent on the continuation of the RHK Supporting Premises Tenancy Agreement to enable the Hotel Manager to operate Regal Hongkong Hotel consistent with past practices. If the equipment and facilities situated on those premises were required to be re-located for any reason, including the expiration or termination or non-renewal of the RHK Supporting Premises Tenancy Agreement, the business, operations and the value of the Regal Hongkong Hotel (and the ability of the Lessee to make the contracted lease payments to Regal REIT pursuant to the relevant Lease Agreement) may be adversely affected.

The RHK Supporting Premises Tenancy Agreement permits Cityability Limited to, without the prior consent of the landlord, (i) sublet or assign the relevant premises to either a wholly-owned subsidiary of Regal or a member of a group of companies who are engaged in the business of operating and/or managing hotels professionally for the sole purpose of providing support and facilities to the Regal Hongkong Hotel (provided that such sublease or assignment shall be of the whole and not part of the relevant premises and the rental payable by such assignee/sub-tenant shall not be less than the rent payable by Cityability Limited under the RHK Supporting Premises Tenancy Agreement) and (ii) assign and transfer the benefit of the RHK Supporting Premises Tenancy Agreement to any purchaser of the Regal Hongkong Hotel. If Regal REIT decided to sell or lease Regal Hongkong Hotel to a third party, the terms and conditions of any such sale or lease would have to take into account the restrictions contained in the RHK Supporting Premises Tenancy Agreement, which could impact the terms or price of such transaction.

See the sections headed “Other Information — Information Regarding Title to the Initial Hotel Properties” and “Material Agreements — Sale and Purchase Agreement” in this Offering Circular.

Certain Initial Hotel Properties are subject to risks of non-renewal of expiring Government Leases.

The land on which four of the Initial Hotel Properties are situated is held under Government Leases, as more fully described in the section headed “Other Information — Information Regarding Title to the Initial Hotel Properties” in this Offering Circular. Upon their expiry, there is no guarantee that the Government will extend or renew the lease terms at all or on favorable terms. Whereas Regal Hongkong Hotel is held under a long term lease expiring in 2883 and Regal Kowloon Hotel is held under a Government Lease expiring on December 27, 2051 (with an option to renew for a further 75 years), Regal Oriental Hotel and Regal Riverside Hotel are both situated on land held under Government Leases expiring on June 30, 2047. There is no right of renewal under such Government Leases (except in respect of Regal Kowloon Hotel) and renewal will therefore be subject to the laws of Hong Kong and the policies of the Government at that time. Under current policies, such leases are commonly renewed, subject to payment of government rent and additional land premium, but there is no certainty that the current policies will be maintained.

Regal Airport Hotel is dependent on the sub-lease granted by the Airport Authority and is subject to risks of non-renewal of the sub-lease.

Regal Airport Hotel is held under a sub-leasehold interest granted by the Airport Authority Hong Kong under a sub-lease which expires on December 30, 2028. There is no right of renewal under the sub-lease, and therefore no assurance that the Airport Authority Hong Kong will extend or renew its terms at all or on favorable terms. Any extension or renewal would likely be subject to payment of additional land premium. Furthermore, the Airport Authority Hong Kong has the right to re-enter the property and terminate the sub-lease at any time if there is a breach by the relevant lessee of certain terms of the sub-lease. As the remaining term of the sub-lease with the Airport Authority Hong Kong is less than 22 years, the value of the Regal Airport Hotel on the books of Regal REIT may decrease over time, with no residual value on the expiration date of the sub-lease.

Under the terms of the sub-lease, the prior consent of the Airport Authority Hong Kong is required to (a) any assignment, transfer, subletting, mortgage or granting of rights over any part of the Regal Airport Hotel and (b) any delegation of operation and management of Regal Airport Hotel to any third party. Accordingly, any disposal of Regal Airport Hotel will require the prior consent of the Airport Authority Hong Kong under the sub-lease. In addition, the consent of the Airport Authority Hong Kong must also be obtained in respect of each tenancy of commercial space at Regal Airport Hotel.

No assurance can be given in any of the above cases that consents will be given in respect of Regal Airport Hotel, but the Airport Authority Hong Kong is required not to unreasonably withhold its consent.

Regal REIT depends on certain key personnel, and the loss of any key personnel may adversely affect its business, financial condition and the level of distributions.

Regal REIT's success depends, in part, upon the continued service and performance of certain key senior personnel including the REIT Manager's chief executive officer, Mr. Kai Ringenson, investment and investor relations manager, Ms. Phyllis Kan and asset management manager, Mr. Thomas Wan. These persons may leave the employment of the REIT Manager in the future, and may thereafter compete with it and Regal REIT. The loss of the services of any of these individuals could have a material adverse effect on Regal REIT's business, financial condition and the level of distributions to Unitholders.

The amount that Regal REIT may borrow is limited.

Regal REIT's borrowings are limited by the REIT Code to no more than 45% of its total gross asset value. As at the Listing Date, Regal REIT is expected to have aggregate borrowings of HK$4.35 billion, or 27.4% of its total gross asset value (based on the Minimum Offer Price and the information in the section headed "Financial Information and Profit Forecast — Unaudited Pro Forma Balance Sheet" in this Offering Circular). There can be no assurance that Regal REIT's borrowings will not at any time exceed 45% of its gross asset value as a result of a decrease in the market value of its properties, whether following any valuation of its assets or otherwise. From time to time, Regal REIT may need to incur new borrowing but may be unable to do so due to the 45% borrowing limit. Regal REIT may also face difficulties in securing financing in a timely manner and on favorable commercial terms. In addition, the use of leverage may increase the exposure of Regal REIT to adverse economic factors such as rising interest rates and economic downturns.

Regal REIT will depend on external financing and its ability to pay distributions may be adversely affected by current or future loan agreements.

Regal REIT will be subject to risks normally associated with debt financing. Regal REIT's level of debt and the limitations imposed on it by its current or future loan agreements could have significant adverse consequences, including, but not limited to, the following: (a) its cash flows may be insufficient to meet its required principal and interest payments; (b) payments of principal and interest on borrowings may leave Regal REIT with insufficient cash resources to operate its properties or pay distributions to Unitholders necessary to maintain its qualification as a REIT; (c) it may be unable to borrow additional funds as needed or on favorable terms; (d) it may be unable to refinance its indebtedness at maturity or the refinancing terms may be less favorable than the terms of the original indebtedness; (e) increases in interest rates could materially increase its finance costs; (f) it may be subject to certain restrictive covenants, which may limit or otherwise adversely affect Regal REIT's operations, such as its ability to incur additional indebtedness, acquire properties, make certain other investments, make capital expenditures, or make distributions to Unitholders; and (g) it may also be subject to certain affirmative covenants, which may require it to set aside funds for maintenance or repayment of security deposits.

Further, the terms of Regal REIT's loan agreements may require Regal REIT to maintain certain financial ratios. Regal REIT's ability to meet these financial ratios may be affected by events beyond its control, such as a downward revaluation of assets, and the REIT Manager cannot guarantee that Regal REIT will always be able to meet these ratios.

Failure by Regal REIT to meet any payment obligation or to comply with any affirmative covenant or any financial ratio or violation of any restrictive covenant would, after expiration of any applicable cure period, constitute an event of default. Regal REIT's default under any one of its loan agreements may also result in a cross-default under its other loan agreements.

If an event of default under the Financing Agreement occurs, the lenders will be entitled to accelerate payment of all or any part of the indebtedness owing under the Financing Agreement and to enforce all or any of the security held by the lenders for such indebtedness. The Financing Agreement also prohibits the Property Companies, the Finance Companies, the Holding Companies and Holding SPV from paying dividends or making other distributions to Regal REIT if any event of default or potential event of default has occurred (and is continuing) under the Financing Agreement. In addition, Regal REIT is prohibited from paying dividends or making other distributions to its Unitholders if any event of default has occurred (and is continuing) under the Financing Agreement.

The Initial Hotel Properties will be mortgaged on the Listing Date to secure repayment of the indebtedness of the Finance Companies, the Holding Companies, the Property Companies and Holding SPV under the Financing Agreement. If an event of default occurs, the Initial Hotel Properties could be foreclosed and sold by the lenders. Furthermore, the Financing Agreement and the security documents contain negative covenants limiting, among other things, the Property Companies' ability to sell, lease or otherwise dispose of all or any part of the Initial Hotel Properties, other than as permitted under the Financing Agreement (see section entitled "Material Agreements — Financing Agreement" below) or to create any further mortgage, charge or pledge over all or any part of the Initial Hotel Properties, without the prior written consent of the facility agent (acting on the instructions of the majority lenders) such consent not to be unreasonably withheld.

These negative covenants with respect to the Initial Hotel Properties could, for example, prevent the REIT Manager from selling or leasing the Initial Hotel Properties in the manner it desires, which could in turn affect the level of distributions to Unitholders. The procedures required for releasing a mortgage may take an extended period of time, which may result in delays or otherwise adversely affect its ability to obtain new debt arrangements on attractive terms or to dispose of the Initial Hotel Properties.

If any one of these events were to occur, Regal REIT's financial condition, cash flow, cash available for distributions to Unitholders, per Unit trading price, and its ability to satisfy its debt service obligations could be materially adversely affected.

Upon the expiration of interest rate hedging agreements, Regal REIT will be exposed to interest rate fluctuations on any outstanding amounts under the Facility.

Each term loan facility and revolving credit facility will bear interest at a variable rate. In order to hedge against the floating interest rate of the term loans, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates at an average rate of 4.54% until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012. Upon the expiration of the interest rate hedging agreements, Regal REIT will be more exposed to interest rate fluctuations on any outstanding amounts under the Facility which may adversely affect the level of Total Distributable Income and, accordingly, the level of distributions that may be made to Unitholders.

Regal REIT is exposed to the risk that its counterparties of the interest rate hedging agreements will not perform its obligations under such interest rate hedging agreements.

Regal REIT, through the Finance Companies, is exposed to the risk that the counterparties of the interest rate hedging agreements will not perform their respective obligations to Regal REIT due to bankruptcy, lack of liquidity, operational failure or other reasons. Any such event of default, or the occurrence of any other event of default under such agreements (including an event amounting to a material adverse change that seriously prejudices or otherwise adversely affects the Finance Companies ability to discharge their obligations under the agreements) would result in a termination of the agreement with termination payments owed from one party to the other. In addition, the agreements may not be effective in reducing Regal REIT's exposure to interest rate changes or a court could rule that such agreements are not legally enforceable which may adversely affect the level of Total Distributable Income and, accordingly, the level of distributions that may be made to Unitholders.

RISKS RELATING TO INVESTING IN HOTELS AND REAL ESTATE

Regal REIT is not fully insulated from the risks associated with the hotel industry despite the structure of the Lease Agreements.

Regal REIT has leased the Initial Hotel Properties to the Lessee pursuant to the Lease Agreements which will provide Regal REIT with Base Rents and Variable Rents. However, the profitability of the Initial Hotel Properties and the general economic outlook for the hotel industry in Hong Kong will affect (i) the ability of the Lessee to pay the Base Rents; (ii) the Variable Rent that Regal REIT can expect to receive; (iii) the property values of the Initial Hotel Properties and therefore the NAV per Unit; (iv) the rent Regal REIT will be able to obtain for the Initial Hotel Properties under the Lease Agreements following the annual rent reviews; (v) the ability of Regal REIT to enter into new lease agreements or renew the Lease Agreements on favorable terms following the termination or expiration of the Lease Agreements; and (vi) the REIT Manager's ability to successfully pursue its long-term internal and external growth strategies.

The hotel industry is susceptible to cyclicality and other factors outside the control of Regal REIT and the Hotel Manager.

The hotel business is cyclical and sensitive to changes in the global, regional or local economy generally. Since demand for hotel services in Hong Kong is affected by economic growth, a global, regional or local recession could lead to a downturn and any such downturn may affect hotel business, in particular, High Tariff B hotels in Hong Kong, and the Initial Hotel Properties rated High Tariff B. Other adverse factors outside the control of Regal REIT and the Hotel Manager could include political unrest, natural disasters, changes in law and other events (such as a slowdown in the number of mainland Chinese visitor arrivals to Hong Kong pursuant to the PRC's Individual Visit Scheme (IVS)) which may impact negatively on the tourism industry and hotel business, including hotel bookings and food and beverage business at hotels in Hong Kong. The occurrence of one or more of these events may have an adverse effect on the operating performance of Regal REIT's hotel properties (including the Initial Hotel Properties), the Lessee and Regal REIT.

Any recurrence of the outbreak of SARS or an escalation or outbreak of avian influenza or any other health epidemic or pandemic could adversely affect the operations of the Initial Hotel Properties and any future hotel properties owned by Regal REIT and the financial condition and results of operations of the Lessee and Regal REIT.

The outbreak of SARS in early 2003 had an adverse effect on a range of businesses in Asia and, in particular, on the hotel industry. The outbreak of SARS led to a significant decline in travel volumes, hotel occupancy rate and room rates throughout most of the Asian region, including Hong Kong and China, and had a material and adverse effect on the results of operations of the Initial Hotel Properties for the first half of 2003 as occupancy rates fell to historic lows. For the year ended December 31, 2003, the combined occupancy rate for the Initial Hotel Properties decreased to 60.1% as compared with 74.6% in 2002, though the average room rate managed to record a 2.1% increase from HK$533.6 to HK$545.0 during the same period. During May and June 2003, the occupancy rate for the Initial Hotel Properties declined to less than 25%.

Avian influenza or "bird flu" is considered to be a particular public health concern not only in Asia, but increasingly worldwide. If avian influenza infections escalate, or if the virus transforms into one capable of human-to-human transmission or an outbreak occurs in Hong Kong, the effects on regional economies and, in particular, on the leisure and tourism industries in Hong Kong, could be similar to or worse than those experienced in 2003 as a result of the outbreak of SARS.

Any recurrence of the outbreak of SARS or an escalation or outbreak of avian influenza or any other health epidemic or pandemic could adversely affect the operations of the Initial Hotel Properties and any future hotel properties owned by Regal REIT and the financial condition and results of operations of the Lessee and Regal REIT.

The hotel industry is highly competitive.

The hotel industry is highly competitive and ongoing completion of new hotels or renovations of competing hotel properties can reduce the competitiveness of older or existing properties. The success of a hotel (including any of the Initial Hotel Properties) in its market will largely depend on its ability to compete in areas such as room rates, quality of accommodation, brand recognition, service level, convenience of location and the quality and scope of lobby areas and other amenities, including food and beverage facilities. Competition is most intense in the immediate vicinity of a hotel's location where many hotels endeavor to offer similar prices, standards of service and hotel facilities. To a limited extent, hotels may also compete with providers of serviced apartments.

Since Hong Kong is a relatively small and concentrated market, many hotels endeavor to offer similar prices and standards of service, as well as hotel facilities in their respective locations. Some competitors may have substantially greater marketing resources than the Hotel Manager and substantially greater financial resources than Regal REIT. More competitors, including other established hotel operators and some new hotel chains have started to enter or re-enter the Hong Kong or Macau hotel market. A number of Hong Kong property developers have also commenced converting their industrial sites to the construction of hotels.

There can be no assurance that new or existing competitors will not significantly lower rates or offer greater convenience, services or amenities or develop, significantly expand, or improve, facilities in a market in which the Initial Hotel Properties or other hotel properties owned by Regal REIT operate or in close proximity to their location. There may also be competition when new hotels are opened in the vicinity of the Initial Hotel Properties, such as the Hong Kong SkyCity Marriott Hotel in the case of Regal Airport Hotel. An inability to compete effectively could adversely affect the performance of the Initial Hotel Properties and the Lessee, the value of the Initial Hotel Properties and the financial condition of Regal REIT.

Hotel operation costs and expense may not decrease even if occupancy rate declines.

A significant part of the costs incurred in operating a hotel is fixed and generally does not depend on occupancy rates. A hotel is open 24 hours a day, seven days a week and incurs costs that will not vary significantly with high or low occupancy rates over a week, month or season. Operating a hotel therefore involves a significant amount of fixed costs which limits the ability of the operator to respond to adverse market conditions by minimizing costs and such limitations may impact on profitability when the hotel market is weak.

The illiquidity of real estate investments and the lack of alternative uses of hotel properties could significantly limit the ability of Regal REIT to sell its properties in a timely manner.

Because real estate investments have traditionally been relatively illiquid, Regal REIT's ability to promptly sell any of its hotels or to vary its investment portfolio in response to changing economic, financial and investment conditions may be limited. The market for acquiring/disposing of hotel properties has traditionally not been very active or liquid in Hong Kong and is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond Regal REIT's control.

In addition, hotel properties may not readily be converted to alternative uses if they were to become unprofitable due to competition, age, decreased demand or other factors. The conversion of a hotel to alternative uses would also generally require substantial capital expenditures. Such factors, together with the fact that hotel management agreements usually continue following a sale of a hotel property, may limit the number of possible purchasers, thus affecting the ability of Regal REIT to dispose of any of its hotel properties when required or considered desirable to do so. While the REIT Manager believes that the presence of Regal REIT in the market and the establishment of other REITs has the potential to create an opportunity to improve liquidity and encourage more active trading of real estate (including hotel properties) in the future, there can be no assurance that such developments will occur as envisaged or at all.

Regal REIT is exposed to certain uninsured risks.

Regal REIT intends to maintain insurance policies, or procure that insurance policies are maintained by others, in line with hotel industry practice and with policy specifications and insured limits which Regal REIT believes are adequate. Risks to be insured against include fire, business interruption, lightning, flooding, theft, vandalism, rental loss, and public liability claims. There are, however, certain types of losses (such as from wars, acts of God, the outbreak of SARS, or any losses as a result therefrom) for which Regal REIT cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, Regal REIT could lose capital invested in the relevant property, as well as anticipated future revenue and, in the case of debt or other financial obligations that are with recourse to Regal REIT, Regal REIT may remain liable for financial obligations related to the property. Any such loss could adversely affect the financial condition of Regal REIT and its ability to make distributions to Unitholders.

Regal REIT's insurance policies and terms of coverage will need to be renewed and negotiated in the future. The REIT Manager will regularly monitor the state of the insurance market, but it cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. Any material increase in insurance rates or decrease in available coverage in the future could adversely affect Regal REIT's business, financial condition and its ability to make distributions to Unitholders.

The Appraised Value of each Initial Hotel Property is based on various assumptions, and the price at which Regal REIT is able to sell the Initial Hotel Properties may be different from the Appraised Value or the initial acquisition price of the Initial Hotel Properties.

The valuation of each of the Initial Hotel Properties prepared by the Independent Property Valuer is contained in Appendix IV to this Offering Circular. The Independent Property Valuer used principally the discounted cash flow approach, counter checked by the direct comparison approach to derive the value. The valuation was based on certain assumptions, which, by their nature, are subjective and uncertain and may differ materially from actual measures of the market. In addition, property valuations generally, and the valuation conducted by the Independent Property Valuer in particular, include a subjective determination of certain factors relating to each Initial Hotel Property, such as its relative market position, financial and competitive strengths, location, and physical condition. Accordingly, there can be no assurance that the assumptions are accurate measures of the market or that its valuation of each Initial Hotel Property is accurate. Further, the appraised value of a property is not an indication of, and does not guarantee, a sale price at that value at present or in the future. The price at which Regal REIT may sell an Initial Hotel Property or any portion thereof may be lower than the Appraised Value or the initial acquisition price of that Initial Hotel Property.

The due diligence exercise on the Initial Hotel Properties may not have identified all material defects, breaches of laws and regulations and other deficiencies.

In connection with the acquisition of the Initial Hotel Properties, due diligence reviews, surveys and inspections have been conducted by the Building Surveying Consultant, an independent property consultant. A letter from the Building Surveying Consultant in relation to its due diligence survey report is set out in Appendix VI to this Offering Circular. The due diligence process with respect to the physical condition of the Initial Hotel Properties has been limited. There can be no assurance that such reviews, surveys or inspections (or the relevant review, survey or inspection reports on which Regal REIT, the REIT Manager and the Underwriters have relied) would have revealed all defects or deficiencies affecting the Initial Hotel Properties. In particular, there can be no assurance as to the absence of: (i) latent or undiscovered defects or deficiencies; or (ii) inaccuracies or deficiencies in such reviews, surveys or inspection reports, any of which could have a material adverse impact on Regal REIT's business, financial condition and its ability to make distributions to Unitholders.

The Initial Hotel Properties or part thereof may be acquired compulsorily.

The Government has the power to acquire compulsorily any land in Hong Kong pursuant to the provisions of applicable legislation. In the event of any compulsory acquisition of property in Hong Kong, the amount of compensation to be awarded is based on the open market value of a property and is assessed on the basis prescribed under the relevant legislation. If any of the Initial Hotel Properties is acquired compulsorily by the Government, the level of compensation paid to Regal REIT pursuant to this basis of calculation may be less than the price which Regal REIT paid for such Initial Hotel Properties and/or the market value of such Initial Hotel Properties at the relevant time.

RISKS RELATING TO AN INVESTMENT IN THE UNITS

The Units have never been publicly traded and the Global Offering may not result in an active or liquid market for the Units.

Prior to the Global Offering, there has been no public market for the Units and an active public market for the Units may not develop or be sustained after the Global Offering. Although the Units are expected to be listed on the Hong Kong Stock Exchange following the completion of the Global Offering, this does not guarantee that a trading market for the Units will develop or, if a market does develop, the liquidity of that market. The REIT Manager is required under the Trust Deed to use best efforts to ensure that a minimum of 25% (or any other percentage specified or permitted by the SFC from time to time) of the outstanding Units are held in public hands. There can be no assurance as to the percentage of Units which will be held by the public or as to the number of Unitholders in Regal REIT at any time. In addition, as REITs are relatively new investment products in Hong Kong, there are presently no official, and little or no directly comparable, benchmarks against which Regal REIT's performance can be measured.

An investment in the Units presents taxation risk.

Regal REIT, as a collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO, is exempt from Hong Kong profits tax, although the Finance Companies and the Property Companies are subject to taxation in Hong Kong. In addition, although it is understood that, under the Hong Kong Inland Revenue Department's current practice, Hong Kong profits tax will not be payable by a Unitholder on distributions made by Regal REIT, there is no assurance that the Hong Kong Inland Revenue Department will not change its practice. Any change in the tax status of Regal REIT or any of the Finance Companies, Property Companies and Holding Companies or in taxation legislation in Hong Kong generally or any other jurisdiction affecting Unitholders, or the practice of the Hong Kong Inland Revenue Department, could affect the value of the investments held by Regal REIT or affect Regal REIT's ability to achieve its investment objectives or alter after-tax returns to Unitholders. If you have any doubt as to your tax position, you should consult your own tax advisor.

Unitholders will be effectively subordinated to all existing and future claims of creditors of the Finance Companies and the Property Companies.

The claims of creditors of the Finance Companies and the Property Companies will have priority to the assets of such entities over the claims of Regal REIT. The Finance Companies are expected to incur indebtedness under the Facility and the Property Companies may in the future incur unsecured or secured obligations directly. Secured creditors of the Finance Companies and the Property Companies would have prior rights of claim over the pledged assets. To a certain extent, direct creditors of the Finance Companies and the Property Companies would rank ahead of the claims of Regal REIT. In addition, as a condition precedent to the drawdown of the Facility, a subordination deed is required to be entered into between the Finance Companies, the Property Companies, and, among others, the security trustee of the Facility whereby the liabilities of the Finance Companies, the Property Companies and others to Regal REIT will be subordinated to the liabilities of the Finance Company to the secured lenders. See the section headed ''Material Agreements — Financing Agreement'' in this Offering Circular for further details of the Facility and the Financing Agreement.

Unitholders have no right to require the redemption of their Units.

Unitholders have no right to require the redemption of their Units. Accordingly, Unitholders may only be able to liquidate or dispose of their Units through a sale of such Units to third parties in the secondary market.

The price of the Units may decline after the Global Offering.

The Offer Price of the Units will be determined by agreement between Regal, the REIT Manager and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and may not be indicative of the market price for the Units after the completion of the Global Offering. The Units may trade at prices significantly below the Offer Price after the Global Offering and the price of the Units may be volatile.

The price of the Units will depend on many other factors, which may change from time to time, including but not limited to: (i) the perceived prospects of Regal REIT's business and investments and the Hong Kong hotel industry; (ii) differences between Regal REIT's actual financial and operating results and those expected by investors and analysts; (iii) changes in Regal REIT's revenues or earnings estimates or analysts' recommendations or projections; (iv) changes in general economic or market conditions both domestically and internationally; (v) the market value of Regal REIT's assets (it should be noted in this context that, since the Initial Hotel Properties are investment properties, they will be revalued annually based on market value); (vi) changes in market valuations of similar companies; (vii) changes in interest rates; (viii) the perceived attractiveness of the Units against those of other equity securities, including those not relating to the real estate sector; (ix) the future size and liquidity of the market for the Units and the Hong Kong REIT market generally; (x) any future changes to the regulatory system, including the tax system, both generally and specifically in relation to Hong Kong REITs and owners and operators of property; (xi) Regal REIT's ability to implement successfully its investment and growth strategies and to retain its key personnel; (xii) broad market fluctuations, including weakness of the equity market; and (xiii) adverse developments affecting other REITs.

For these and other reasons, Units may trade at prices that are higher or lower than the attributable NAV per Unit. If Regal REIT retains operating cash flows for investment purposes, as working capital reserves or for other purposes, these retained funds, while increasing the value of its underlying assets, may not correspondingly increase the market price of the Units. Any failure on Regal REIT's part to meet market expectations with regard to future earnings and cash distributions may adversely affect the market price for the Units.

In addition, the Units are not principal-protected products and there is no guarantee that Unitholders can regain the amount invested. If Regal REIT is terminated or liquidated, it is possible that investors may lose all or a part of their investment in the Units.

Forward-looking information in this Offering Circular, including the profit forecast, may prove inaccurate.

This Offering Circular contains forward-looking statements regarding, among other things, forecast net profits and distribution levels for the Forecast Period. These forward-looking statements are based on a number of assumptions which are subject to significant uncertainties and contingencies, many of which are outside the control of Regal REIT and the REIT Manager. Regal REIT's actual results may therefore be materially different from the forecast. Although the REIT Manager considers the assumptions to be reasonable, no assurance can be given that the assumptions will be realized.

Distributions to Unitholders will be subject to the availability of cash flow from the companies held by Regal REIT.

The Initial Hotel Properties are held through Holding SPV, the Holding Companies and the Property Companies, and Regal REIT will rely, directly or indirectly, on dividend payments and other distributions from Holding SPV, the Holding Companies, the Property Companies and the Finance Companies for its income and cash flows. In addition, substantially all of the assets of Regal REIT consist of its shareholding in, and shareholder's loan to, Holding SPV. In order to meet its payment obligations and to pay distributions to Unitholders, Regal REIT will rely on the receipt of direct dividends, distributions, interest or intra-group loan repayments from the companies held by it.

There can be no assurance that Holding SPV, the Holding Companies, the Property Companies and the Finance Companies will have sufficient distributable or realized profits or surpluses in any future period to pay dividends, make distributions, pay interest, or make repayments or advances. The ability of these companies to make such payments may be restricted by, among other things, their respective business and financial positions, any operating losses, the availability of distributable profits, changes in accounting standards, applicable laws and regulations which may restrict the payment of dividends, or the terms of agreements to which they are, or may become, a party. The occurrence of such factors would adversely affect the level of distributions paid to Unitholders.

Failure by Regal to fulfill its obligations under the Distributable Income Guarantee Deed may have a material adverse effect on the distributions to Unitholders for the Distribution Periods ending December 31, 2007. Regal's obligations do not amount to a guarantee of the distribution per Unit.

Regal has entered into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which Regal has guaranteed that it shall, in the event that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007), in aggregate, is less than HK$420.3 million, pay to the Trustee an amount which represents the shortfall. See the section headed "Material Agreements — Distributable Income Guarantee Deed". If there is such a shortfall and if Regal fails to fulfill its obligations under the Distributable Income Guarantee Deed, distributions to Unitholders for the Distribution Periods ending December 31, 2007 may be significantly less than the forecast distribution per Unit in the Profit Forecast.

You should also be aware that Regal's obligations under the Distributable Income Guarantee Deed do not amount to a guarantee of the distribution per Unit for the Distribution Period ending December 31, 2007. Accordingly, the impact of the Distributable Income Guarantee Deed on the distribution to Unitholders for the Distribution Period ending December 31, 2007 will be diluted by issues of new Units after the Listing Date as those new Units will reduce the amount of your Distribution Entitlement.

The provisions of the Lease Guarantees, the Distributable Income Guarantee Deed and the Distribution Deed could be declared void.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong, a guarantee or distribution waiver could be declared void if, among other things, the guarantor or promisor, at the time it gives its guarantee or promise, did so with the intent to defraud creditors or was influenced by a desire to put the beneficiary of the guarantee or distribution waiver and top-up payment obligation in a position which, in the event of the guarantor's or the promisor's insolvency, would be better than the position the beneficiary would have been in had the guarantee or distribution waiver not been given. Although the REIT Manager does not have any reason to believe that the guarantee or the distribution waiver will be declared void or unenforceable for any of the foregoing reasons, if a court declares the performance guarantee or distribution waiver and top-up payment obligation to be void, or holds that the guarantee or the distribution waiver is unenforceable for any other reason, Regal REIT would cease to have a claim against Regal and Great Prestige Investments Limited, based upon the guarantee or distribution waiver.

Property yield on real estate held by Regal REIT is not equivalent to yield on the Units.

Generally speaking, property yield depends on the amount of net property income (calculated as the amount of revenue generated by the properties concerned, less the expenses incurred in maintaining, operating, managing and leasing the properties) compared against the current value of the properties. Yield on the Units, however, depends on the distributions payable on the Units as compared with the purchase price of the Units. While there may be some correlation between these two yields, they are not the same and may vary.

The number of Units available for future sale could adversely affect the market price of the Units.

No prediction can be made as to the effect, if any, that the issue of Units in the future, or the availability of Units for future sale, will have on the market price of the Units.

Upon completion, it is expected that the Regal Group will own approximately 72.0% (or approximately 67.8% if the Over-allotment Option is exercised in full) of the Units. Although there are restrictions on the disposal of Units by the Regal Group (including the AEP Units) under the Underwriting Agreements and the Distribution Deed (in respect of the AEP Units) for a lock-up period of six months from the Listing Date (other than the AEP Units in respect of which the lock-up period under the Distribution Deed continues until a certain time after the corresponding portion of the Asset Enhancement Program is completed), there can be no assurance that sales of substantial numbers of Units by other parties will not occur or that the Regal Group (including the REIT Manager) will not dispose of a substantial portion of Units upon the lapse of such restrictions. Sales of substantial numbers of Units by the Regal Group (including by the REIT Manager to generate cash flow) or other parties in the public market following the Global Offering, or the perception that such sales could occur, could adversely affect prevailing market prices for the Units.

The NAV per Unit will be diluted if further issues are priced below the existing NAV per Unit.

The Trust Deed contemplates that new Units may be issued and the issue price for which may be above, at or below the then NAV of Regal REIT. Where new Units are issued at less than the existing NAV per Unit, this will result in dilution on a NAV per Unit basis.

Unitholders' interests will be diluted when all or part of the REIT Manager's fees is paid in Units

Until December 31, 2010, the REIT Manager's Base Fee and Variable Fee referable to the Initial Hotel Properties, and the Base Fee referable to that part of the Deposited Property other than real estate, will be paid in Units, and the REIT Manager has the option to elect for payment of its fees in the form of Units thereafter in respect of all of the Deposited Property. At the time of a payment in the form of Units to the REIT Manager, the trading price of the Units (the basis for valuing the Units that are issued to the REIT Manager) may be below Regal REIT's NAV per Unit, which would result in immediate dilution to Unitholders. See the section headed "Structure and Management — REIT Manager — Fees, Costs and Expenses of the REIT Manager" of this Offering Circular.

Certain laws, rules and regulations affecting companies listed on the Hong Kong Stock Exchange do not apply to Regal REIT or to holdings of Units and only limited information may be available in relation to the interests held by significant holders and other connected persons of Regal REIT.

Unitholders' rights differ from, and may be less protected in certain respects than, those granted to shareholders of companies listed on the Hong Kong Stock Exchange, as more fully described below.

Although the REIT Code contains provisions which are intended to address certain issues under the listing rules of the Hong Kong Stock Exchange, not all listing rules apply to Regal REIT as it is not a "listed issuer" within the meaning of those rules. In accordance with the REIT Code, interests in Units held by connected persons of Regal REIT are required to be disclosed in the annual report of Regal REIT. However, as the SFO does not state that the rules on disclosure of interests set out in Part XV of the SFO apply to Units, and the provisions of the Trust Deed requiring Unitholders to disclose their interests in Regal REIT do not have the force of law, this may render it difficult for the REIT Manager to enforce such provisions.

The Hong Kong Code on Takeovers and Mergers does not apply to units in REITs, which means (among other things) that a person may acquire any number of Units without being required to make a general offer to acquire the Units held by other Unitholders. Accordingly, Unitholders may not benefit from a possible premium price and may not receive equal prices for Units sold by Unitholders holding a substantial interest in Units.

Certain rights in relation to Units in which a person has an interest or is deemed to have an interest may be suspended under the provisions of the Trust Deed.

The disclosure of interests provisions of the SFO also do not apply to units in REITs although the Trust Deed contains corresponding provisions that require relevant persons to disclose to the REIT Manager and the Hong Kong Stock Exchange information in relation to the acquisition or disposal of interests in Units. If the REIT Manager or the Trustee (on behalf of Units held by the REIT Manager) believes a person has not complied with such disclosure of interest provisions in the Trust Deed, irrespective of whether such person is a holder of Units, the REIT Manager or the Trustee (on behalf of Units held by the REIT Manager), may, in its absolute discretion, take certain actions in respect of all or a part of the Units in which such person holds or is deemed to hold an interest. Such actions may include suspending the voting rights of such Units, suspending the payment of distributions on such Units, and suspending the transfer and registration of such Units. Notwithstanding the above suspension of rights, the amount of publicly available information concerning holders of significant numbers of Units may be limited, complete disclosure of the interests of connected persons cannot be assured and it may be possible for such holders and other connected persons to enter into transactions with Regal REIT without being subject to applicable rules involving corporations.

The REIT Manager estimates that the total proceeds to Regal REIT from the Global Offering, combined with the proceeds from the subscription by Regal will be approximately HK$10,494 million (based on the Maximum Offer Price), and approximately HK$8,320 million (based on the Minimum Offer Price).

The net proceeds from the Units issued under the Global Offering, together with the funds drawn down from the Facility, will be wholly used to make payment to the Vendor for the Acquisition and to meet the costs and expenses of the Global Offering and debt related costs. The following table sets forth the sources of Regal REIT's funds following the completion of the Global Offering and the intended application of those funds.

	Based on the Minimum Offer Price	Based on the Maximum Offer Price
	(HK$ million)	
Sources of funds:		
869,289,000 Units issued under Global Offering	2,329.7	2,938.2
2,235,316,748 Units issued to Regal[1]	5,990.6	7,555.4
Initial drawdown from the Facility	4,350.0	4,350.0
Total	12,670.3	14,843.6
Uses of funds:		
The Acquisition	12,500.0	14,658.0
Costs and expenses of the Global Offering and debt related costs[2][3]	170.3	185.6
Total	12,670.3	14,843.6

Notes:

(1) The consideration for 2,235,316,748 Units to be subscribed by Regal will be satisfied by the issuance of a promissory note in the amount of approximately HK$5,990.6 million (based on the Minimum Offer Price) or approximately HK$7,555.4 million (based on the Maximum Offer Price) by the Vendor to Regal REIT, and such promissory note will then be applied by Regal REIT to satisfy part of the consideration payable by the Trustee to the Vendor for the Acquisition. For details, please refer to the sections headed "Material Agreements — Sale and Purchase Agreement" and "Material Agreements — Subscription Agreement".

(2) Costs and expenses related to the Global Offering include underwriting commissions payable to the Underwriters (based on the final Global Offering size), legal fees, printing costs, auditors' fees, listing costs, costs and expenses in connection with the listing of Regal REIT including those in relation to marketing, advertising, roadshows, press conferences, presentation to investors, overseas traveling expenses and fees for public relations, and other advisory fees and administrative expenses. Debt related costs include primarily upfront fees payable in respect of the Facility.

(3) Any underwriting commission and expenses (including, but not limited to, stamp duties, Hong Kong Stock Exchange trading fee and SFC transaction levy) as a result of the exercise of the Over-allotment Option, will be borne by Regal REIT.

Significant Unitholders and other Unitholders

So far as the Directors are aware, except for the Regal Group, no person will, upon completion of the Global Offering, hold an interest in 5% or more of the issued Units of Regal REIT.

The table below details the number and percentage of Units to be held by Regal and other Unitholders upon the completion of the Global Offering and after the exercise of the Over-allotment Option in full:

	Upon completion of the Global Offering		After exercise of the Over-allotment Option in full	
	Number of Units	**% of total Units in issue**	**Number of Units**	**% of total Units in issue**
Regal	2,235,316,748	72.0%	2,104,923,398	67.8%
Public Unitholders	869,289,000	28.0%	999,682,350	32.2%
Total	3,104,605,748	100%	3,104,605,748	100%

Two subsidiaries of Regal, namely Complete Success Investments Limited and Great Prestige Investments Limited, failing whom, Regal, have agreed to subscribe for an aggregate of 2,235,316,748 Units.

The following persons will be deemed to be interested in 2,235,316,748 Units or approximately 72.0% of the issued Units (assuming that the Over-allotment Option is not exercised) upon completion of the Global Offering, through their respective interests in Regal as of the Latest Practicable Date:

(1) Century City International Holdings Limited by reason of its interest in approximately 4,153,067,610 ordinary shares of Regal or approximately 45% of the issued shares of Regal held through Paliburg Holdings Limited, its listed subsidiary;

(2) Paliburg Holdings Limited by reason of its interest in approximately 4,153,067,610 ordinary shares of Regal or approximately 45% of the issued shares of Regal; and

(3) Mr. Lo Yuk Sui, the non-executive Chairman of the Board, by reason of his personal and corporate interests in approximately 4,153,287,610 ordinary shares of Regal or approximately 45% of the issued shares of Regal.

4,153,067,610 of the number of the ordinary shares of Regal in which Mr. Lo Yuk Sui is interested were the same parcel of ordinary shares and form part of the ordinary shares of Regal in which Century City International Holdings Limited and Paliburg Holdings Limited are interested.

The Directors and their associates do not intend to subscribe for any Units in the Global Offering.

The REIT Manager's current policy is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year. Pursuant to the Trust Deed, Regal REIT is in any event required to ensure that the total amount distributed to Unitholders shall be no less than 90% of Regal REIT's Total Distributable Income for each financial year. There is no corresponding requirement for minimum distributions in respect of the first six months of each financial year and therefore the amount of any distribution for the first six months of each financial year is at the discretion of the REIT Manager.

The REIT Code requires the REIT Manager and the Trustee to ensure that each company used to hold real estate and other assets for Regal REIT for the time being shall distribute to Regal REIT all of such company's income for each financial year as permitted by the laws and regulations of its relevant jurisdiction of incorporation.

"Total Distributable Income" is the consolidated audited net profit after tax of Regal REIT and each company directly or indirectly owned by the Trustee on trust for and on behalf of Regal REIT for the relevant financial year adjusted for the Adjustments (as defined below). After adjusting for these Adjustments, Total Distributable Income may be different from the consolidated net profit recorded by Regal REIT for the relevant financial year.

"Adjustments" means (a) significant adjustments which are charged or credited to the income statement for the relevant financial year or the relevant Distribution Period (as the case may be), including: (i) unrealized property revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (ii) impairment loss of goodwill/recognition of negative goodwill; (iii) differences between cash and accounting finance costs; (iv) realized gains on the disposal of properties; (v) deferred tax charges/credits in respect of property valuation movements, fair value changes on financial instruments and commercial building allowances/capital allowances and other tax losses or other deductions claimed; (vi) the portion of the REIT Manager's fee that is paid in the form of Units; (vii) costs of any public offering of Units that are expensed through profit and loss statement but are funded by proceeds from the issuance of such Units; (viii) differences between cash and accounting rental income in respect of the Lease Agreements entered into in relation to the IPO; and (ix) other material non-cash gains/losses; and (b) the deduction of any amount set aside on account of the FF&E Reserve.

The Trustee will determine if any revaluation surplus credited to income or gains on disposal of real estate shall form part of the Total Distributable Income.

The sources of distributions to Unitholders include: (1) net profit after tax generated by each Special Purpose Vehicle which the Special Purpose Vehicle pays to Regal REIT by way of dividend; and (2) distribution of capital which is facilitated by the Special Purpose Vehicles repaying loans to Regal REIT.

The REIT Manager may, at its discretion from time to time, direct the Trustee to make distributions over and above the minimum of 90% (or such other percentage as may be specified by the REIT Code from time to time) of Total Distributable Income if and to the extent Regal REIT, in the opinion of the REIT Manager, has funds surplus to its business requirements.

The REIT Manager's initial distribution policy is that two distributions will be made in respect of each year for the six month periods ending June 30 and December 31 and the Trust Deed requires the REIT Manager to make distributions twice in respect of each financial year ending on or before December 31, 2010. Distributions will be paid within five months of the end of the relevant Distribution Period. The Directors anticipate that such distributions will be paid by the end of May and November in each year. However, Regal REIT's first distribution after the Listing Date, will be paid by the end of November 2007 and will be adjusted, among other things, to reflect the Units to be paid to the REIT Manager for such period. For a further description of certain fees to be paid in the form of Units, see the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular. The indicative distribution is HK$0.0570 per Unit based on the Minimum Offer Price, and HK$0.0555 per Unit based on the Maximum Offer Price for the period from the Listing Date to June 30, 2007.

Investors should note that the Regal Group will not be entitled to distributions in respect of the AEP Units subscribed for by it (representing 12.0% and 9.5% of the total number of Units outstanding, based on the Minimum Offer Price and the Maximum Offer Price, respectively) until a certain time after the corresponding portion of the Asset Enhancement Program has been completed pursuant to the Distribution Deed, as set out below:

	Number of AEP Units[1]		
Initial Hotel Property	**Based on the Minimum Offer Price**	**Based on the Maximum Offer Price**	**First Distribution Period in respect of which such AEP Units will be entitled to distributions, assuming completion of the Asset Enhancement Program on or before target completion date[2]**
	(million)		
Regal Airport Hotel	48.5	38.5	Six months ending June 30, 2008
Regal Hongkong Hotel	104.5	82.8	Six months ending June 30, 2008
Regal Oriental Hotel	48.5	38.5	Six months ending June 30, 2008
Regal Riverside Hotel (first project)[3]	15.9	12.6	Six months ending June 30, 2008
Regal Riverside Hotel (second project)[3]	155.7	123.5	Six months ending June 30, 2009
Total	373.1	295.9	

Notes:

(1) The Independent Property Valuer has determined an Appraised Value for the Asset Enhancement Program in respect of each of the four Initial Hotel Properties. Each Appraised Value shall be divided by the Offer Price and the resulting number of Units will be the number of AEP Units for that Asset Enhancement Program.

(2) If the completion of the Asset Enhancement Program occurs after the target completion date but before the relevant Long-Stop Date, such AEP Units will continue to be ineligible for distributions until a certain period after the completion of the Asset Enhancement Program and if the completion of the Asset Enhancement Program occurs after the relevant Long-Stop Date, such AEP Units will continue to be ineligible for distributions until Regal REIT receives cash compensation from Regal. See the section headed "Material Agreements — Subscription Agreement — Distribution Deed".

(3) The Asset Enhancement Program at Regal Riverside Hotel will involve the conversion of 27 suites into 55 rooms resulting in an additional 28 rooms (the "**first project**") and additional stories comprising 274 additional rooms to be added on top of the existing hotel building (the "**second project**"). The number of AEP Units in respect of Regal Riverside Hotel shall be apportioned between the first project and the second project on the basis of a 9.3% share of such AEP Units for the first project and a 90.7% share of such AEP Units for the second project, based on the additional number of rooms constructed in each project.

After the completion of the Asset Enhancement Program, such AEP Units will increase the total number of Units entitled to distributions (see the section headed "Material Agreements — Subscription Agreement — Distribution Deed"). Therefore, Distribution per Unit may be diluted in the absence of any increase in Total Distributable Income.

Distributions to Unitholders will be declared and paid in Hong Kong dollars. The REIT Manager may also adopt such rules as it considers appropriate for the reinvestment by Unitholders of any distributions to be made by Regal REIT in return for new Units but no Unitholder shall be obliged to receive Units in lieu of a cash distribution. Under current tax laws, distributions may be made free of withholdings or deductions on account of Hong Kong tax. It is understood that, under the Inland Revenue Department's current practice, no tax should be payable in Hong Kong in respect of distributions made by Regal REIT. Unitholders should take advice from their own professional advisers as to their particular tax position.

Regal REIT's ability to make distributions is dependent on (among other things) the Trustee having available sufficient cash in Regal REIT to make the payments required. See the section headed "Key Investment Information and Highlights — Risk Factors — Distributions to Unitholders will be subject to the availability of cash flow from the companies held by Regal REIT" in this Offering Circular.

HOTEL INDUSTRY IN HONG KONG

The Market Consultant was commissioned by the REIT Manager to prepare a report on the hotel property market in Hong Kong. The following is a summary of the Market Consultant's letter in relation to its Hotel Sector Report, the full text and sources of which are set out in Appendix V to this Offering Circular. All views expressed in this summary are the independent views of the Market Consultant. The information has not been independently verified by the REIT Manager, the Trustee, the Joint Global Coordinators or any other person. Much of this information is based on estimates and should therefore be regarded as indicative only and treated with appropriate caution.

Executive Summary

Overview

Hong Kong's economy is open and internationally-oriented and functions as a trading and service center, benefiting from its exposure to overseas markets and its close relationship with mainland China. It was ranked the freest economy among 157 economies in 2007 by The Heritage Foundation[1] and second in the World Competitiveness Scorecard[2] in 2006, compiled by the Swiss based International Institute for Management and Development ("**IMD**").

Hong Kong's economy has more than doubled in size over the past two decades with Gross Domestic Product ("**GDP**") growing at an average annual rate of 5% in real terms. Growth in 2004 was approximately 8.6%, the fastest rise since 2000 and this momentum continued into 2005 which recorded a healthy growth rate of 7.3%. Long term real GDP growth is expected to remain reasonably high, averaging approximately 5.1% per annum between 2006 and 2010[3], compared with 4.3% per annum between 2001 and 2005. This anticipated growth between 2006 and 2010 is expected to be supported by a steady improvement in unemployment rates, rising nominal incomes, strong tourism spending and an upswing in investment.

Tourism is one of the major pillars of the Hong Kong economy. In 2006, a record number of over 25 million international visitor arrivals was recorded and tourism expenditure totaled approximately HK$117.3 billion, and in 2005, tourism expenditure (HK$105.7 billion) contributed 12.5% to GDP. The sector is also a major employer in Hong Kong.

As a result of the significantly increasing mainland Chinese visitor arrivals driven by the PRC's Individual Visit Scheme ("**IVS**"), as well as growth in arrivals from most other major overseas markets (including the traditional long-haul markets), Hong Kong has witnessed a particularly dramatic 63% increase in international visitors since 2003. New tourist attractions such as Disneyland, new commercial facilities such as AsiaWorld-Expo and improvements to Hong Kong's world-class transport infrastructure are all expected to support this growth in the future.

Rising numbers of tourists have resulted in a sharp increase in hotel occupancy rates from 70% in 2003 to 87% in 2006. Average room rates have risen in parallel, from HK$674 in 2003 to HK$1,091 in 2006.

Notes:

(1) 2007 Index of Economic Freedom, The Heritage Foundation

(2) World Competitiveness Yearbook 2006, International Institute for Management and Development

(3) Source: Consensus Economics, October 2006

Even though hotel developers will attempt to keep pace with this unprecedented rise in the numbers of vacationers and business travelers, future demand for hotel rooms is expected to exceed supply.

Given high forecast visitor arrivals numbers to 2010, hotel demand is expected to remain under sustained upward pressure and average hotel room rates are projected to rise by 10% in 2007 and by between 6% and 8% per annum from 2008 to 2010 for the overall Hong Kong hotel market.

The Tourism Industry

Visitor Arrivals

Hong Kong ranked highest in Asia and 6th in the world in terms of travel and tourism competitiveness, according to the first ever Travel & Tourism Competitiveness Index ("**TTCI**") 2007 compiled by the World Economic Forum, covering 124 countries. Out of the 13 factors taken into consideration in determining the ranking of TTCI, Hong Kong ranked highest under 'Policy Rules and Regulations' as well as 'Health and Hygiene', while the city also ranked high in the areas of 'Safety and Security', 'Air Transport Infrastructure', 'Ground Transport Infrastructure' as well as 'Human Capital'. In 2005, the city was ranked second in Asia (after Tokyo) and 10th in the world in terms of Revenue per Available Room ("**RevPAR**[4]). A short flight from most of Asia's major cities, Hong Kong's easy accessibility makes it especially attractive as a tourist destination. Almost one-third of the world's population lives within five hours flying time.

According to the HKTB, visitor arrivals grew by a remarkable 40% in 2004 from SARS impacted 2003, primarily due to a significant increase of mainland Chinese visitors (a 45% year-on-year growth). The number of visitors from elsewhere in Asia grew by 29% over the same period. Growth has also been marked from traditional long-haul markets such as Europe, North America, Australia and New Zealand which grew by 51% from 2003 to 2004. A more moderate 7% increase in total visitor arrivals was recorded from 2004 to 2005 and the compounded annual growth rate of visitor arrivals between 2000 and 2005 was approximately 12% per annum.

Visitor Arrivals, 2000 - 2006

	Visitor Arrivals (Year on Year Change)					
Year	**Mainland Chinese**		**Non-Mainland Chinese**		**Total**	
2000	3,785,845	(+23%)	9,273,632	(+21%)	13,059,477	(+22%)
2001	4,448,583	(+18%)	9,276,749	(0)	13,725,332	(+5%)
2002	6,825,199	(+53%)	9,741,183	(+5%)	16,566,382	(+21%)
2003	8,467,211	(+24%)	7,069,628	(-27%)	15,536,839	(-6%)
2004	12,245,862	(+45%)	9,564,768	(+35%)	21,810,630	(+40%)
2005	12,541,400	(+2%)	10,818,017	(+13%)	23,359,417	(+7%)
2006	13,591,342	(+8%)	11,659,782	(+8%)	25,251,124	(+8%)

Source: HKTB, Savills Research & Consultancy

Notes:

(4) Source: Hotel Benchmark™ Global Performance Review Spring 2006, Deloitte

The strong increase in the number of non-mainland Chinese visitors recorded in 2004 and 2005 partly reflected a strong international economy, but also a recovery in some of Asia's key markets, as well as the popularity of Hong Kong as both a business and leisure destination.

Mainland Chinese visitor arrival growth rebounded strongly in 2006. According to the HKTB, the number of Mainland Chinese visitors in 2006 totaled approximately 13.6 million, up 8% from 2005 when arrivals from this key source market increased by a modest 2%.

The slowdown in 2005 can be attributed to a number of factors. The opening of Hong Kong Disneyland in September may have led some visitors to defer travel plans until the end of 2005 or into 2006. The high base of comparison in 2004 when a 45% increase to 12,245,862 arrivals was recorded also helps explains the modest 2% growth rate. Other factors may include the relatively poor weather experienced by Hong Kong in 2005 as well as growing competition from other destinations.

Hong Kong was the most visited destination in Asia by mainland Chinese in 2004 followed by Macau and the two cities combined absorbed 85% of all mainland tourists visiting Asian locations outside mainland China in that year. In 2004, Hong Kong was also popular among short haul visitors and ranked second most attractive destination for Taiwanese and fourth most attractive for Koreans. For visitors from the US and Canada, Hong Kong was the second most preferred destination after mainland China[5].

Hong Kong's principal appeal as part of the 'Sino-sphere', lies in its cultural and linguistic familiarity to mainland Chinese. For the inexperienced outbound PRC traveler, this provides a high level of comfort. It is also China's most cosmopolitan and prosperous city and as an historical anomaly, attracts considerable interest. Golden Bauhinia Square, the site of the 1997 return of sovereignty over Hong Kong to mainland China, attracts 20% of all mainland Chinese visitors[6]. For other nationalities, Hong Kong offers a wide range of diversions including a well-developed retail sector, a range of fine dining, theme parks such as Disneyland and Ocean Park and a spectacular harbor setting.

Market Segmentation

Purpose of Visit - All Overnight Visitors, 2001 to 2005[7]

Year	Vacation	Visiting Friends / Relatives	Business / Meetings	En Route	Others	Total
2001	4,439,100 (50%)	887,820 (10%)	2,663,460 (30%)	799,038 (9%)	177,564 (1%)	8,966,982
2002	5,023,689 (47%)	1,496,418 (14%)	3,420,384 (32%)	748,209 (7%)	0 (<1%)	10,688,700
2003	4,354,200 (45%)	1,741,680 (18%)	2,999,560 (31%)	580,560 (6%)	96,760 (1%)	9,772,760
2004	6,827,300 (50%)	2,730,920 (20%)	3,413,650 (25%)	682,730 (5%)	136,546 (1%)	13,791,146
2005	7,386,500 (50%)	2,806,889 (19%)	3,545,544 (24%)	738,655 (5%)	147,731 (1%)	14,625,319

Source: HKTB, Savills Research & Consultancy

Notes:

(5) Source: HKTB

(6) Source: Visitor Profile Report — 2005, HKTB

(7) These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB, 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of "others" in 2002 is marked as "less than 0.5%" in the said report and is assumed to be zero as percentages of other categories add up to 100%.

The number of non-mainland Chinese overnight business/meeting travelers, who represented 64% of all overnight business/meeting travelers in 2005, has increased by 14% from 2001 to 2005, while the number of vacation travelers from these countries increased by 17% over the same period. This trend shows that Hong Kong is becoming increasingly attractive to overseas (non-mainland Chinese) businessmen, likely due to its unique role within the Pearl River Delta ("**PRD**") Region as a provider of logistics, management, finance and high-level business services such as law and accounting.

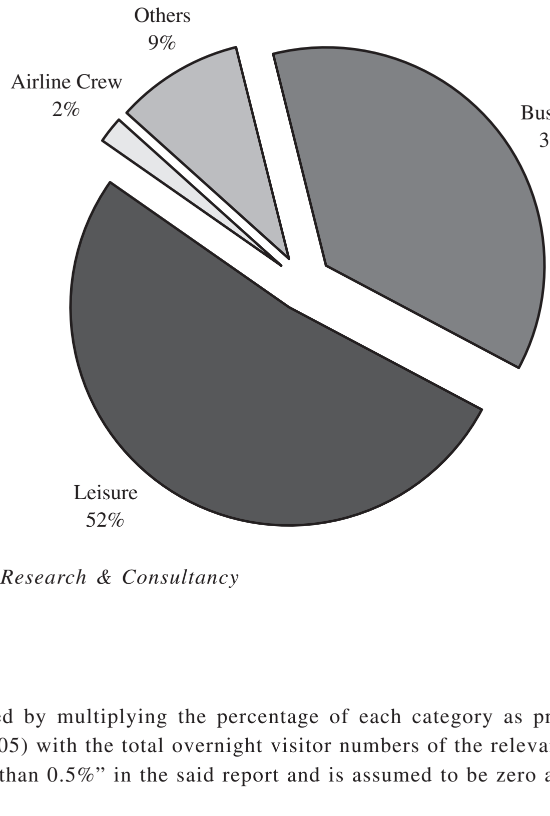
Purpose of Visit - Non-Mainland Chinese Visitors, 2001 to 2005[8]

Year	Vacation	Visiting Friends / Relatives	Business / Meetings	En Route	Others	Total
2001	2,814,173 (48%)	550,571 (9%)	1,988,962 (34%)	431,130 (7%)	146,905 (2%)	5,931,741
2002	3,120,769 (52%)	449,812 (8%)	1,898,048 (32%)	462,771 (8%)	0 (<1%)	5,931,400
2003	1,735,650 (43%)	375,480 (9%)	1,519,510 (38%)	295,935 (7%)	96,760 (3%)	4,023,335
2004	2,852,411 (48%)	548,628 (9%)	2,166,626 (36%)	370,974 (6%)	58,607 (1%)	5,997,246
2005	3,291,403 (50%)	478,276 (7%)	2,260,792 (34%)	497,764 (8%)	67,434 (1%)	6,595,669

Source: HKTB, Savills Research & Consultancy

According to HKTB, in 2005, business travelers[9] accounted for approximately 37% of guests received by all hotels, while leisure travelers[10] represented approximately 52% of the market. Airline crew[11], meanwhile, shared approximately 2% of the market.

Business Mix of All Hotels, 2005



Source: HKTB, Savills Research & Consultancy

Notes:

(8) These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of "others" in 2002 is marked as "less than 0.5%" in the said report and is assumed to be zero as percentages of other categories add up to 100%.

(9) Including Government Officials, Business Travelers, In-house Meeting and Other M.I.C.E. according to HKTB's classification

(10) Including Individual Tourists and Group Tours

(11) Data start from 2002, grouped under others before

The pattern of market share was broadly stable from 1997 to 2001 but the share of leisure travelers started to increase from 2002, coinciding with the sharp increase of mainland Chinese visitors to Hong Kong in that year (53% year-on-year growth). The dramatic increase of mainland Chinese visitors for vacation and visiting friends/relatives, largely boosted by the IVS, was the key reason behind the increasing market share of leisure travelers.

On the other hand, the total number of high-spending business overnight travelers recorded a healthy increase of 33% from 2001 to 3.5 million in 2005, reflecting Hong Kong's role as a global center for trade, finance, business and communications. In the tourism industry, business travelers are considered to be a high-spending category of visitors. Business travelers tend to be less cost-conscious as their spending during a business trip is often reimbursed by their employers.

Mainland Chinese Visitors Characteristics

The robust growth in mainland Chinese visitors to Hong Kong has made them the single most important source of tourists to Hong Kong and in 2006, they totaled approximately 13.6 million, representing approximately 53.8% of that year's arrivals. Arrivals from the Greater PRD region and China's prosperous east coast cities are particularly prominent as rapid economic growth, rising income levels and more leisure time have encouraged wealthier residents to travel outside of China in greater numbers over recent years. It is noteworthy that the average disposable income of urban residents in China increased by 67% between 2000 and 2005[12]. Forecasts are for a further 28% rise by 2010[13]. Mainland China's middle class population is also growing quickly due to the rapidly rising economy. With the increasing incomes of mainland Chinese, and changing consumer behavior, their demand for outbound travel and quality hotels is expected to increase over time. In 2005, per capita overnight visitor spending on hotel bills by mainland Chinese visitors in Hong Kong increased by 11% year-on-year[14]. Affordability of this key demand group is also expected to improve along with the gradual increase in the value of the RMB.

A series of measures introduced from 2001 onwards to relax restrictions on travel by mainland Chinese to Hong Kong (application procedures as well as currency controls) has made traveling to Hong Kong easier and more convenient for PRC residents, boosting arrivals numbers significantly and increasing hotel room occupancy rates. The IVS introduced in July 2003, which allows travelers from selected mainland cities to visit Hong Kong independently instead of coming in tour groups only, has now been extended to 49 cities in China (including the 5 new cities incorporated into the scheme since January 2007), representing more than 260 million people.

In 2006, approximately 6.6 million mainland Chinese visited Hong Kong via the IVS, an increase of around 1.1 million visitors (+20%) over 2005, though slightly lower than the increase from 2004 to 2005 of 1.24 million visitors (+29%). Nevertheless, the 20% growth was already much higher than the overall Mainland visitors growth over 2006 (+8%), and the 29% growth recorded in 2005 was off a lower base (2.96 million IVS visitors in 2004) and smaller IVS coverage (IVS covered 32 cities with 158 million residents in 2004). As the Hong Kong Government continues in its efforts to include more cities into the IVS, the number of mainland Chinese visitors to Hong Kong is expected to increase.

Notes:

(12) Source: National Bureau of Statistics of China

(13) According to the 11th Five-Year (2006 - 2010) Plan announced in the National People's Congress, urban per capita disposable income in 2010 would be RMB13,390, compared with RMB10,493 in 2005

(14) Source: HKTB, A Statistical Review of Hong Kong Tourism 2005

The M.I.C.E. Market in Hong Kong

Hong Kong has developed into a center for conventions and exhibitions in Asia, and the M.I.C.E. (meetings, incentives, conventions and exhibitions) market is developing rapidly. In 2005, approximately 1.4 million M.I.C.E. visitors came to Hong Kong, an 8% increase from 2004 and a 193% increase when compared with 2001. The proportion of M.I.C.E. visitors to total visitor arrivals also increased from 3.4% in 2001 to 5.8% in 2005. In 2004, each M.I.C.E. visitor intended to spend on average HK$10,000 during his/her stay in Hong Kong, more than double the overall per capita visitor spending (HK$4,478) in the same year[15].

The Trade Development Council has succeeded in organizing a large number of popular and recurrent international/local events, including the Hong Kong International Jewelry Show, Hong Kong Watch and Clock Fair, Hong Kong International Film and TV Market and Hong Kong Book Fair, attracting numerous foreign business visitors. A number of well-known international events have also been held in Hong Kong, such as the Annual Meetings of the World Bank Group and the International Monetary Fund (1997), the Forbes Global CEO Conference (2002), the Business Week Annual CEO Forum (2003), and the latest round of the World Trade Organization Ministerial Conference (2005). The closer collaboration of the Government of the People's Republic of China ("**Central Government**") and the Government of the Hong Kong Special Administrative Region ("**HKSAR**") will attract more international events to Hong Kong, which should help further develop this sector.

The recently completed AsiaWorld-Expo convention center at Hong Kong Airport (at 753,000 sq. ft., Asia's largest), as well as the plan to expand the existing Hong Kong Convention and Exhibition Centre ("**HKCEC**") in Wanchai by 200,000 sq. ft., should further increase Hong Kong's draw as a major M.I.C.E. market in Asia, in turn attracting more business travelers to Hong Kong.

Tourism and Transport Infrastructure

While new attractions including the opening of the Tung Chung Cable Car (Ngong Ping 360) (opened in September 2006) and Hong Kong Wetland Park (opened in May 2006) and the construction of the Tsim Sha Tsui Promenade Beautification Project and the Ocean Park Redevelopment Project are underway, other initiatives aimed at enhancing Hong Kong's appeal to tourists are under study such as the Aberdeen Tourism Project, Hong Kong Disneyland Phase 2, a new cruise terminal and various tourism and recreation proposals on Lantau Island including the development of spa and resort facilities.

Besides local tourism infrastructure proposals, there are also a number of transport projects underway/under planning to further enhance the integration of Hong Kong and southern China, in turn making it easier for southern Chinese residents to visit Hong Kong. In 2005, 64% of mainland Chinese visitors to Hong Kong came from southern Guangdong Province, one of China's wealthiest regions.

Hong Kong International Airport's passenger traffic increased dramatically from 30.4 million persons in 1999 to 44.5 million persons in 2006. A plan to upgrade and expand Hong Kong International Airport should also serve to facilitate more efficient passenger handling, which should be beneficial to the local tourist industry. By 2010, it is anticipated that the airport will be capable of handling 50 million visitors a year[16], securing Hong Kong's position as the PRD's major hub and gateway.

Notes:

(15) Source: Hong Kong Trade Development Council

(16) Source: Hong Kong Airport Authority

The Hotel Sector

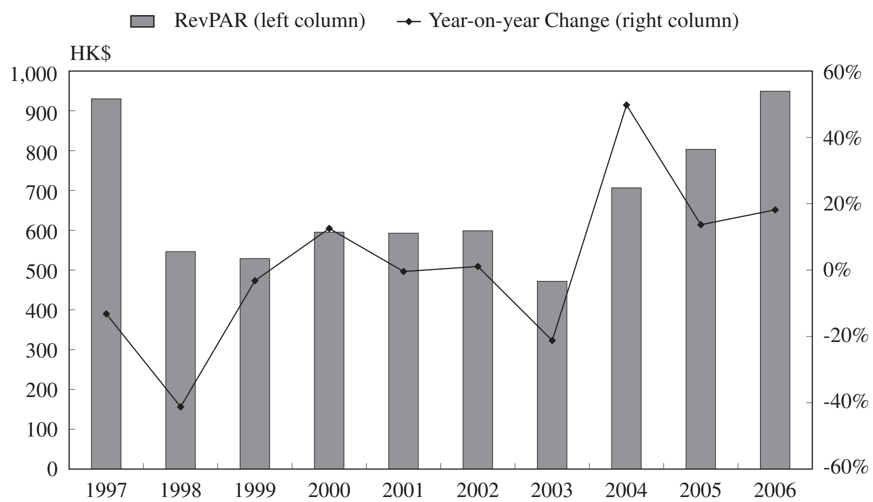
Introduction

At the end of 2006, there were 126 hotels in Hong Kong comprising 47,128 rooms. The HKTB classifies hotels into[17] High Tariff A, High Tariff B, Medium Tariff and unclassified[18]. At the end of 2005, in terms of number of rooms (total number of hotel rooms in 2005 stood at 43,866 rooms), approximately 25% were classed as High Tariff A, 42% were High Tariff B (the largest market share) and Medium Tariff represented 26%.

High Tariff hotels receive more business travelers while the Medium Tariff hotels are more popular among individual tourists and tour groups. Meanwhile, visitors from western countries are generally more willing to stay in High Tariff hotels while mainland Chinese visitors have tended to choose more economic options.

RevPAR fell from 1997 to 1999, due mainly to the Asian Financial Crisis and falling visitor arrivals in 1997 and 1998. As visitor arrivals in 2000 increased by 21% year-on-year while a net increase of only 12% was recorded in the number of hotel rooms, RevPAR increased by 13% that year. RevPAR in 2001 and 2002 was reduced by the effects of terrorist attacks in the U.S. in September 2001 and dropped sharply in 2003 when the economy was hard hit by the outbreak of Severe Acute Respiratory Syndrome ("**SARS**") and the second Iraq war. A marked increase in revenue was recorded for 2004 following the surge in visitor numbers that year. The growth momentum continued and at the end of 2006, RevPAR reached HK$949, the highest level since 1997.

Revenue per Available Room (RevPAR) of All Hotels, 1997 to 2006



Source: HKTB, Savills Research & Consultancy

Notes:

(17) Based on facilities, location, staff to room ratio, achieved room rate and business mix of hotels

(18) In 2006, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK$1,906, HK$831 and HK$537 respectively. Source: HKTB

According to Euromonitor[19], The Hong Kong and Shanghai Hotel Group, Shangri-la Hotels and Resorts, Mandarin Oriental Hotel Group and Regal were the top four companies in terms of market share in 2004[20], and combined to represent approximately 30% of the hotel industry[21]. Regal ranked third among the aforesaid top four key players, with a market share of 7.3% in 2004.

The ranking and market share of Regal from 2001 to 2004 are listed below.

Regal Market Share and Ranking, 2001 to 2004

	2001	2002	2003	2004
Ranking	2*	3	4	3
Market Share	7.3%	6.8%	7.6%	7.3%

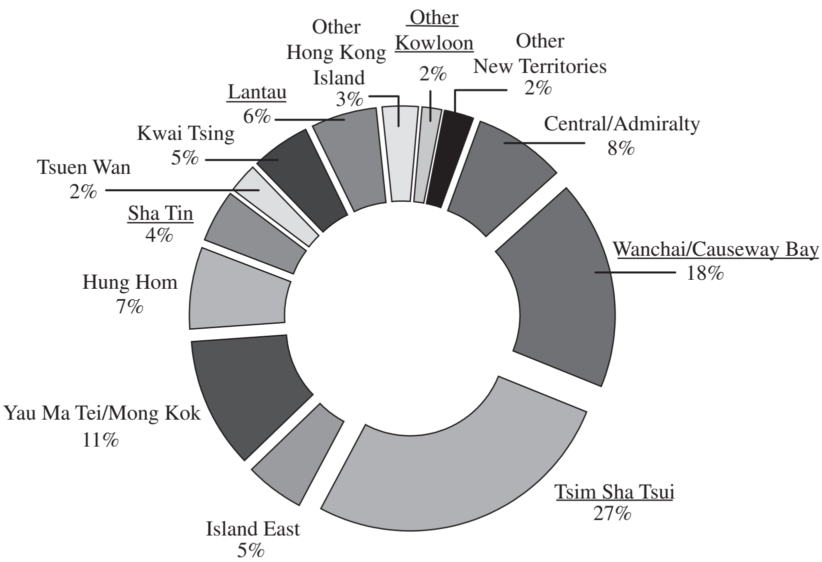
Source: Euromonitor

* Tied with The Hong Kong and Shanghai Hotel Group in second place with 7.3 per cent market share each

Supply of Hotel Rooms

According to HKTB, Tsim Sha Tsui is the most concentrated hotel district in Hong Kong as it has more than 12,500 rooms, or 27% of the total number of rooms available in Hong Kong in 2006. The next most concentrated hotel district is Wanchai/Causeway Bay which comprised approximately 8,400 rooms, or 18% of the total stock of rooms.

Distribution of Hotel Stock



Source: HKTB, Savills Research & Consultancy
Note: Districts where the Regal Hotels located are underlined

Notes:

(19) Travel and Tourism in Hong Kong, China (May 2005), Euromonitor International, Global Market Information Database for Hong Kong Trade Development Council

(20) Note that the Hong Kong and Shanghai Hotel Group sold The Kowloon Hotel in February 2005 which could affect its market share ranking from that year

(21) Based on companies' consumer value sales

Map of Hong Kong

Note: Core Areas in Red
Source: Savills Research & Consultancy

With visitor arrivals hitting new highs, the hotel market, in terms of both number of hotel rooms and revenue generated, has expanded rapidly over the past few years. In 2006, approximately 4,002 new rooms were completed[22], most of them in Kowloon.

According to HKTB, thirty-four new hotels and four extension projects of existing hotels comprising 11,794 rooms are scheduled for completion between 2007 and 2010 taking the total number of hotel rooms in Hong Kong to 58,922 by 2010. Of the 34 new hotels scheduled for completion over the next four years from 2007, construction of 28 has started, involving around 10,238 rooms. Together with the four extension projects under construction representing a further 468 rooms, approximately 91% of forecast new hotel rooms are under construction with a substantial number of rooms expected to be completed by the end of 2007 (net increase of 7,083 rooms in 2007).

Notes:
(22) Excludes three hotels reopened after renovation (881 rooms). Accordingly to the HKTB, 13 hotels with 5,088 hotel rooms were opened in 2006. Savills adjusted the number of new hotel rooms in 2006 to 4,002 rooms as 1) according to the HKTB, 3 hotels (881 rooms) out of the 13 new hotels were existing hotels closed for renovation earlier in 2006 (deducted from hotel stock calculation) and were subsequently reopened in 2006 (added back to hotel stock calculation), and thus should not be counted towards new hotel room supply in 2006; and 2) according to the HKTB, Caritas Oswald Cheung International House (324 rooms) was opened in September 2006 with 119 rooms in operation only, and therefore only 119 rooms (instead of 324 rooms) should be counted towards new hotel room supply in 2006.

Total Number of Hotels/Hotel Rooms, 2000 - 2010E

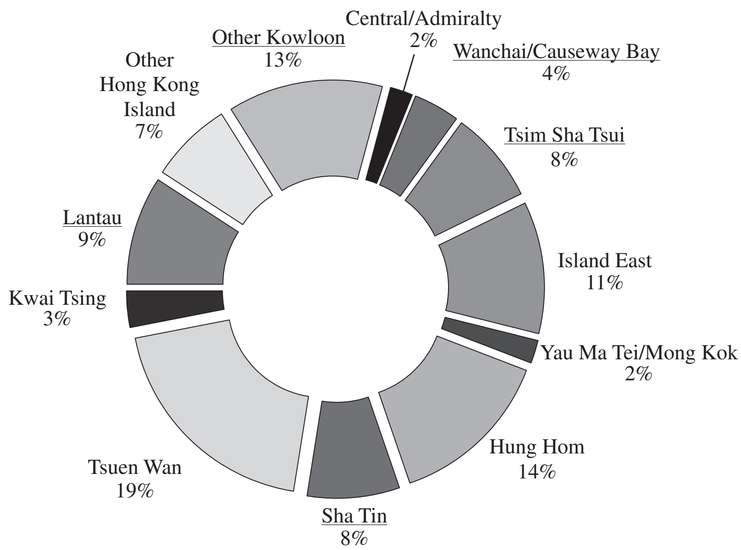
	No. of Hotels	No. of Rooms	YoY Change (%)
2000	95	36,749	+11.8%
2001	98	37,132	+1.0%
2002	98	38,949	+4.9%
2003	96	38,133	-2.1%
2004	101	39,128	+2.6%
2005	118	43,866[23]	+12.1%
2006	126	47,128[24]	+7.4%
2007E	145	54,211	+15.0%
2008E	152	56,348	+3.9%
2009E	159	58,822	+4.4%
2010E	160	58,922	+0.2%

Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

Note: Information sourced from and confirmed by Regal is related to the number of rooms to be completed under the Asset Enhancement Program.

A majority (86% or 10,188 rooms) of the new supply of hotel rooms will be located in non-traditional tourist areas such as Island East, Kwai Tsing, Tsuen Wan and Hunghom and room availability in core areas is therefore expected to remain more restricted.

Supply of New Hotel Rooms by Location, 2007E - 2010E



Source: HKTB, Savills Research & Consultancy

Note: Districts where the Initial Hotel Properties are located are underlined.

Note:

(23) Includes a net decrease of 2 existing rooms

(24) Includes a net increase of 17 existing rooms and the closure of Hyatt Regency Hotel (net decrease of 723 rooms)

The influx of tourists since mid-2003 due to the gradual implementation of the Individual Visit Scheme has induced many developers to utilize the new zoning regulations to transform their industrial properties into hotel developments. From 2003 onwards, a total of 38 projects was approved by the Town Planning Board for change from industrial to hotel use, with a total Gross Floor Area of nearly 10 million sq.ft. gross and approximately 20,500 hotel rooms. Nevertheless, only five of these hotel projects have land premiums (a fee paid to the Government for change of use of the land and which is a pre-requisite for construction to begin) agreed.

In view of the robust recovery of the office market, some developers changed their plans since their original application. For example, Sun Hung Kai Properties will now develop Millennium City VI, 932 Kwun Tong Road and 909 Cheung Sha Wan Road into office buildings. Five approved projects will be changed to office use while three others will be developed into industrial premises.

Demand for Hotel Rooms

Supply of new hotel rooms over the past few years has failed to keep pace with the rapidly rising numbers of visitors, driving occupancy rates up since 1998 with exceptions noted in 2001, the year of terrorist attacks in the U.S., and 2003, the year of SARS.

Average Hotel Occupancy Rates, 2000 - 2006

	All Hotels	High Tariff A	High Tariff B
	Rooms Occupied (Occupancy Rate[25])		
2000	27,466 (83%)	7,894 (82%)	11,476 (84%)
2001	26,580 (79%)	6,923 (74%)	11,618 (81%)
2002	29,003 (84%)	6,844 (80%)	13,105 (86%)
2003	23,126 (70%)	5,307 (67%)	10,457 (72%)
2004	30,109 (88%)	7,506 (84%)	13,484 (89%)
2005	31,348 (86%)	7,915 (84%)	14,575 (86%)
2006	n/a[26] (87%)[27]	n/a[26] (85%)[27]	n/a[26] (88%)[27]

Source: HKTB, Savills Research & Consultancy

The number of rooms occupied in 2005 was 31,348, higher than 2004 (30,109) and higher than 2000 by approximately 14%, reflecting a rise in actual demand for rooms despite a marginal decline of occupancy rate from 88% in 2004 to 86% in 2005.

Notes:

(25) According to the HKTB, occupancy rates are estimated by Total Rooms Occupied divided by Total Rooms Available for Sale per Day. It is noteworthy that Total Rooms Available for Sale per Day is different from total number of rooms shown in the previous table on the previous page. While the total number of rooms captures all rooms comprised in all hotels, Total Rooms Available for Sale per Day excluded rooms closed for renovation and thus not available for sale.

(26) Actual figure is not available at the time of Latest Practicable Date.

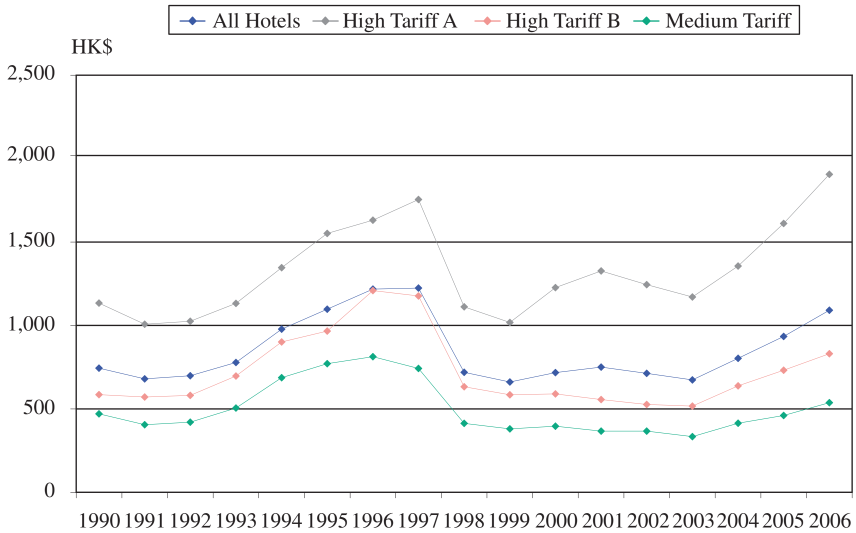
(27) According to the HKTB, the occupancy rate is calculated based on daily rooms occupied against daily rooms available for sale, rooms under repair or being refurnished are excluded. HKTB only releases the daily room occupied figures on an annual basis.

Strong demand for hotel rooms has continued in 2006. The occupancy rate of all hotels in 2006 was 87%, compared with 86% recorded for the same period of 2005. The occupancy rates of High Tariff A and High Tariff B hotels in 2006 reached 85% (compared with 84% in 2005) and 88% (compared with 86% in 2005) respectively.

Average Room Rates

The average hotel room rate (all hotels) rose by 31% from 2002 to 2005 while the average room rate of High Tariff B hotels recorded a higher than average growth rate of 39%. However, average room rates (all hotels) at the end of 2005 were still 24% below the peak levels recorded in 1997.

Average Room Rates by Category, 1990 - 2006



Source: HKTB, Savills Research & Consultancy

Average room rates have continued to rise rapidly in 2006 in view of the strong demand. According to the HKTB, the average room rates of overall, High Tariff A and High Tariff B hotels in 2006 have increased by 17%, 18% and 14% respectively, compared with the same period of 2005.

As a result of the stronger occupancy rate and strong average room rate growth, RevPARs of overall, High Tariff A and High Tariff B hotels in 2006 have risen in parallel by 18%, 20% and 16%, respectively.

Outlook

Planned tourist infrastructure as well as further development of the M.I.C.E. market should attract more vacation and business overnight visitors to Hong Kong. The completion of various transport infrastructure projects providing further linkages between Hong Kong and southern China will also serve to increase mainland Chinese visitor arrivals, while the airport enhancement project should facilitate the more efficient handling of international visitors.

Visitor Arrivals Forecast, 2007 - 2010E

	Total	**Year-on-Year % Change**
2007*	27,800,000	+10.1%
2008*	29,400,000	+5.7%
2009**	32,000,000	+8.8%
2010***	34,800,000	+8.8%

*Source: * Pacific Asia Travel Association (“**PATA**”)[28], ** Interpolation of 2008 and 2010 figures, *** Hong Kong 2030 Study[29]*

The total number of visitor arrivals by 2010, estimated to be 34.8 million, is significantly more when compared with the 2005 figure of approximately 23.4 million. However, comparing the estimated average annual growth rate (“**AAGR**”) between 2007 and 2010 of approximately 8.4% and the historic AAGR between 1997 and 2006 of 9.0%, the forecast does not appear particularly aggressive, especially when factors including the closer integration between Hong Kong and China as well as the imminent opening of various tourist infrastructure are considered.

The steady appreciation of Renminbi is also expected to encourage more mainland Chinese to visit Hong Kong. The average spending by mainland visitors is also expected to rise as goods and services denominated in Hong Kong dollars become relatively cheaper due to expected appreciation of Renminbi. Over 2006 the Renminbi appreciated by approximately 4 per cent against the Hong Kong dollar and on January 11, 2007 stood at slightly above parity for the first time in 13 years.

Notes:

(28) Founded in 1951, the Pacific Asia Travel Association (“**PATA**”) is an authority, advocate and catalyst for the development of Asia Pacific’s travel and tourism industry. It provides leadership and advocacy to the collective efforts of nearly 100 government, state and city tourism bodies, more than 55 airlines and cruise lines, and hundreds of travel industry companies. The methodology of forecasting visitor arrivals adopted by PATA is termed structural integrated time-series econometric analysis (“**SITEA**”) and details of this forecasting is described in its publication Asia Pacific Tourism Forecast, 2005 to 2007.

(29) Hong Kong 2030: Planning Vision and Strategy is a Government initiative known as the HK 2030 Study, in respect of which the report was issued in February 2001 which is intended to provide a long-term planning framework to guide the development of Hong Kong. Autoregressive integrated moving average (“**ARIMA**”) analysis is adopted as the estimation and forecasting approach and details of the methodology is described in Information Note No. 14 — Technical Note on the Assumptions on Visitor Arrivals.

Hotel Room Demand Forecast

According to the HKTB, in 2005, 31,348 rooms were occupied daily, producing approximately 11.4 million paid room nights for the year as a whole. In the same year, the average number of guests per room was 1.43 and the average length of stay of all visitors in that year was 3.66 nights. Based on this data, approximately 4.5 million visitors were estimated to have stayed in hotels in 2005, representing approximately 30% of total overnight visitors.

Hotel Room Demand Forecast, 2003 to 2008E

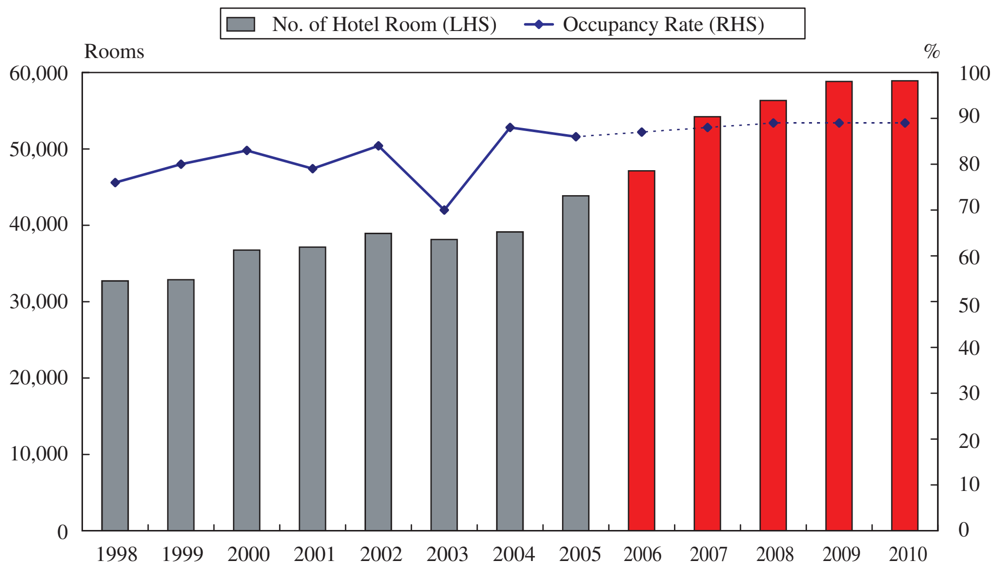
	2003	2004	2005	*2006E*	*2007E*	*2008E*
Hotel Rooms Occupied	23,126	30,109	31,348	*36,727*	*42,694*	*45,152*
Average Length of Stay (Nights)	4.06	3.73	3.66	*3.49*	*3.49*	*3.49*
Average Number of Guests per room	1.31	1.43	1.43	*1.46*	*1.46*	*1.46*

Note: Market Consultant's projected numbers in italics

Source: HKTB, PATA, Savills Research & Consultancy

This analysis can be used to project future demand for hotel rooms by adopting the visitor arrivals forecast by the PATA, which projects visitor arrivals to Hong Kong to reach 29.4 million by 2008, and assumptions on the future ratio of hotel guests to total overnight visitors, average number of guests per room and average lengths of stay.

Number of Hotel Rooms and Occupancy Rates, 1998 to 2010E



Source: HKTB, Savills Research & Consultancy

Occupancy Rate Projections

Summary of Average Occupancy Rate Projections, 2007 to 2010E

Year	All Hotels	High Tariff A	High Tariff B
2007	88%	86%	90%
2008 to 2010	89%	87%	91%

Source: Savills Research & Consultancy

According to the forecasts made by PATA and the Planning Department in "Hong Kong 2030: Planning Vision and Strategy", the total number of visitor arrivals in Hong Kong will reach 29.4 million in 2008 and 34.8 million in 2010 respectively.

It has been assumed that the average number of guests per room and the average length of stay of all visitors from 2006 will be the same as the average figures from 1998 to 2005.

Even though new rooms will be added and room rates are expected to increase, the anticipated significant increase in the number of visitor arrivals is expected to drive up demand for hotel accommodation, resulting in an increase in the average occupancy rate in hotels in Hong Kong as a whole, in both High Tariff A and High Tariff B hotels.

Average Room Rate Forecast

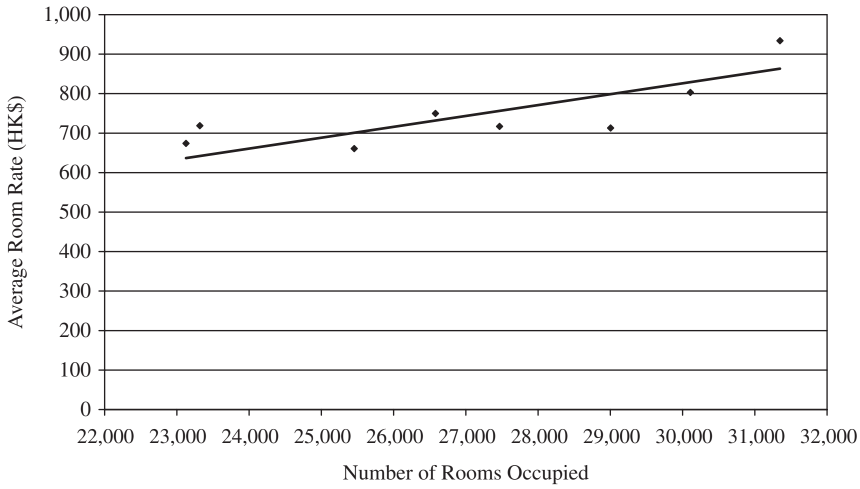
The projected strong demand growth in excess of supply is expected to provide a solid foundation for further room rate rises over the next few years. The expected rise in room rates is supported by the rising number of long-haul market visitors, business travelers and more affluent mainland arrivals.

The movement of average room rates has been highly positively correlated with the number of rooms occupied between 1998 and 2005[30]. Assuming this relationship holds in future, the average room rate is projected to rise by 10% in 2007 and between 6% and 8% per annum between 2008 and 2010. Based on this model, average room rates will reach the previous peak levels in 1997 again by 2008.

Note:

(30) This historic time frame was chosen so as to match the occupancy rate analysis which starts from 1998, due to limited availability of data.

Number of Rooms Occupied vs Average Room Rates, 1998 to 2005



Source: HKTB, Savills Research & Consultancy

Looking at the historic relationship between room rates (All Hotels) and High Tariff hotel rates, the latter have tended to rise more than average in good years[31], especially High Tariff B rates[32]. High Tariff B hotel rates also declined slower than average in bad years[33] over the same period.[34]

Summary of Average Room Rate Projections, 2007 to 2010E

	All Hotels	High Tariff A Hotels	High Tariff B Hotels
2007	+8% − 10%	+8% − 10%	+8% − 12%
2008 - 2010	+6% − 8% per annum	+6% − 8% per annum	+6% − 11% per annum

Source: Savills Research & Consultancy

RevPAR of all hotels is expected to increase by an average annual growth rate of 8% per annum from 2007 to 2010, while RevPAR of High Tariff A and B hotels is projected to increase by rates of 9% and 10% per annum respectively. Since occupancy rates are already at high levels, RevPAR is expected to be largely driven by room rate growth, commensurate with our discussion on hotel industry cycles.

Notes:

(31) Good years mean years when average room rates recorded positive growth over the year before.

(32) Data from 1992 to 2006 showed that the average increment of High Tariff A hotels was 1 percentage point higher than All Hotels during rising years and the average increment of High Tariff B hotels was 3 percentage points higher than All Hotels during rising years.

(33) Bad years mean years when average room rates recorded negative growth over the year before.

(34) Data from 1992 to 2006 showed that the average decline of High Tariff B hotels was 3 percentage points lower than All Hotels during declining years.

RevPAR Growth Rates Summary, 1992 to 2010E

	All Hotels	High Tariff A	High Tariff B
1. 15 years (1992 to 2006) historic average	6% per annum	8% per annum	6% per annum
2. 10 years (1997 to 2006) historic average	2% per annum	4% per annum	-1% per annum
3. 5 years (2002 to 2006) historic average	12% per annum	13% per annum	13% per annum
4. Rising Years Average (1992 — 1996, 2000, 2002, 2004 — 2006)	18% per annum	19% per annum	18% per annum
5. Rising Years Average Except 2004 to moderate the exceptional bounce back effect from SARS	14% per annum	16% per annum	15% per annum
6. Pre 1997 Rising Years Average (1992 — 1996)	16% per annum	14% per annum	20% per annum
7. Post 1997 Rising Years Average (2000, 2002, 2004-6)	19% per annum	23% per annum	17% per annum
8. Declining Years Average (1997 — 1999, 2001, 2003)	-16% per annum	-15% per annum	-19% per annum
9. Projected Average Growth Rates for 2007 to 2010	8% per annum	9% per annum	10% per annum

Source: HKTB, Savills Research & Consultancy

In absolute terms, RevPAR of all hotels is expected to surpass the peak levels recorded in 1996 (HK$1,072) by 2008 and based on the assumptions of 89% occupancy rates in 2009 and 2010, RevPAR of all hotels will be 22% higher than 1996 by 2010. RevPAR of High Tariff A hotels has already returned to levels close to the 1996 peak (HK$1,403) in 2005 and by 2010, is projected to exceed this peak by 62%. RevPAR of High Tariff B hotels, although expected to rise faster, in absolute terms, is expected to return to 1996 peak levels (HK$1,100) by 2010. The higher RevPAR reflects strong forecast growth in the total number of visitor arrivals (197% from 1996 to 2010) ahead of hotel supply (86% from 1996 to 2010).

It is noteworthy that RevPAR could be affected by exogenous factors such as global financial shocks, bird flu, terrorist attacks or similar events which would have a direct impact on Hong Kong's hospitality sector. The probability, timing and impact of such events is very difficult to measure with any certainty.

The above projections are broad industry averages and the performance of individual hotels will deviate from the mean due to specific micro-market factors. Hotels facing less competition within their surrounding areas, offering superior amenities, or in close proximity to improved infrastructure are therefore expected to outperform the market as a whole.

BUSINESS AND STRATEGY

Overview of Regal REIT's Business

Regal REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. The REIT Manager believes the formation of Regal REIT follows a global trend to separate hotel ownership from hotel operation, allowing hotel managers and franchisors to focus on hotel operation and brand extension, and hotel REITs to focus on asset ownership and growth opportunities. Regal REIT is the first hotel REIT in Hong Kong and will focus on hotel ownership and seek hotel managers and franchisors to manage its hotel properties.

Regal REIT's primary objectives will be to provide stable distributions to Unitholders and to achieve long-term capital growth in NAV per Unit. The REIT Manager intends to achieve such objectives by way of (1) internal growth through asset enhancement opportunities and operational improvements, (2) external growth through potential acquisitions that meet the REIT Manager's investment criteria, and (3) financing through an appropriate capital structure.

Upon the completion of the Global Offering, Regal REIT will own the Initial Hotel Properties. The Initial Hotel Properties are strategically located across different districts in Hong Kong, and currently have an aggregate of 3,348 rooms as at the Latest Practicable Date and over 30 food and beverage outlets. They offer a diverse range of accommodation and facilities catering to various market segments. The properties are well maintained and four out of the five hotels have been upgraded as a result of renovations from 2004 to 2006. RevPAR for the Initial Hotel Properties was HK$327.5, HK$521.8, HK$576.1 and HK$639.0 in 2003, 2004, 2005 and 2006, respectively. The occupancy rate for the Initial Hotel Properties was 81.2% and the average room rate was HK$786.9 in 2006.

The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Variable Rents allow Unitholders to share the upside of the Initial Hotel Properties' Net Property Income. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

Pursuant to each Lease Guarantee, Regal has guaranteed the Lessee's obligations to pay rents to the Lessors under the Lease Agreements. Regal has also procured an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a present credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Regal has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement shall remain in place and effective until the end of the term of the Lease Agreements upon the same terms and at an amount equal to the highest of (i) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, (ii) 50% of the annual base rent as determined by such valuer upon rent review and (iii) 50% of the Floor Rent. In addition, Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

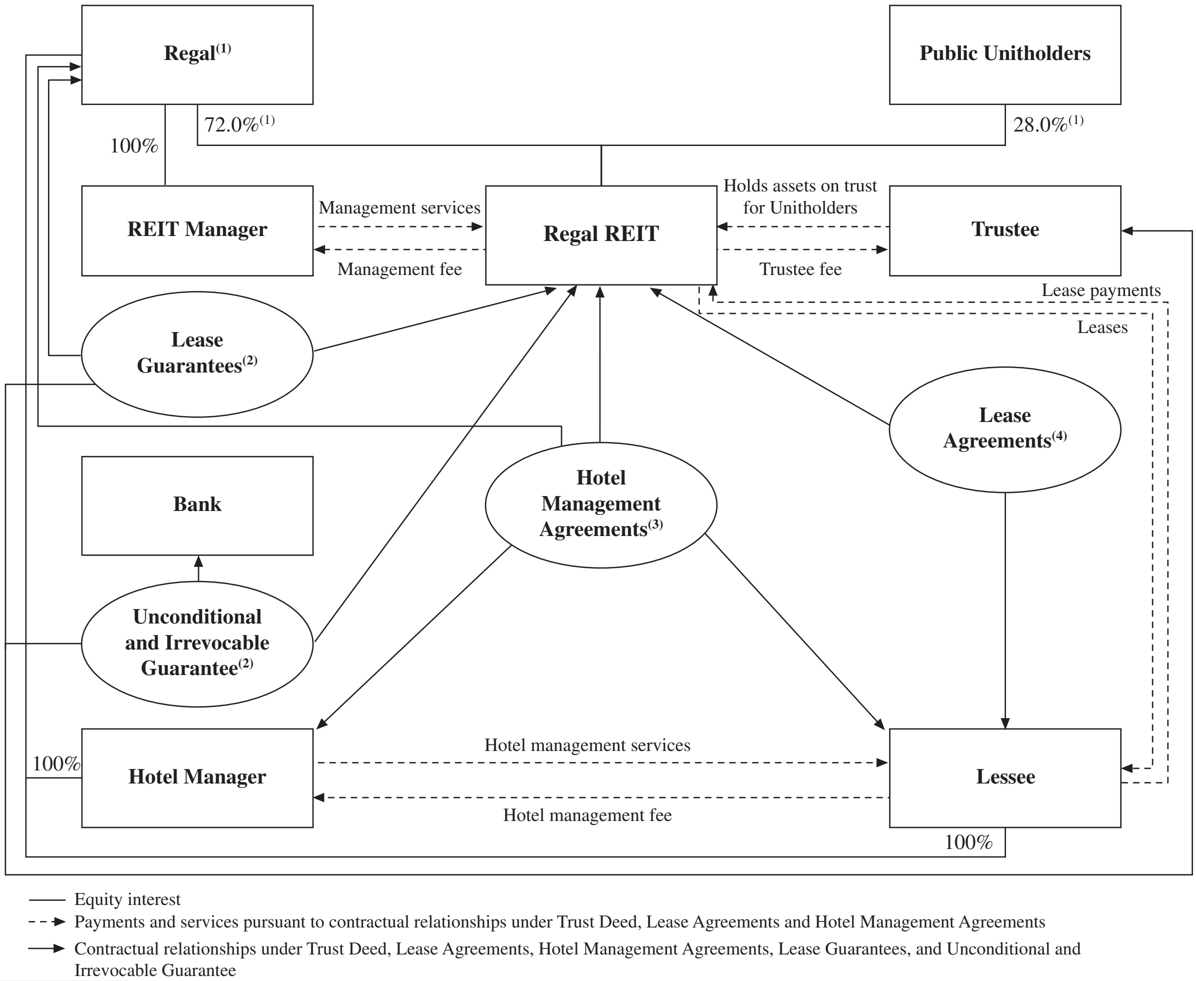
In addition, Regal has itself guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate, which amount shall be subject to downward adjustments as a result of, inter alia, any payment received by Regal REIT under the Distributable Income Guarantee Deed and any liquidated damages for failure to complete the Asset Enhancement Program on time, as described in the section headed "Material Agreements — Lease Agreements" in this Offering Circular.

The Hotel Manager, also a wholly-owned subsidiary of Regal, will manage and operate the Initial Hotel Properties to prescribed operating standards and will be subject to performance tests pursuant to the Hotel Management Agreements, which have a 20-year term. Regal is one of the largest hotel operators in Hong Kong by number of rooms and has more than 20 years of hotel operation experience.

The REIT Manager's policy is to distribute 100% of Regal REIT's Total Distributable Income for each financial year to Unitholders. See the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular for more information.

The Vendor has undertaken to complete the Asset Enhancement Program (as detailed under the section headed "The Initial Hotel Properties — Asset Enhancement Program") at its own and full cost, including any cost overruns and land premium payable, whereby no less than 468 rooms are expected to be added to the Initial Hotel Properties in stages by the end of 2008. Furthermore, the Regal Group will not receive distributions in respect of the AEP Units subscribed for by it and will not dispose of them, until a certain time after the corresponding portion of the Asset Enhancement Program is completed.

The following simplified diagram provides a general overview of the ownership structure of Regal REIT and the primary structural and contractual relationships among Regal REIT, the public Unitholders, the REIT Manager, the Trustee, the Lessee, the Hotel Manager and Regal, upon completion of the Global Offering.



Notes:

(1) Assuming the Over-allotment Option is not exercised. Two subsidiaries of Regal, namely Complete Success Investments Limited and Great Prestige Investments Limited, failing whom, Regal, have agreed to subscribe for an aggregate of 2,235,316,748 Units.

(2) Regal has guaranteed to pay all amounts from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements. In addition, Regal has procured an unconditional and irrevocable guarantee for HK$1 billion until June 30, 2011 to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee. For further details, please refer to the section headed "Material Agreements — Lease Guarantees" in this Offering Circular.

(3) Regal REIT (through Holding SPV and the Lessors) has entered into separate Hotel Management Agreements with the Lessee, the Hotel Manager and Regal. For further details, please refer to the detailed diagram in the section headed "Structure and Management — Structure and Organization of Regal REIT" in this Offering Circular.

(4) Regal REIT (through the Lessors) has entered into separate Lease Agreements with the Lessee. For further details, please refer to the detailed diagram in the section headed "Structure and Management — Structure and Organization of Regal REIT" in this Offering Circular.

Further details of the principal parties and key agreements involved in the ownership and operation of the Initial Hotel Properties are set out below.

The REIT Manager

The REIT Manager is a wholly-owned subsidiary of Regal and was incorporated in Hong Kong on February 20, 2006 for the sole purpose of managing the assets of Regal REIT.

The REIT Manager's responsibilities pursuant to the Trust Deed include the overall management of Regal REIT. In particular, the REIT Manager is responsible for monitoring the performance of the obligations of the Lessee under the Lease Agreements, the Hotel Manager under the Hotel Management Agreements, and the Finance Companies under the Financing Agreement, via a seat on the board of directors of Holding SPV, the Lessors and the Finance Companies, as well as the future formation and operation of relevant Special Purpose Vehicles. The REIT Manager is also responsible for Regal REIT's investment and financing strategies and asset enhancement, acquisition and disposal policies.

The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management. The REIT Manager is independent of the Trustee and possesses the skill and resources to perform and discharge its functions in relation to Regal REIT effectively and responsibly. In discharging such functions, the REIT Manager is required to observe high standards of corporate governance.

As at the Latest Practicable Date, the REIT Manager had a paid-up share capital of HK$9,611,937.

For details of the corporate governance policies and procedures of the REIT Manager, see the sections headed "Structure and Management — REIT Manager" and "Structure and Management — Corporate Governance" in this Offering Circular.

The Trustee

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited. The Trustee is a wholly-owned subsidiary of Deutsche Bank AG and is a company incorporated in Hong Kong and registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code. As at the Latest Practicable Date, the Trustee had a paid-up share capital of HK$10 million.

For details of the Trustee's obligations under the Trust Deed and the REIT Code, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

The Lease Agreements

Regal REIT (through the Lessors, being its subsidiaries and the registered owners of the Initial Hotel Properties) has entered into the Lease Agreements with the Lessee in respect of the Initial Hotel Properties for a term which expires on December 31, 2015.

The Lessee is required under each Lease Agreement to manage and operate each Initial Hotel Property to no less a standard than that of the Initial Hotel Property as generally recognized by the hotel industry as at the Listing Date and as designated from time to time by the Hong Kong Tourism Board to hotels of applicable tariffs. The Lessee may delegate its obligation to operate and manage an Initial Hotel Property to the Hotel Manager under the relevant Hotel Management Agreement. During the term of each Lease Agreement, the Lessee is required to assume all obligations as "Owner" of the hotel under the Hotel Management Agreement and take steps to enforce performance by the Hotel Manager of such obligations.

The Lessee is also obliged to ensure that the relevant Initial Hotel Properties are managed and operated so as to (a) protect their residual value to Regal REIT, and (b) ensure their operation, business and condition will not adversely affect or prejudice Regal REIT's interest under the Lease Agreements nor the ability of the Lessee to pay any part of the rental. Under the Lease Agreements, the Lessee is required to contribute monthly to the 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 and thereafter, as may be determined by a jointly appointed independent professional property valuer upon the annual rent reviews under the Lease Agreements as described below. The Lessee further agrees to supply Regal REIT (through the relevant Lessor) with all necessary information (or procure the Hotel Manager to do so) in relation to the operation of the Initial Hotel Properties for Regal REIT (through the relevant Lessor) to analyze the operating budget which is subject to approval by the Lessee (during the term of the Lease Agreements) under the Hotel Management Agreements. In addition, the Lessee shall provide to the Lessor, on a monthly basis, certain information relating to the Initial Hotel Properties and is obliged to disclose all or any information as the Lessor may consider necessary under applicable laws and regulations and to satisfy public disclosure requirements.

For the years from 2007 to 2010, the Lessee is required to pay an annual aggregate Base Rent of HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007, being HK$475.9 million) and HK$700 million, HK$750 million and HK$780 million for the second, third and fourth fiscal years respectively. In addition, during each of the first to fourth fiscal years, the Lessee shall pay, semi-annually in arrears, a Variable Rent for each such year of a sum which represents 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010, respectively. Only those Lessors ("**Relevant Lessors**") whose Initial Hotel Property generates an NPI in excess of its Base Rent ("**NPI Excess**") shall be entitled to receive Variable Rent for that relevant fiscal year. Each Relevant Lessor shall be entitled to receive a fraction of the aggregate Variable Rent equal to the fraction that its NPI Excess represents of the aggregate NPI Excess of all Relevant Lessors.

A rent review by a jointly appointed independent professional property valuer will take place no later than September 30 of each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (including base rent, variable rent, and the Lessee's contribution to FF&E Reserve) for each of the Initial Hotel Properties for the relevant subsequent year from 2011 to 2015 and the amount of the security deposit ("**Market Rental Package**"). The Lessee is required to pay the higher of the Floor Rent and the monthly base rent comprised within such Market Rental Package, in such manner that the monthly lease income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

Pursuant to each Lease Guarantee, Regal has guaranteed the Lessee's obligations to pay rents to the Lessors under the Lease Agreements. Regal has also procured, at its sole cost and expense, an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a current credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover Regal's payment obligations and that of the Lessee for the period up to June 30, 2011 and has further undertaken that the same or other equivalent arrangement shall remain in place and be effective until the end of the term of the Lease Agreements upon the same terms and at an amount equal to the highest of (i) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, (ii) 50% of the annual base rent as determined by such valuer upon each annual rent review and (iii) 50% of the Floor Rent. Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

In addition, Regal has itself guaranteed that the Variable Rents for the period commencing from the Listing Date to December 31, 2010 will be at least HK$220 million in aggregate which amount shall be subject to downward adjustments as a result of, inter alia, payment received by Regal REIT under the Distributable Income Guarantee Deed and any liquidated damages for failure to complete the Asset Enhancement Program on time as described in the section headed "Material Agreements — Lease Agreements" in this Offering Circular.

Each Lessor has the right to serve a notice of termination on the Lessee to terminate the relevant Lease Agreement:

(i) immediately upon the date of the termination notice where (a) Regal or the Lessee suspends or threaten to suspend its business; (b) there is insolvency of either the Lessee or Regal; (c) there is a failure to maintain and/or top up the unconditional and irrevocable guarantee or there shall be material or persistent breach of the Lease Agreement, and (d) if the Lessee's shareholding (whether direct or indirect) shall change resulting in the Lessee ceasing to be a member of the Regal Group (unless as a result of reorganization of the Regal Group, a member of the Regal Group becomes listed on the Hong Kong Stock Exchange and the Lessee becomes a member of a group controlled by such listed company and Regal retains not less than 30% of such listed company); and

(ii) on a date not earlier than three months after the date of the termination notice where (a) there is a failure to make payment of Base Rent or Variable Rent or other sums payable under the Lease Agreement, and such failure shall continue for a period of fourteen days after written notice has been given by the relevant Lessor; (b) if the Lessee (or the Hotel Manager) fails to operate and manage the relevant Initial Hotel Property in accordance with the required standards under the relevant Hotel Management Agreement and the Lessor forms a reasonable opinion that, in the circumstances, there has been a material adverse change in the business of the relevant Initial Hotel Property; (c) the Lessee (or the Hotel Manager) fails to maintain the required insurances; (d) there are other defaults leading to serving of termination notices under any of the other Lease Agreements in respect of the other Initial Hotel Properties; (e) where the Lessee defaults in its obligations (as "owner") under the relevant Hotel Management Agreement resulting in the termination of such Hotel Management Agreement; and (f) if Regal shall be in breach of the Lease Guarantee.

For more information, see the section headed "Material Agreements — Lease Agreements" in this Offering Circular.

Hotel Management Agreements

Regal REIT (through Holding SPV and the Lessors) has entered into Hotel Management Agreements with the Lessee, the Hotel Manager and Regal in respect of the Initial Hotel Properties for a term of 20 years from the Listing Date, subject to certain early termination events. Under the Hotel Management Agreements, the Hotel Manager, which has over 20 years experience in the hotel management business and is the existing hotel manager of the Initial Hotel Properties, will be appointed as the exclusive operator and manager of each Initial Hotel Property and shall supervise, direct and control the management, operation and promotion of each Initial Hotel Property's business. The Hotel Manager is required to operate each Initial Hotel Property solely under the "Regal" brand and provide all services as properly provided by a hotel of a comparable standard to the Initial Hotel Property and to act in the best interests of Regal REIT with a view to optimizing the profit of the Initial Hotel Property. Substantially all of the Lessee's functions to operate the Initial Hotel Properties will be delegated to the Hotel Manager under the Hotel Management Agreements.

Under each Hotel Management Agreement, if the Hotel Manager (subject to adjustment upon, inter alia, occurrence of a force majeure event) fails to achieve at least 80% of the Gross Operating Profit specified in the approved operating budget for two consecutive fiscal years, the relevant Lessee (in the absence of a lease, the relevant Property Company) and any other non-defaulting party has a right to terminate that Hotel Management Agreement.

Hotel management fees will be paid by the Lessee to the Hotel Manager for the operation of each Initial Hotel Property comprising: (a) a hotel management base fee of an amount equal to 1% of Gross Revenues and an incentive fee of an amount equal to 1% of the excess of the Adjusted GOP over the hotel management base fee and Fixed Charges provided that the relevant Lease Agreement is still in place; or (b) in any other case, 2% of Gross Revenue and 5% of the excess of the Adjusted GOP over the hotel management base fee and Fixed Charges. Under each Hotel Management Agreement, the obligation of the Lessee to pay the hotel management fees to the Hotel Manager is subordinated to the obligation of the Lessee to pay all rent due by it under the relevant Lease Agreement.

The Hotel Management Agreements require that an FF&E Reserve is established in respect of the Initial Hotel Properties to fund the costs of replacing furniture, fixtures and equipment to maintain operating standards. The Hotel Manager may, under an FF&E budget approved by the relevant Lessor and (during the term of the Lease Agreements) the Lessee, and under certain circumstances, also by Holding SPV, withdraw money from the FF&E Reserve to pay for the replacement of FF&E. Under the Lease Agreements, the Lessee is required to contribute monthly to the 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 and thereafter, as may be determined on an annual basis by a jointly appointed independent professional property valuer for each subsequent year.

The Hotel Management Agreements are not automatically cross-defaulted with each other. However, Regal REIT is entitled to terminate a Hotel Management Agreement if notice to terminate the related Lease Agreement is served by the Lessor by reason of default of the Lessee thereunder, subject to liquidated damages as mentioned below being payable to the Hotel Manager in such circumstances. In addition, if for any reason the Hotel Manager ceases to be the hotel manager under a Hotel Management Agreement, the Lessee may, subject to the prior approval of the Lessor (and the approval of the Hong Kong Airport Authority in the case of Regal Airport Hotel), appoint a substitute hotel manager.

The Hotel Manager is required to submit a budget in respect of planned capital expenditure for the Lessor's and (during the term of the Lease Agreement) the Lessee's approval. The final decision as to whether or not to approve the capital budget or any changes thereto shall be made by the Lessor. Once approved, the Hotel Manager shall carry out capital additions in accordance with the approval of the Lessor and the Lessee as to the design, construction standard, and other material aspects of the proposed capital alterations or additions. All costs relating to capital additions required to conform with legal requirements shall be borne solely by the Lessor. All other costs of capital additions shall be borne by the relevant Lessor and/or the Lessee in the manner agreed between them and shall not be drawn from the Hotel Operating Expenses or the FF&E Reserve.

The non-defaulting party may terminate the Hotel Management Agreement by giving 3 months' notice upon (i) failure of the Hotel Manager to operate the Initial Hotel Property in accordance with the prescribed operating standards and the relevant Lessor elects to terminate the relevant Lease Agreement on this ground; and (ii) failure to perform any other covenants which has a material adverse impact on the operation of the Initial Hotel Property or the rights or duties of the parties under the Hotel Management Agreement and not cured within 30 days after a written notice giving particulars of the breach is received by the defaulting party.

The non-defaulting party may terminate a Hotel Management Agreement immediately by serving a written notice of termination upon (i) failure by the Owner or the Hotel Manager to pay sums due for over 30 days; (ii) bankruptcy, insolvency, a petition for reorganization, appointment of a receiver or entering into of a judgment for bankruptcy against either the Owner or the Hotel Manager; (iii) a party to a Hotel Management Agreement ceasing to carry on business; and (iv) any change in the shareholding of the Hotel Manager which would result in the Hotel Manager ceasing to be a member of the Regal Group (unless as a result or reorganization of the Regal Group, a member of the Regal Group becomes listed on the Hong Kong Stock Exchange and the Hotel Manager becomes a member of a group controlled by such listed company and Regal retains not less than 30% of such listed company).

In addition, the Lessor is entitled to terminate the Hotel Management Agreement if notice to terminate the related Lease Agreement is served by the Lessor as a result of default by the Lessee thereunder, subject to liquidated damages being payable to the Hotel Manager in such circumstances. The amount of liquidated damages shall be the hotel management base fee and hotel management incentive fee payable for three fiscal years or the remainder of the operating term, whichever is shorter.

For more information, see the section headed "Material Agreements — Hotel Management Agreements" in this Offering Circular.

Deed of Non-Competition

Regal REIT has entered into a Deed of Non-Competition with Regal relating to the delineation of their respective businesses after completion of the Acquisition. Immediately after the Acquisition, the Regal Group will not own any hotel property in Hong Kong, however, it will continue to hold, develop or potentially acquire hotel properties in Hong Kong and elsewhere in Greater China in the future. The Deed of Non-Competition is intended to address potential business conflicts that may arise between Regal REIT and the Regal Group in their respective businesses after the Acquisition.

Under the Deed of Non-Competition, the Regal Group will grant to Regal REIT, among other things, a right of first refusal to purchase any of the Regal Group's majority interest (or such level of interest as Regal REIT is permitted to acquire from time to time) in any hotel in operation, completed or substantially completed in Greater China that it may wish to dispose of in the future. Regal will also grant to Regal REIT a right of first opportunity to acquire any majority interests in any new hotels in Greater China of which the Regal Group wishes to acquire. In addition, Regal has undertaken to Regal REIT not to operate any hotels under the "Regal" brand name in Hong Kong or within an eight kilometer radius of any Regal REIT hotel in the rest of Greater China for so long as any member of the Regal Group is a hotel manager of any Regal REIT hotel under the "Regal" brand name in Greater China. The Regal Group may, however, operate hotels under other brands in such areas if, to the satisfaction of Regal REIT, there is segregation of hotel management functions and reservation systems between those other hotels and Regal REIT's hotel properties, and the Regal Group has notified Regal REIT prior to entering into a hotel management agreement in connection with the other brand. Regal will be obliged to promote the "Regal" brand name and ensure the standard of "Regal" hotels are maintained.

The Deed of Non-Competition will commence on the Listing Date for a term of at least ten years and thereafter shall remain in full force until the earlier of Units ceasing to be listed on the Hong Kong Stock Exchange and the Regal Group ceasing to beneficially own and control 30% or more of the outstanding Units of Regal REIT.

For more information, see the section headed "Material Agreements — Deed of Non-Competition" in this Offering Circular.

STRATEGY

The REIT Manager's principal objectives will be to deliver stable distributions to Unitholders and to achieve long-term growth in distributions and in the NAV per Unit of Regal REIT. The REIT Manager aims to maintain and grow an investment portfolio of hotel properties in Hong Kong and, when suitable opportunities arise, extend Regal REIT's investment portfolio to include other cities in Greater China, after obtaining necessary regulatory and Unitholders' approvals. The REIT Manager plans to achieve its objectives over time through a combination of the following strategies:

- ***Internal growth strategy:*** The REIT Manager intends to engage in pro-active asset management in order to maintain and improve the quality and value of Regal REIT's hotel properties.

- ***External growth strategy:*** The REIT Manager intends to selectively acquire additional properties that meet its investment criteria.

- ***Financing strategy:*** The REIT Manager intends to employ an appropriate growth oriented capital structure to maximize cash flow while maintaining flexibility in funding any future acquisition.

Internal Growth Strategy

The REIT Manager intends to deliver a stable income for Unitholders and will be actively seeking asset return maximization, primarily through monitoring the Lessee's performance under the Lease Agreements. The REIT Manager also intends to seek asset enhancement opportunities to maximize the Initial Hotel Properties' potential value and to ensure that a sufficient reserve is maintained for FF&E to enhance the asset quality of the Initial Hotel Properties. The REIT Manager believes that actively pursuing asset management strategies will maximize internal growth for Unitholders through achieving increases in Variable Rent under the Lease Agreements.

Monitor and Maximize Hotel Operational Performance. It is in the common interest of the Hotel Manager, the Lessee and the REIT Manager to maximize hotel operational performance. The Hotel Manager will have certain reporting obligations to the REIT Manager, who will monitor the performance of the Hotel Manager in achieving maximum RevPAR while controlling operating expenses to achieve higher Variable Rents payable to Regal REIT. The REIT Manager seeks to ensure that the Hotel Manager leverages the expected increased demand from economic and tourism growth and supply dynamics of the Hong Kong hotel market to improve occupancy rate and average room rates for the Initial Hotel Properties. In the absence of any Lease Agreement, the REIT Manager will directly supervise the Hotel Manager's operational and financial performance.

Seek Asset Enhancement Opportunities. The REIT Manager will identify, evaluate and approve property improvement opportunities that will enhance the value of the Initial Hotel Properties and contribute to the revenue-generating abilities and/or profitability of their operations. Such opportunities may include upgrading and/or converting existing facilities, major renovations to reposition the individual hotel properties, adding food and beverage outlets and implementing other opportunities that meet the REIT Manager's return on investment criteria and enhance the value of Regal REIT's properties (including the Initial Hotel Properties). For example, no less than 468 rooms will be added to four of the Initial Hotel Properties resulting in a 14% increase of the total current available rooms to 3,816 rooms, at the cost of the Vendor under the Asset Enhancement Program expected to amount to approximately HK$320 million (excluding the land premium, payable by the Regal Group, required for Regal Riverside Hotel as a result of the Asset Enhancement Program). The program is expected to be completed in stages from the third quarter of 2007 to the end of 2008. Details of this program are set out in the section headed "The Initial Hotel Properties — Asset Enhancement Program" in this Offering Circular.

External Growth Strategy

The REIT Manager intends to selectively acquire additional hotel properties that meet the REIT Manager's investment criteria. The REIT Manager believes that the introduction of hotel REITs in Asia may improve market liquidity for hotel properties. Potential acquisitions would be evaluated based on the historical operating and financial performance of the relevant hotel property and the expected growth potential.

In evaluating potential acquisition opportunities, the REIT Manager will focus on the following criteria:

- *Yield thresholds.* The REIT Manager will seek to acquire properties with yields that are estimated to be above Regal REIT's cost of capital and which are expected to maintain or enhance returns to Unitholders.

- *Location.* The REIT Manager will assess each property's location and the potential for business growth in its market. Within Hong Kong, the REIT Manager will consider the potential strategic benefits and synergies with Regal REIT's hotel portfolio. For properties outside Hong Kong within Greater China, subject to obtaining necessary regulatory and Unitholders' approvals, the REIT Manager will assess opportunities in cities with a high growth potential in business and leisure travelers.

- *Occupancy rate and average room rate.* The REIT Manager will seek to acquire properties with strong existing, or with growth potential for higher, occupancy rates or average room rates, together with competitive strengths within the respective market.

- *Value-adding opportunities.* The REIT Manager may also seek to acquire properties which are under-managed due to the lack of experience or scale of the operators, and properties in under-maintained condition but with potential for upgrading. The REIT Manager would assess the potential to add value through enhanced hotel management, selective renovation, market repositioning or other enhancements.

- *Leasing terms and hotel management.* The REIT Manager will seek opportunities to structure business arrangements to provide Unitholders with a stable income stream with potential for future profit sharing, including identifying tenants and/or appointing experienced hotel managers capable of delivering operational results that can support stable income for Regal REIT.

Under the Deed of Non-Competition, if Regal or any of its subsidiaries becomes aware of any opportunity to acquire any majority interest (or such level of interest as Regal REIT is permitted to acquire from time to time) of any hotel in operation, completed or substantially completed, in Greater China, it shall, among others, notify the REIT Manager after such acquisition opportunity is identified, direct such opportunity to the REIT Manager, and shall provide, and liaise with the proposed seller to provide to the REIT Manager the information and documents necessary for the REIT Manager to evaluate such opportunity. In addition, if Regal wishes to sell any of its majority interest (or such level of interest as Regal REIT is permitted to acquire from time to time) in any hotel in operation, completed or substantially completed, in Greater China pursuant to an offer or genuine indication of an offer from a third party prospective purchaser, it shall, among others, notify the REIT Manager after receiving such offer, offer or procure an offer to be made to the REIT Manager on the same or better terms than those proposed to Regal, and shall provide to the REIT Manager the information and documents necessary for the REIT Manager to evaluate such offer.

Details of the terms of the Deed of Non-Competition are set out in the section headed "Material Agreements — Deed of Non-Competition" in this Offering Circular.

The REIT Manager will actively seek acquisition opportunities that may arise to enhance yield and cashflow.

The REIT Manager intends to hold its hotel properties on a long-term basis. However, if in the future an attractive offer is received for any hotel property that the REIT Manager considers to be beneficial to Regal REIT given the prevailing market conditions, the REIT Manager may consider selling the relevant hotel property and using the proceeds from such sale to invest in new hotel properties with greater growth potential and/or to reduce gearing subject to obtaining any necessary regulatory and Unitholders' approvals.

The REIT Manager has no current plans for Regal REIT to acquire any properties in the 12-month period after the Listing Date, but may do so if opportunities arise that are in line with its acquisition strategy and that meet its investment criteria.

Financing Strategy

The REIT Manager will operate within the REIT Code with respect to borrowing, whereby Regal REIT's borrowings will not exceed 45% (or such other percentage as may, from time to time, be prescribed in the REIT Code) of the total gross asset value of Regal REIT. The REIT Manager intends to use a combination of debt and equity to fund future acquisitions and property enhancements. As at the Listing Date, Regal REIT is expected to have aggregate borrowings of HK$4.35 billion, or 27.4% of its total gross asset value (based on the Minimum Offer Price and the information in the section headed "Financial Information and Profit Forecast — Unaudited Pro Forma Balance Sheet" in this Offering Circular).

The REIT Manager intends to employ a growth oriented capital structure to maximize cash flow while maintaining flexibility in funding any future acquisition. Regal REIT's excess borrowing capacity will be available to meet future capital requirements relating to the acquisition of additional properties, as well as capital expenditures associated with the enhancement of the Initial Hotel Properties. The REIT Manager will adopt a prudent financial policy to ensure that the leverage ratio will not exceed the threshold percentage under the REIT Code.

The REIT Manager intends to adopt a hedging strategy to manage the risks associated with changes in interest rates relating to its borrowings.

THE INITIAL HOTEL PROPERTIES

INITIAL HOTEL PROPERTIES

Overview of the Initial Hotel Properties

The Initial Hotel Properties consist of five hotels — Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel. All of the Initial Hotel Properties will initially be leased to the Lessee and managed by the Hotel Manager.

The following table sets forth certain information in relation to the Initial Hotel Properties as at the Latest Practicable Date.

Initial Hotel Property	Location	HKTB Rating[(1)]	Opening Year	Number of rooms	Number of Stories	Gross Floor Area (sq. ft.)	Covered Floor Area (sq.ft.)
Regal Airport Hotel	Hong Kong International Airport	High Tariff B	1999	1,104	14 (including one basement floor)	774,445	897,034
Regal Hongkong Hotel	Causeway Bay	High Tariff A	1993	424	37 (including four basement floors)[(2)]	215,736	320,417
Regal Kowloon Hotel	Tsim Sha Tsui	High Tariff A	1982	600	20 (including four basement floors)	341,714	468,355
Regal Oriental Hotel	Kowloon City	High Tariff B	1982	390	17 (including two basement floors)	243,167[(3)]	294,154[(3)]
Regal Riverside Hotel	Shatin	High Tariff B	1986	830	17 (including two basement floors)[(2)]	519,046	662,123
Total				3,348[(4)]		2,094,108	2,642,083

Notes:

(1) The Hong Kong Tourism Board classifies hotels into High Tariff A, High Tariff B, Medium Tariff and unclassified, based on facilities, location, staff-to-room ratio, achieved room rate and business mix of the hotels. In 2006, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK$1,906, HK$831 and HK$537, respectively.

(2) The number of stories of Regal Hongkong Hotel and Regal Riverside Hotel will increase to 39 and 20, respectively, after completion of the Asset Enhancement Program.

(3) This Gross Floor Area and Covered Floor Area include 14,200 sq.ft. of Po Sing Court, of which Gala Hotels Limited owns 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel.

(4) Includes 12 house-use rooms (e.g. rooms for general managers of the hotels).

Competitive Strengths

Competition among hotels in general is based on a number of factors, including convenience of location, brand affiliation, price, range of services and facilities, guest amenities, and quality of customer service. Competition is also specific to the individual markets in which each of the Initial Hotel Properties is located and will include competition from existing and new hotels. Primary competitors of the Initial Hotel Properties include High Tariff A and High Tariff B hotels in the market in which each of the Initial Hotel Properties is located. The hotel sector in Hong Kong remains competitive and the Initial Hotel Properties are subject to competition from other hotels for guests.

The REIT Manager believes that the Initial Hotel Properties as a whole have the following competitive strengths:

- strategically located across Hong Kong, the Initial Hotel Properties offer a diverse range of accommodations, facilities and outlets to cater for different segments of the market;
- well maintained and upgraded as a result of renovation work undertaken and being carried out;
- Regal Airport Hotel, the flagship hotel among the Initial Hotel Properties, enhances the branding of all of the Initial Hotel Properties with its award winning status;
- the Hotel Manager has substantial hotel management experience of over 20 years. The Regal brand name is well recognized in Hong Kong and the Hotel Manager is well connected to sources of demand in Hong Kong, Greater China and internationally; and
- further enhancements are expected from the Asset Enhancement Program which aims to develop under-utilized areas and plot ratios.

Operating Data

The following table sets forth the number of rooms, occupancy rate, average room rate and RevPAR in respect of the Initial Hotel Properties from 2001 to 2006.

	For the year ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Number of rooms[(1)]	3,348	3,348	3,348	3,348	3,348	3,348
Occupancy rate (%)[(2)]	66.5	74.6	60.1	83.9	81.6	81.2
Average room rate (HK$)[(3)]	556.1	533.6	545.0	621.9	706.0	786.9
RevPAR (HK$)[(4)]	369.8	398.1	327.5	521.8	576.1	639.0

Notes:

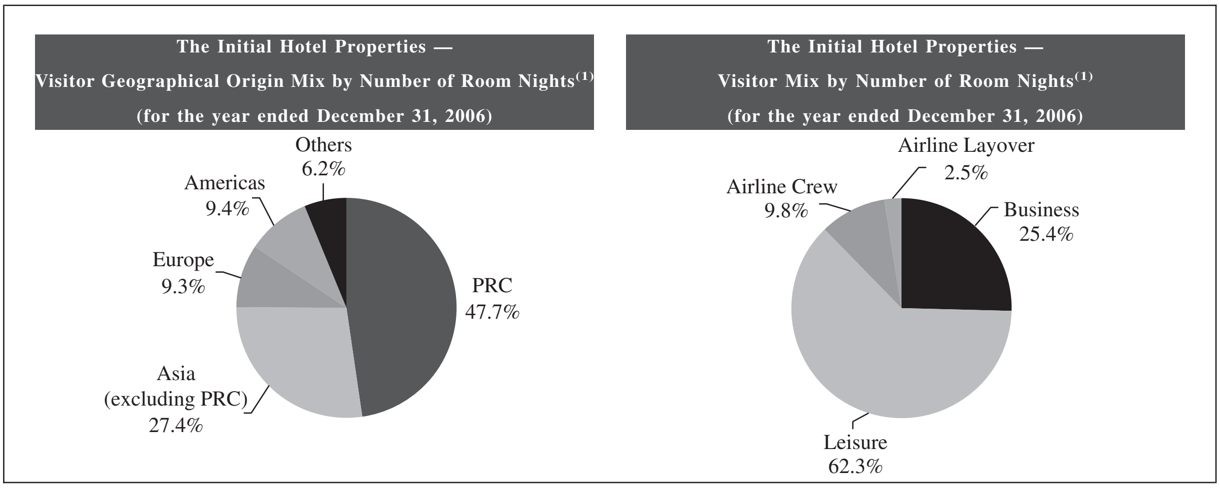
(1) Includes 17, 17, 13, 13, 13 and 12 house-use rooms (e.g. rooms for general managers of the hotels) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006, respectively.

(2) Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(3) Average room rate of the Initial Hotel Properties is defined as the total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(4) RevPAR of the Initial Hotel Properties is defined as the average room rate multiplied by the occupancy rate of the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

As shown in the charts set out below, visitors from Asia (including the PRC) accounted for 75.1% of the total guests at the Initial Hotel Properties by number of room nights in 2006, while leisure travelers and business travelers accounted for approximately 62.3% and 25.4%, respectively, of guests by number of room nights.



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

Valuation

The following table sets forth information relating to the Appraised Value of the Initial Hotel Properties as at December 31, 2006 as determined by the Independent Property Valuer.

Initial Hotel Property	Appraised Value with the Asset Enhancement Program (HK$ million)	Appraised Value without the Asset Enhancement Program (HK$ million)
Regal Airport Hotel	5,290	5,160
Regal Hongkong Hotel	3,220	2,940
Regal Kowloon Hotel	3,310	3,310
Regal Oriental Hotel	1,240	1,110
Regal Riverside Hotel	2,840	2,380
Initial Hotel Properties	15,900	14,900

The Initial Hotel Properties will be purchased at a total discount of 7.8% (based on the Maximum Offer Price) to 21.4% (based on the Minimum Offer Price) to the aggregate Appraised Value of the Initial Hotel Properties (inclusive of the Appraised Value of the Asset Enhancement Program of HK$1 billion) of HK$15.9 billion (as at December 31, 2006) as determined by the Independent Property Valuer. See "Appendix IV — Independent Property Valuer's Valuation Report".

REGAL AIRPORT HOTEL

The Regal Airport Hotel is currently the only airport hotel directly connected to the arrival level of the passenger terminal of the Hong Kong International Airport by an enclosed, air-conditioned walkway.

The Regal Airport Hotel's close proximity to the Hong Kong International Airport makes it attractive to both business and leisure travelers. It is conveniently located for transit passengers en route to and from the PRC and elsewhere. It is also well positioned for business and leisure travelers visiting downtown Hong Kong (which can be reached via the Airport Express Line) or the adjacent AsiaWorld-Expo conference and exhibition center and Hong Kong Skymart or Disneyland, the Big Buddha and Po Lin Monastery and Tai O on Lantau Island. Lantau Island is undergoing ongoing development, with the Ngong Ping 360 Cable Car commencing operations in September 2006 and a nine hole golf course in the Hong Kong International Airport zone expected to commence operation by 2008.

The Hotel Manager considers the Regal Airport Hotel to be the flagship hotel among the Initial Hotel Properties. It has been rated as "The Best Airport Hotel Asia-Pacific" by Business Traveler Asia-Pacific for six consecutive years (2001-2006) and by TTG Asia in 2005 and 2006. The Regal Airport Hotel carries a High Tariff B rating from the Hong Kong Tourism Board and was opened in 1999. In September 2006, the conversion works of a portion of the basement floor into 13 new meeting rooms and renovation works of 21 rooms (with spa facilities) were all completed at a total cost of approximately HK$16 million. It has 1,104 rooms and under the Asset Enhancement Program a further 67 rooms are expected to be added by the third quarter of 2007. The Independent Property Valuer has estimated the value of the Regal Airport Hotel, including the Asset Enhancement Program with a value of HK$130 million, to be HK$5,290 million as at December 31, 2006.

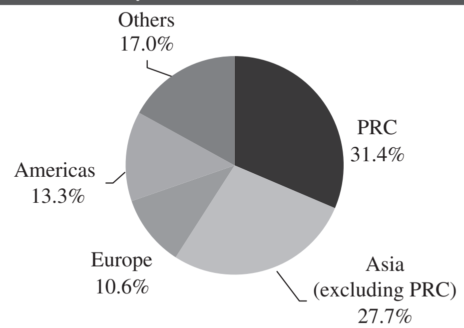
There are a number of meeting spaces, food and beverage outlets and other facilities located at the Regal Airport Hotel, including the following (before completion of the Asset Enhancement Program):

MEETING SPACES	FOOD AND BEVERAGE OUTLETS	OTHER FACILITIES
• One grand ballroom of about 10,333 sq.ft. (being one of the largest pillarless grand hotel ballrooms in Hong Kong), which can be subdivided for holding large scale meetings, conferences, exhibitions and banqueting functions for up to 960 persons • 25 meeting rooms	• Dragon Inn (Chinese) • Rouge (Chinese) • China Coast Bar & Grill (Western) • Airport Izakaya (Japanese) • Cafe Aficionado (coffee shop) • Lobby Lounge	• An outdoor and an indoor swimming pool • A health club with gymnasium, massage and spa facilities • An adjoining public multi-story car park providing over 1,700 car-parking spaces • A business center • Shopping areas

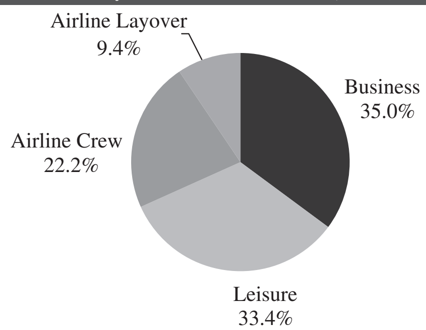
The majority of travelers to the Regal Airport Hotel are leisure and business travelers. Guests of the hotel are primarily from the PRC and other parts of Asia. The Regal Airport Hotel attracts visitors on both local and departure packages and those attending conferences in Hong Kong (such as Pearl River Delta regional meetings and airline training conferences for overseas staff). Airline crew and long-staying guests in relation to various airport projects are also a steady source of business for the Regal Airport Hotel and emergency layovers provide "extra" bulk occupancy at certain periods.

As shown in the charts set out below, visitors from Asia (including the PRC) accounted for 59.1% of the total guests at the Regal Airport Hotel by number of room nights in 2006, while leisure travelers accounted for approximately 33.4% and business travelers accounted for approximately 35.0%, respectively, of guests by number of room nights.

Regal Airport Hotel —
Visitor Geographical Origin Mix by Number of Room Nights(1)
(for the year ended December 31, 2006)



Regal Airport Hotel —
Visitor Mix by Number of Room Nights(1)
(for the year ended December 31, 2006)



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

The Hotel Manager's strategy for the Regal Airport Hotel is to continue to focus on airport related transit and airport related business travelers (including airline crews) and other corporate airport business as its primary markets. It is intended that exhibition/meeting and conference business travelers will constitute the next most important market. Hotel room demand from the Hong Kong International Airport is expected to grow with its continuing expansion. The Hotel Manager also expects the exhibition/meeting and conference markets in Hong Kong to grow as the nearby AsiaWorld-Expo attracts business in the coming years. As the AsiaWorld-Expo, SkyPlaza and other facilities of SkyCity continue to develop into an "aerotropolis"[1], it is also the Hotel Manager's strategy to build up occupancy ahead of room rate optimization to further strengthen brand recognition and customer base, providing better opportunity for yield management when the aerotropolis market matures. As part of the Hotel Manager's strategy, the Asset Enhancement Program is being implemented which is expected to increase the revenue-generating capacity of the hotel.

Note:

(1) The word "aerotropolis" literally means an air city and was coined by Dr. John Kasarda in 2000.

Set out below is a table which sets out occupancy rate and other operating data relating to the Regal Airport Hotel for the periods indicated.

Operating and Occupancy Rate Information:

	For the year ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Number of rooms[(1)]	1,104	1,104	1,104	1,104	1,104	1,104
Occupancy rate (%)[(2)]	54.7	66.8	51.9	73.3	66.0	64.1
Average room rate (HK$)	710.2	648.3	725.6	780.6	925.6	1,027.3
RevPAR (HK$)	388.5	433.1	376.6	572.2	610.9	658.5

Notes:

(1) Includes 3, 3, 3, 3, 3 and 4 house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006, respectively.

(2) The occupancy rate decreased from 66.8% in 2002 to 51.9% in 2003 due to the outbreak of SARS, from 73.3% in 2004 to 66.0% in 2005 and to 64.1% in 2006 primarily as a result of a revenue management strategy of improving the guest mix to include more higher spending travelers.

Competition

Regal Airport Hotel is currently the only hotel directly linked with the Airport Passenger Terminal Building, hence, it faces limited direct competition. Regal Airport Hotel has extensive facilities and services and has been rated as “The Best Airport Hotel Asia-Pacific” by Business Traveler Asia-Pacific for six consecutive years (2001-2006) and by TTG Asia in 2005 and 2006. Regal Airport Hotel will face competition from new hotels in the vicinity of the airport. In August 2006, the Airport Authority Hong Kong announced the construction of a 1000-room second airport hotel — the Hong Kong SkyCity Marriott Hotel. This new hotel will be developed in two phases with the first phase (comprising 658 rooms) targeted for completion in January 2009 and will be operated by Marriott International Inc. It will be located within the SkyCity development, which is a comprehensive development comprising AsiaWorld-Expo, a golf course and the planned terminal close to the planned SkyPier, but it will not be directly linked with the Airport Passenger Terminal Building. Also, a 460-room Novotel Citygate Hong Kong at the MTR Tung Chung Station commenced full operation in April 2006 but the Hotel Manager has informed the REIT Manager that it did not have a significant impact on the business of Regal Airport Hotel in 2006.

For further details regarding competition faced by Regal Airport Hotel, see Appendix V — “Letter from the Market Consultant in Relation to its Hong Kong Hotel Industry Report” to this Offering Circular.

Five Year Transaction History

The sub-lease in relation to Regal Airport Hotel granted by Airport Authority Hong Kong will expire on December 30, 2028. By a supplemental lease entered into by Airport Authority Hong Kong with Bauhinia Hotels Limited, the parties have agreed that the Airport Authority Hong Kong shall have the right to construct and operate certain bedrooms (not exceeding 1,700 square meters in area) within the main passenger terminal building of the Hong Kong International Airport for housing inbound passengers who arrive from outside Hong Kong and do not pass through arrival immigration controls and subsequently depart from Hong Kong. For further details regarding this sub-lease and supplemental lease, see “Other Information — Information Regarding Title to the Initial Hotel Properties — Certain Matters Relating to Title to the Initial Hotel Properties — Regal Airport Hotel”. In the five years prior to the date of land registry searches conducted on March 2, 2007, there were no sale and purchase transactions in respect of any change of legal ownership, registered in the land registry, of this Initial Hotel Property, and (save as otherwise disclosed in this Offering Circular) the REIT Manager is not aware of any transactions involving a direct or indirect sale and purchase of this Initial Hotel Property during such period.

REGAL HONGKONG HOTEL

The Regal Hongkong Hotel is located in Causeway Bay, one of Hong Kong Island's main commercial and shopping districts.

The Regal Hongkong Hotel is also close to Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course. The Regal Hongkong Hotel attracts both leisure and business travelers due to its convenient location. In particular, it has established business relationships with a number of multinational companies which form a substantial base of its high-yield business.

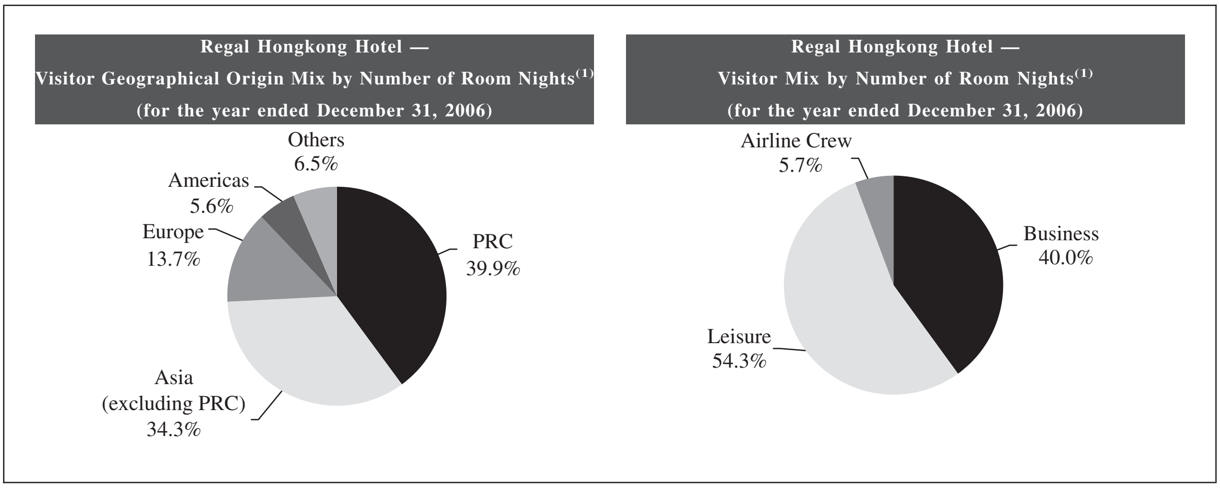
The Regal Hongkong Hotel carries a High Tariff A rating from the Hong Kong Tourism Board and was opened in 1993. It has 424 rooms and under the Asset Enhancement Program, which has already commenced, a further 50 rooms are expected to be added by the third quarter of 2007. Other renovation work which was carried out and completed at the Regal Hongkong Hotel included renovation to the coffee shop in 2005 and the Chinese restaurant in 2006. The Independent Property Valuer has estimated the value of the Regal Hongkong Hotel, including the Asset Enhancement Program with a value of HK$280 million, to be HK$3,220 million as at December 31, 2006.

There are a number of meeting spaces, food and beverage outlets and other facilities located at the Regal Hongkong Hotel, including the following (before completion of the Asset Enhancement Program):

MEETING SPACES	FOOD AND BEVERAGE OUTLETS	OTHER FACILITIES
• One ballroom of about 2,300 sq.ft. capable of accommodating meetings and banquets for up to 230 persons • 10 meeting rooms	• Regal Palace (Chinese) • Zeffirino Ristorante (Italian) • Café Rivoli (coffee shop) • Windsor Arms Sports Bar (bar) • Tiffany Lounge (lobby lounge) • Regal Patisserie (cake shop)	• An outdoor swimming pool (being relocated to the new roof level) • A health club with gymnasium and massage facilities • A business center

The majority of travelers to the Regal Hongkong Hotel are leisure travelers, while business guests and airline crews also account for a significant amount of business. Guests to the hotel are primarily from the PRC and other parts of Asia.

As shown in the charts set out below, visitors from Asia (including the PRC) accounted for 74.2% of the total guests at the Regal Hongkong Hotel by number of room nights in 2006, while leisure travelers accounted for approximately 54.3% and business travelers accounted for approximately 40.0%, respectively, of guests by number of room nights.



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

The Hotel Manager's strategy for the Regal Hongkong Hotel is to focus on attracting more frequent individual business travelers, as these tend to be the higher end of the market. The Hotel Manager's objective is to gradually increase the hotel's visitors mix to have a more business focus as well as more travelers from Europe and Americas. As part of this strategy, the Asset Enhancement Program is being implemented which is expected to increase the revenue-generating capacity of the hotel.

Set out below is a table which sets out occupancy rate and other operating data relating to the Regal Hongkong Hotel for the periods indicated. It can be seen that the occupancy rate of the hotel in the last two years has remained steady at approximately 90%.

Operating and Occupancy Rate Information:

	For the year ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Number of rooms[(1)]	424	424	424	424	424	424
Occupancy rate (%)	70.7	76.4	66.6	92.1	89.9	90.1
Average room rate (HK$)	789.4	759.7	701.6	813.2	962.7	1,086.2
RevPAR (HK$)	558.1	580.4	467.3	749.0	865.5	978.7

Note:

(1) Includes 5, 5, 4, 4, 4 and 2 house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006, respectively.

Competition

Regal Hongkong Hotel is located in Causeway Bay, a popular tourism district in Hong Kong. There are several competing hotels located in the immediate neighborhood of Regal Hongkong Hotel. These include the Park Lane Hotel and the Excelsior Hotel. According to the Market Consultant, anticipated new hotel supply in Causeway Bay is limited over the next 4 years as there is very limited land available for hotel development.

For further details regarding competition faced by Regal Hongkong Hotel, see Appendix V — "Letter from the Market Consultant in Relation to its Hong Kong Hotel Industry Report" to this Offering Circular.

Five Year Transaction History

The Government Grant/Lease in relation to the Regal Hongkong Hotel will expire on December 24, 2883. Part of the hotel premises, with an area of approximately 8,814 sq.ft., is located on the RHK Supporting Premises (which are used for mechanical, electrical, back-of-house and other uses) in an adjacent building which is connected with the Regal Hongkong Hotel's building. The RHK Supporting Premises are leased by Cityability Limited under a lease expiring in 2010 with rights to renew the lease until 2022. For further details regarding title, see "Other Information — Information Regarding Title to the Initial Hotel Properties — Certain Matters Relating to Title to the Initial Hotel Properties — Regal Hongkong Hotel". In the five years prior to the date of land registry searches conducted on March 2, 2007, there were no sale and purchase transactions in respect of any change in legal ownership, registered in the land registry, of this Initial Hotel Property, and (save as otherwise disclosed in this Offering Circular) the REIT Manager is not aware of any transactions involving a direct or indirect sale and purchase of this Initial Hotel Property during such period.

REGAL KOWLOON HOTEL

The Regal Kowloon Hotel is located in Tsim Sha Tsui East, an area which has undergone some renewal after the opening of the Kowloon Canton Railway East Tsim Sha Tsui Station in October 2004. It is close to Tsim Sha Tsui's shopping venues and sightseeing highlights such as the History Museum and the Science Museum.

The Regal Kowloon Hotel carries a High Tariff A rating from the Hong Kong Tourism Board and was opened in 1982. It has 600 rooms. Renovation work at the Regal Kowloon Hotel was carried out recently which included renovations to the hotel lobby, lobby lounge, coffee shop, cake shop, ballroom and meeting rooms, driveway and replacement of carpets. The Independent Property Valuer has estimated the value of the Regal Kowloon Hotel, to be HK$3,310 million as at December 31, 2006.

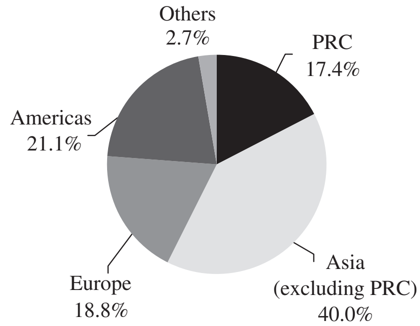
There are a number of meeting spaces, food and beverage outlets and other facilities located at the Regal Kowloon Hotel, including the following:

MEETING SPACES	FOOD AND BEVERAGE OUTLETS	OTHER FACILITIES
• One ballroom of about 3,500 sq.ft. capable of accommodating meetings and banquets for up to 350 persons	• Zeffirino Ristorante (Italian)	• A fitness room
• 12 meeting rooms	• Mezzo Grill (Western)	• A sauna
	• Café Allegro (coffee shop)	• One karaoke club
	• Basso Bar (bar)	• One night club
	• Regala Café & Dessert Bar (lobby lounge)	• A business center
	• Regal Patisserie (cake shop)	• Shopping areas
	• Golden Delight Seafood Restaurant (Chinese restaurant leased to and operated by a third party)	
	• Nishiki (Japanese restaurant leased to and operated by a third party)	

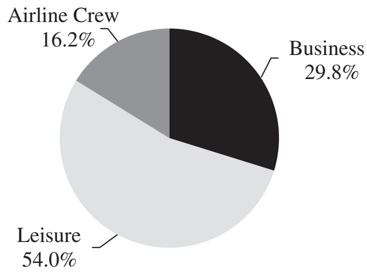
The majority of travelers to the Regal Kowloon Hotel are leisure travelers, while business travelers and airline crews also contribute substantial business. Guests to the hotel are primarily from Asia including the PRC. The Hotel Manager believes that part of the reason is that many Asians and mainland Chinese individual travelers enjoy staying in the Tsim Sha Tsui area. The area is also popular with long-haul travelers from major markets such as Australia, Japan and Europe.

As shown in the charts set out below, visitors from Asia (including the PRC) accounted for 57.4% of the total guests at the Regal Kowloon Hotel by number of room nights in 2006, while leisure travelers accounted for approximately 54.0% and business travelers accounted for approximately 29.8%, respectively, of guests by number of room nights.

Regal Kowloon Hotel — Visitor Geographical Origin Mix by Number of Room Nights[(1)] (for the year ended December 31, 2006)



Regal Kowloon Hotel — Visitor Mix by Number of Room Nights[(1)] (for the year ended December 31, 2006)



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

The Hotel Manager's strategy for the Regal Kowloon Hotel is to focus on attracting more frequent individual business travelers (as these tend to be the higher end of the market) and airline crews. Set out below is a table which sets out occupancy rate and other operating data relating to the Regal Kowloon Hotel for the periods indicated. It can be seen that the occupancy rate over the last two years has remained steady at approximately 84% to 86%.

Operating and Occupancy Rate Information:

	For the year ended December 31,					
	2001	2002	2003	2004	2005	2006
Number of rooms[(1)]	600	600	600	600	600	600
Occupancy rate (%)[(2)]	72.5	74.4	60.9	84.2	84.2	85.6
Average room rate (HK$)	575.3	599.4	582.5	655.2	768.9	889.4
RevPAR (HK$)	417.1	446.0	354.7	551.7	647.4	761.3

Notes:

(1) Includes 9, 9, 6, 6, 6 and 6 house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006, respectively.

(2) The occupancy rate decreased from 74.4% in 2002 to 60.9% in 2003 due to the outbreak of SARS.

Competition

Regal Kowloon Hotel is located in Tsim Sha Tsui East, a vibrant business and tourist district. There are several competing hotels located in the immediate neighborhood of Regal Kowloon Hotel. These include Royal Garden Hotel, InterContinental Grand Stanford, Hotel Nikko Hong Kong and Kowloon Shangri-La Hotel Hong Kong. This collection of well-known hotels strengthens the area's image as a hospitality node. According to the Market Consultant, five new hotel projects with 1,314 rooms are expected to be completed between 2007 and 2010 in the Tsim Sha Tsui district.

For further details regarding competition faced by Regal Kowloon Hotel, see Appendix V — "Letter from the Market Consultant in Relation to its Hong Kong Hotel Industry Report" to this Offering Circular.

Five Year Transaction History

The Government Grant/Lease in relation to Regal Kowloon Hotel will expire on December 27, 2051 with a right of renewal for a further 75 years. In August 2006, 99,998 new shares of HK$1.00 each in Ricobem Limited, which owns Regal Kowloon Hotel, were subscribed by Fit Result Investments Limited, currently a member of the Regal Group, at a consideration of HK$99,998. In October 2006, two shares in Ricobem Limited registered in the names of Regal Hotels (Holdings) Limited and Paliburg (Nominees) Limited respectively and all beneficially owned by Regal Hotels (Holdings) Limited, were transferred to Fit Result Investments Limited and Paliburg (Nominees) Limited (as trustee on behalf of Fit Result Investments Limited) at a consideration based on par value. In the five years prior to the date of land registry searches conducted on March 2, 2007, there were no sale and purchase transactions in respect of any change of legal ownership, registered in the land registry, of this Initial Hotel Property, and (save for the aforesaid and otherwise disclosed in this Offering Circular) the REIT Manager is not aware of any transactions involving a direct or indirect sale and purchase of this Initial Hotel Property during such period.

REGAL ORIENTAL HOTEL

The Regal Oriental Hotel is located in Kowloon City district, facing the 328-hectare Kai Tak development site. It is relatively close to districts such as Mongkok, Kowloon Bay and Kwun Tong in Kowloon.

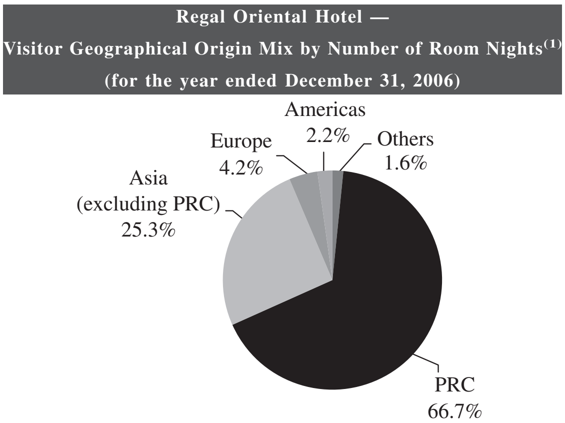
The Regal Oriental Hotel carries a High Tariff B rating from the Hong Kong Tourism Board and was opened in 1982. It has 390 rooms and under the Asset Enhancement Program, a further 49 rooms are expected to be added by the third quarter of 2007. Other renovation work being carried out under the Asset Enhancement Program includes refurnishing work to the rooms which is expected to be completed in the third quarter of 2007. Gala Hotels Limited owns 41 equal undivided shares out of a total of 180 shares of Po Sing Court which is a building located adjacent to Regal Oriental Hotel. Such area is used by the hotel for offices, changing room and staff canteen, with the exception of 1,660 sq.ft. of commercial letting space which is leased to third parties by Gala Hotels Limited. The Independent Property Valuer has estimated the value of the Regal Oriental Hotel, including the Asset Enhancement Program with a value of HK$130 million, to be HK$1,240 million as at December 31, 2006. Such valuation has taken into account Gala Hotels Limited's interest in Po Sing Court, which was valued at HK$47 million as at December 31, 2006, based on a direct market comparison approach.

There are a number of meeting spaces, food and beverage outlets and other facilities located at the Regal Oriental Hotel, including the following (before completion of the Asset Enhancement Program):

MEETING SPACES	FOOD AND BEVERAGE OUTLETS	OTHER FACILITIES
• One ballroom of about 3,400 sq.ft. capable of accommodating meetings and banquet for up to 340 persons • 13 meeting rooms	• Regal Seafood Restaurant (Chinese) • Five Continents Restaurant (Western) • La Plantation Coffee Shop (coffee shop) • China Coast Pub (bar) • Sky Lounge (lounge) • Regal Patisserie (cake shop)	• A business center • Shopping areas

The majority of travelers to the Regal Oriental Hotel are leisure travelers. The hotel caters in particular to families and groups with its large rooms, some of which have triple beds and quadruple beds. In addition, the Regal Oriental Hotel's location is well placed to accommodate visitors to nearby universities, commercial and industrial districts.

As shown in the charts set out below, visitors from the PRC and other parts of Asia accounted for 92.0% of the total guests at the Regal Oriental Hotel by number of room nights in 2006, while leisure travelers accounted for approximately 85.9% and business travelers accounted for approximately 14.1%, respectively, of guests by number of room nights.



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

The Hotel Manager's strategy is to continue to focus on attracting leisure guests, with a particular focus on attracting individual travelers on packages from the PRC and other Asian countries. The Hotel Manager also intends to diversify its focus on group tours from the PRC to group tours from areas such as Japan and Europe. As part of this strategy, the Asset Enhancement Program is being implemented which is expected to increase the revenue-generating capacity of the hotel.

The Hotel Manager expects that the Kai Tak development plan, which as currently envisaged, would involve approximately 328 hectares of land being developed to provide office, hotel, commercial, residential and recreational facilities for a population of about 300,000. During the construction period, architects, engineers, consultants and other workers may stay at the Regal Oriental Hotel. The development of the new commercial and residential community in Kowloon City and the continued redevelopment of Kowloon East including Kwun Tong, Kowloon Bay are also expected to bring in more business to the Regal Oriental Hotel.

Set out below is a table which sets out occupancy rate and other operating data relating to the Regal Oriental Hotel for the periods indicated. It can be seen that the occupancy rate of the hotel in the last two years has remained steady at approximately 90% to 92%.

Operating and Occupancy Rate Information:

	For the year ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Number of rooms[(1)]	390	390	390	390	390	390
Occupancy rate (%)[(2)]	76.4	83.0	68.5	91.1	91.6	90.0
Average room rate (HK$)	375.0	349.4	334.4	434.5	463.0	518.6
RevPAR (HK$)	286.5	290.0	229.1	395.8	424.1	466.7

Notes:

(1) Regal Oriental Hotel had no house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006.

(2) The occupancy rate decreased from 83.0% in 2002 to 68.5% in 2003 due to the outbreak of SARS.

Competition

Regal Oriental Hotel is located in the Kowloon City district where there are a limited number of High Tariff A or High Tariff B hotels. Competition for the Regal Oriental Hotel comes primarily from High Tariff B hotels in the surrounding districts. According to the Market Consultant, there is only one currently known potential hotel project near the Regal Oriental Hotel.

For further details regarding competition faced by Regal Oriental Hotel, see Appendix V — "Letter from the Market Consultant in Relation to its Hong Kong Hotel Industry Report" to this Offering Circular.

Five Year Transaction History

The Government Grant/Lease in relation to Regal Oriental Hotel will expire on June 30, 2047. In the five years prior to the date of land registry searches conducted on March 2, 2007, there were no sale and purchase transactions in respect of any change of legal ownership, registered in the land registry, of this Initial Hotel Property, and (save as otherwise disclosed in this Offering Circular) the REIT Manager is not aware of any transactions involving a direct or indirect sale and purchase of this Initial Hotel Property during such period.

REGAL RIVERSIDE HOTEL

The Regal Riverside Hotel, overlooking the Shing-Mun River in the New Territories, is the largest hotel in Shatin. Many of the rooms have riverside views in a resort-like atmosphere that caters for leisure and business travelers. The hotel is in close proximity to shopping malls in Shatin and the KCRC station. It is also accessible to the Hong Kong Science Park, The Chinese University of Hong Kong and industrial zones such as those in Shatin and Tai Po.

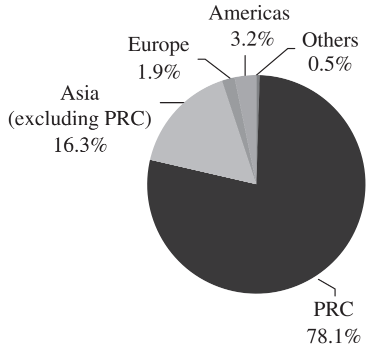
The Regal Riverside Hotel carries a High Tariff B rating from the Hong Kong Tourism Board and was opened in 1986. It has 830 rooms and under the Asset Enhancement Program a further 302 rooms are expected to be added by the end of 2008. Renovation work was carried out at the Regal Riverside Hotel included renovation of its food and beverage outlets, together with its main lobby and driveway. The Independent Property Valuer has estimated the value of Regal Riverside Hotel, including the Asset Enhancement Program with a value of HK$460 million, to be HK$2,840 million as at December 31, 2006.

There are a number of meeting spaces, food and beverage outlets and other facilities located at the Regal Riverside Hotel, including the following (before completion of the Asset Enhancement Program):

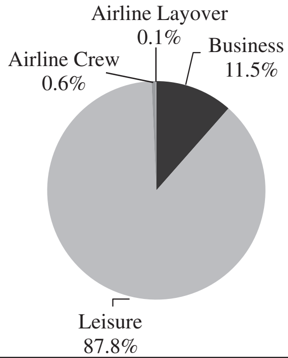
MEETING SPACES	FOOD AND BEVERAGE OUTLETS	OTHER FACILITIES
• One pillarless ballroom of about 4,750 sq.ft. capable of accommodating large meetings/groups and banquets for up to 475 persons • 12 meeting rooms	• Regal Seafood Restaurant (Chinese) • Regal Court (Chinese) • Avanti Ristorante (Italian) • L'eau Restaurant (Western) • Aji Bou Izakaya (Japanese) • Scene Bar & Restaurant (bar) • Carnival Bar (bar) • Regal Patisserie (cake shop)	• An outdoor swimming pool • A health club with gymnasium and massage facilities • A business center • Shopping areas

The majority of travelers to the Regal Riverside Hotel are leisure travelers. The hotel caters in particular to families and groups with its large rooms, some of which have triple beds and quadruple beds. As shown in the charts set out below, visitors from the PRC and other parts of Asia accounted for 94.4% of the total guests at the Regal Riverside Hotel by number of room nights in 2006, while leisure travelers accounted for approximately 87.8% and business travelers accounted for approximately 11.5%, respectively, of guests by number of room nights.

Regal Riverside Hotel — Visitor Geographical Origin Mix by Number of Room Nights[(1)] (for the year ended December 31, 2006)



Regal Riverside Hotel — Visitor Mix by Number of Room Nights[(1)] (for the year ended December 31, 2006)



Note:

(1) In relation to a period, the number of room nights is the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours. The origin mix and visitor mix by number of room nights are statistical data collected at the Initial Hotel Properties.

The Hotel Manager's strategy for the Regal Riverside Hotel is to continue to focus on attracting leisure guests, with a particular focus on attracting individual travelers from the PRC and Japan, South Korea and Southeast Asia. The Hotel Manager also intends to diversify its focus on group tours from the PRC to group tours from areas such as Japan, Korea and Europe. In addition, the Hotel Manager expects that further development of industrial zones in the New Territories will provide new opportunities for attracting clientele to the Regal Riverside Hotel and the KCRC extension project will greatly shorten the commuting time from the hotel to the shopping and business districts of Tsim Sha Tsui. As part of this strategy, the Asset Enhancement Program when it is completed is expected to increase the revenue-generating capacity of the Regal Riverside Hotel.

Set out below is a table which sets out occupancy rate and other operating data relating to the Regal Riverside Hotel for the periods indicated. It can be seen that the occupancy rate of the hotel over the last two years has remained steady at approximately 91% to 92%.

Operating and Occupancy Rate Information:

	For the year ended December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
Number of rooms(1)	830	830	830	830	830	830
Occupancy rate (%)(2)	71.0	80.1	63.4	90.1	91.4	92.2
Average room rate (HK$)	358.7	344.2	346.9	418.3	440.6	471.7
RevPAR (HK$)	254.7	275.7	219.9	376.9	402.7	434.9

Notes:

(1) Regal Riverside Hotel had no house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2001, 2002, 2003, 2004, 2005 and 2006.

(2) The occupancy rate decreased from 80.1% in 2002 to 63.4% in 2003 due to the outbreak of SARS.

Competition

Regal Riverside Hotel is located in Shatin. There is currently only one hotel in the immediate neighborhood of Regal Riverside Hotel, namely Royal Park Hotel. Royal Park Hotel is a smaller hotel with approximately 448 rooms while Regal Riverside Hotel currently has 830 rooms and will have 1,132 rooms after the completion of the Asset Enhancement Program, which is targeted for completion by December 31, 2008. According to the Market Consultant, a new hotel project with 600 rooms is under planning with target completion in 2009 at The Chinese University of Hong Kong. Potential competition from this new hotel may be limited because of its location.

For further details regarding competition faced by Regal Riverside Hotel, see Appendix V — "Letter from the Market Consultant in Relation to its Hong Kong Hotel Industry Report" to this Offering Circular.

Five Year Transaction History

The Government Grant/Lease in relation to Regal Riverside Hotel will expire on June 30, 2047. In the five years prior to the date of land registry searches conducted on March 2, 2007, there were no sale and purchase transactions in respect of any change of legal ownership, registered in the land registry, of this Initial Hotel Property, and (save as otherwise disclosed in this Offering Circular) the REIT Manager is not aware of any transactions involving a direct or indirect sale and purchase of this Initial Hotel Property during such period.

Asset Enhancement Program

With a view to enhancing the value of the Initial Hotel Properties and increasing the revenue generated from the Initial Hotel Properties, the Vendor has undertaken to complete the Asset Enhancement Program, at its full and own cost, including any cost overruns and land premium payable, under which 468 rooms are expected to be added to the Initial Hotel Properties in stages by the end of 2008. Renovations under the Asset Enhancement Program involve varying degrees of structural change. Details of the Asset Enhancement Program are summarized in the table below:

Initial Hotel Property	Existing Number of Rooms	Rooms to be added/Work to be carried out	Number of Rooms after Completion	Status of Statutory Approvals	Target/Actual Commencement Date	Target Completion Date	Estimated Construction Cost[1] (HK$ million)
Regal Airport Hotel	1,104	Conversion of about 14,590 sq.ft. unutilized Gross Floor Area at 2/F into 35 additional rooms and about 13,140 sq.ft. unutilized Gross Floor Area at 9/F into 32 additional rooms	1,171	BP[2] approved SP[3] approved	First quarter 2007 (actual)	September 30, 2007	38
Regal Hongkong Hotel	424	Addition of new floor areas on the top portion of the existing hotel building and conversion of existing space at other floors providing a total of 50 additional guest rooms and a new swimming pool	474	BP[2] approved SP[3] approved	Second quarter, 2006 (actual)	September 30, 2007	90
Regal Kowloon Hotel[4]	600	N/A	600	N/A	N/A	N/A	N/A
Regal Oriental Hotel	390	Conversion of unutilized area on 3/F into 49 additional rooms and a lounge area	439	BP[2] approved SP[3] approved	First quarter 2007 (actual)	September 30, 2007	26
		Refurnishing the existing room floors 4/F to 8/F (refurnishing work to the remaining floors has been completed)		N/A	Third quarter, 2006 (actual)	September 30, 2007	4
Regal Riverside Hotel	830	Conversion of 27 suites into 55 rooms (first project)	1,132	BP[2] approved	First quarter 2007 (actual)	September 30, 2007	12
		Three additional stories comprising 274 additional rooms to be added on top of the existing hotel building (second project)		BP[2] approved SP[3] approved	Second quarter 2007 (target)	December 31, 2008	150
Total	3,348		3,816				320

Notes:

(1) The construction cost estimated by Regal does not include any land premium payable. A land premium is only required to be paid in relation to Regal Riverside Hotel and will be borne by Regal. No land premium is required to be paid in respect of the balance of the Asset Enhancement Program.

(2) BP means building plans.

(3) SP means structural plans.

(4) Regal Kowloon Hotel is not part of the Asset Enhancement Program and is only included in the table for completeness.

Floor Areas of the Initial Hotel Properties before and after the Asset Enhancement Program

Hotel	Gross Floor Area Before Asset Enhancement Program (sq.ft.)	Gross Floor Area After Asset Enhancement Program (sq.ft.)	Commercial Space Available for Letting(1) (sq.ft.)	Covered Floor Area Before Asset Enhancement Program (sq.ft.)	Covered Floor Area After Asset Enhancement Program (sq.ft.)
Regal Airport Hotel	774,445	775,000	40,860	897,034	897,545
Regal Hongkong Hotel	215,736	269,911	—	320,417	343,864
Regal Kowloon Hotel(2)	341,714	341,714	56,002	468,355	468,355
Regal Oriental Hotel(3)	243,167	243,203	30,250	294,154	294,154
Regal Riverside Hotel	519,046	639,292	20,966	662,123	743,124
Total	2,094,108	2,269,120	148,078	2,642,083	2,747,042

Notes:

(1) No change in the amount of commercial space available for letting is expected after completion of the Asset Enhancement Program.

(2) Regal Kowloon Hotel is not part of the Asset Enhancement Program and is only included in the table for completeness.

(3) This Gross Floor Area and Covered Floor Area include 14,200 sq.ft. of Po Sing Court, of which Gala Hotels Limited owns 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel. It contains 1,660 sq.ft. of commercial space available for letting.

Insurance

The Initial Hotel Properties will be insured against risks that the REIT Manager believes will be consistent with industry practice in Hong Kong. These will include adequate property insurance and public liability insurance coverage in relation to the Initial Hotel Properties (including insurance against fire and storm), property all risks insurance (which includes coverage for the 100% replacement cost of a property) and rental loss insurance (which includes coverage when the lessee fails to pay rent as a result of certain specified events such as a fire). There are no significant or unusual excess or deductible amounts required under such policies. There are, however, certain types of risks that are not covered by such insurance policies, including losses resulting from wars, nuclear contamination and earthquakes.

Litigation

None of Regal REIT, the REIT Manager, the Hotel Manager, the Property Companies, the Finance Companies, Holding SPV or the Holding Companies is currently involved in any material litigation. In addition, to the best of the REIT Manager's knowledge, there is no material litigation currently threatened against any of Regal REIT, the REIT Manager, the Hotel Manager or any of the Property Companies, the Finance Companies, Holding SPV and the Holding Companies.

Legal and Regulatory Compliance

Regal REIT, via the Lessors, will be subject to the Buildings Ordinance (Cap. 123 of the Laws of Hong Kong), the Fire Services Ordinance (Cap. 95 of the Laws of Hong Kong), the Hotel and Guesthouse Accommodation Ordinance (Cap. 349 of the Laws of Hong Kong), the Public Health and Municipal Services Ordinance (Cap. 132 of the Laws of Hong Kong) and other applicable laws and regulations. If any Lessor wishes to make alterations or additions to an Initial Hotel Property in addition to the Asset Enhancement Program, it would have to submit its proposal to the relevant authorities and obtain their prior approvals. Each Lessor is required to maintain and renew all hotel accommodation licences, and restaurant licences and certain other specified licence (e.g. swimming pool licence (if applicable)) for its Initial Hotel Property. However, the costs and expenses relating to the maintenance and renewal for such licences shall be treated as Hotel Operating Expenses. All costs and expenses in relation to complying with the conditions imposed under such licences which constitute Capital Additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them (save and except that any such costs and expenses required to conform with the legal requirements shall be borne by the Lessor). All other necessary licences for the business of the Initial Hotel Properties are required to be maintained by the Lessee or the Hotel Manager. All costs and expenses relating to the maintenance and renewal of such licences shall be treated as Hotel Operating Expenses.

Environmental Matters

Regal REIT's operations are subject to various environmental laws. Historically, the Initial Hotel Properties have operated, and going forward the REIT Manager will require the Lessee and the Hotel Manager to continue to manage them, in compliance with applicable environmental laws and regulations, including those relating to waste disposal, water pollution control, air pollution control and noise control. None of the Property Companies or the Vendor has ever received any material fines or penalties associated with the breach of any environmental laws and regulations.

The following tables set forth a summary of financial information and operating statistics on a combined historical basis for the Predecessor Group. The Predecessor Group comprises the ownership and operation of the Initial Hotel Properties by the Property Companies as part of the Regal Group prior to the acquisition of the Property Companies by Regal REIT. No historical information for Regal REIT is presented because it has not undertaken any corporate activities since its formation on December 11, 2006.

The historical combined income statements data for each of the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006, the combined balance sheets data as at December 31, 2003, 2004 and 2005 and September 30, 2006, and the combined cash flow statements data for each of the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006 have been derived from the Predecessor Group's audited combined financial statements and related notes thereto which have been included in Appendix I to this Offering Circular. These audited combined financial statements and the related notes thereto have been prepared in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS (including Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, and have been audited by Ernst & Young, independent auditors. The combined income statement and the combined cash flow statement for the nine months ended September 30, 2005 presented in this section have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA.

The historical combined financial information and operating statistics for the Predecessor Group included below and set forth in Appendix I to this Offering Circular are not necessarily indicative of Regal REIT's future performance. After the Acquisition, Regal REIT's operations will not be comparable to the Predecessor Group because of the different legal, financial and operating structure under which the Initial Hotel Properties will be owned, but not operated by Regal REIT. Upon completion of the Acquisition, Regal REIT will acquire ownership interests in the Initial Hotel Properties, details of which are set out in the section headed "The Initial Hotel Properties", which constitute different assets and liabilities than those of the Predecessor Group as set forth in the audited financial information in Appendix I. The Initial Hotel Properties will be leased to the Lessee pursuant to the Lease Agreements. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. Since its primary source of revenue will be the rental payments payable under the Lease Agreements, Regal REIT will have significantly less exposure to the results of the operations of the Initial Hotel Properties than the Vendor had in the case of the Predecessor Group in relation to which the principal source of revenue was income from the hotel operation of the Initial Hotel Properties. The cost structure of Regal REIT will also be different from the Predecessor Group. For example, hotel operating costs in respect of the Initial Hotel Properties will not be costs of Regal REIT as they will be borne by the Lessee. The format and presentation of Regal REIT's financial information will also differ from that of the audited financial information of the Predecessor Group set forth in Appendix I. See the section entitled "Management's Discussion and Analysis of Future Operations". You should read the following summary financial information and operating statistics together with "The Initial Hotel Properties", "Financial Information and Profit Forecast — Management's Discussion and Analysis of Financial Condition and Results of Predecessor Group", "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations" and the historical financial information for the Predecessor Group and related notes thereto set forth in Appendix I to this Offering Circular.

Combined income statement

	Year ended December 31,			Nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	(HK$ thousands)	**(HK$ thousands)**	**(HK$ thousands)**	**(HK$ thousands)** (unaudited)	**(HK$ thousands)**
REVENUE	718,217	993,503	1,077,162	753,253	841,530
Cost of sales	(528,301)	(601,968)	(620,396)	(451,752)	(454,303)
Gross profit	189,916	391,535	456,766	301,501	387,227
Other income and gains	2,347	1,956	24,143	23,733	152
Administrative expenses	(11,928)	(8,884)	(11,367)	(6,443)	(6,911)
Other operating expenses	(2,929)	(875)	—	—	—
Write-back of impairment of hotel buildings[1]	644,001	1,149,230	964,370	—	—
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	821,407	1,532,962	1,433,912	318,791	380,468
Depreciation and amortization	(139,550)	(146,557)	(174,615)	(125,885)	(149,727)
OPERATING PROFIT	681,857	1,386,405	1,259,297	192,906	230,741
Finance costs	(111,860)	(109,912)	(174,248)	(116,911)	(158,578)
PROFIT BEFORE TAX	569,997	1,276,493	1,085,049	75,995	72,163
Tax	50,431	20,914	97,193	12,147	(2,328)
PROFIT FOR THE YEAR/PERIOD	620,428	1,297,407	1,182,242	88,142	69,835

Note:

(1) The Predecessor Group assessed the recoverable amounts of the hotel buildings by reference to independent valuations on an annual basis. A write-back of the impairment for the year was made if the estimated recoverable amount of a hotel building exceeded its net book value and the increase in the carrying amount of the building should not exceed the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the building in prior years.

Combined balance sheet

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)
NON-CURRENT ASSETS				
Property, plant and equipment	4,345,979	5,415,509	6,299,746	6,225,726
Prepaid land lease payments	831,723	809,071	786,419	769,430
Deferred tax assets	3,905	11,842	95,422	91,301
Total non-current assets	5,181,607	6,236,422	7,181,587	7,086,457
CURRENT ASSETS				
Hotel inventories	12,940	15,308	15,719	12,322
Debtors, deposits and prepayments	82,222	79,341	111,220	132,534
Pledged time deposits	1,213	1,216	—	—
Cash and cash equivalents	6,827	14,850	21,616	18,032
Total current assets	103,202	110,715	148,555	162,888
CURRENT LIABILITIES				
Creditors and accruals	(110,568)	(127,610)	(167,386)	(120,624)
Deposits received	(6,898)	(6,191)	(7,970)	(9,376)
Interest bearing bank loan, secured	(40,000)	—	—	—
Total current liabilities	(157,466)	(133,801)	(175,356)	(130,000)
NET CURRENT ASSETS/(LIABILITIES)	(54,264)	(23,086)	(26,801)	32,888
TOTAL ASSETS LESS CURRENT LIABILITIES	5,127,343	6,213,336	7,154,786	7,119,345
NON-CURRENT LIABILITIES				
Interest bearing bank loan, secured	(1,002,342)	(1,383,480)	(1,386,784)	(1,389,262)
Amount due to a fellow subsidiary company	(5,983,472)	(5,410,222)	(5,179,739)	(5,073,778)
Loan from a fellow subsidiary company	(2,386,000)	(2,386,000)	(2,386,000)	(2,386,000)
Deferred tax liabilities	(48,510)	(35,533)	(21,920)	(20,127)
Other payable	(6,325)	—	—	—
Total non-current liabilities	(9,426,649)	(9,215,235)	(8,974,443)	(8,869,167)
Net liabilities	(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)
EQUITY				
Issued capital	—	—	—	—
Accumulated losses	(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)
Total equity	(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)

Combined cash flow statement data

	For the year ended December 31,			For the nine months ended September 30,	
	2003	2004	2005	2005	2006
	(HK$ thousands)	(HK$ thousands)	(HK$ thousands)	(HK$ thousands) (unaudited)	(HK$ thousands)
Net cash inflow from operating activities	180,345	402,934	458,084	285,541	335,821
Net cash outflow from investing activities	(17,967)	(42,798)	(63,216)	(36,471)	(64,379)
Net cash outflow from financing activities	(166,681)	(352,113)	(388,102)	(251,759)	(275,026)
Net increase/(decrease) in cash and cash equivalents	(4,303)	8,023	6,766	(2,689)	(3,584)
Cash and cash equivalents at beginning of year/period	11,130	6,827	14,850	14,850	21,616
Cash and cash equivalents at end of year/period	6,827	14,850	21,616	12,161	18,032

Operating information

	For the year ended December 31,			
	2003	2004	2005	2006
Total number of rooms(1)	3,348	3,348	3,348	3,348
Occupancy rate (%)(2)	60.1	83.9	81.6	81.2
Average room rate (HK$)(3)	545.0	621.9	706.0	786.9
RevPAR (HK$)(4)	327.5	521.8	576.1	639.0

Notes:

(1) Includes 13, 13, 13 and 12 house-use rooms (e.g. rooms for general managers of the hotels) for the years ended December 31, 2003, 2004, 2005 and 2006, respectively.

(2) Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(3) Average room rate of the Initial Hotel Properties is defined as the total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(4) RevPAR of the Initial Hotel Properties is defined as the average room rate multiplied by the occupancy rate of the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

The following discussion should be read in conjunction with "Financial Information and Profit Forecast — Selected Historical Financial and Operating Information" and the audited and unaudited combined financial statements and notes thereto included in Appendix I to this Offering Circular. The Predecessor Group comprises the ownership and operation of the Initial Hotel Properties by the Property Companies. After the Acquisition, Regal REIT's operations will not be comparable to the Predecessor Group because of the different legal, financial and operating structure under which the Initial Hotel Properties will be owned, but not operated by Regal REIT. Upon completion of the Acquisition, Regal REIT will acquire ownership interests in the Initial Hotel Properties, details of which are set out in the section headed "The Initial Hotel Properties", which constitute different assets and liabilities than those of the Predecessor Group as set forth in the audited financial information in Appendix I. The Initial Hotel Properties will be leased to the Lessee pursuant to the Lease Agreements. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. Since its primary source of revenue will be the rental payments payable under the Lease Agreements, Regal REIT will have significantly less exposure to the results of the operations of the Initial Hotel Properties than the Vendor had in the case of the Predecessor Group in relation to which the principal source of revenue was income from the hotel operation of the Initial Hotel Properties. The cost structure of Regal REIT will also be different from the Predecessor Group. For example, hotel operating costs in respect of the Initial Hotel Properties will not be costs of Regal REIT as they will be borne by the Lessee. The format and presentation of Regal REIT's financial information will also differ from that of the audited financial information of the Predecessor Group set forth in Appendix I. See the section entitled "Management's Discussion and Analysis of Future Operations".

Basis of Discussion and Presentation

Regal REIT was established for the purpose of owning the Initial Hotel Properties as a REIT. Upon completion of the Acquisition, Regal REIT will acquire ownership interests in the Initial Hotel Properties, details of which are set out in the section headed "The Initial Hotel Properties" in this Offering Circular. The Initial Hotel Properties will be leased to the Lessee pursuant to the Lease Agreements. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Since its primary source of revenue will be the rental payments payable under the Lease Agreements, Regal REIT will have significantly less exposure to the results of the operations of the Initial Hotel Properties than the Vendor had in the case of the Predecessor Group where the principal source of revenue was income from the hotel operation of the Initial Hotel Properties. As Regal REIT has no operating history, the REIT Manager has set forth below a discussion of the historical combined operating results of the Predecessor Group as owned and operated under the Regal Group. Investors should note, however, that these historical combined operating results may not be indicative of Regal REIT's future performance given the different legal, financial and operating structure under which the Initial Hotel Properties will be owned but not operated by Regal REIT. See the section headed "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations" in this Offering Circular.

The Predecessor Group has been the beneficial owner of the Initial Hotel Properties throughout the three years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006. The audited combined financial statements of the Predecessor Group have been presented on a combined basis to represent the combined balance sheets as at December 31, 2003, 2004 and 2005 and September 30, 2006, and combined results and combined cash flow statements for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006. The audited combined financial statements of the Predecessor Group have been prepared in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS (including Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. As the Predecessor Group was not operated as a single standalone group in the past, these audited combined financial statements may not give a true picture of the performance of the Initial Hotel Properties as if they had been operated as a standalone group. The combined income statement and the combined cash flow statement for the nine months ended September 30, 2005 presented in this section have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA.

The same accounting policies have been consistently applied to the audited combined financial statements for the three years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006, and hence, the year on year comparability of the financial information has not been affected by any changes in accounting policies during the relevant periods.

Critical Accounting Policies

Critical accounting policies are those that have a significant impact on the reporting of financial conditions and results of operation, and require management to make estimates and judgments that affect the reported results. These estimates are evaluated on an ongoing basis, based on historical experience, information that is currently available and various assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following critical accounting policies required the most significant judgments and estimates in the preparation of the Predecessor Group's combined financial statements and have had the most significant effect on the presentation of the Predecessor Group's reported results. For a discussion of other principal accounting policies used, please refer to Appendix I to this Offering Circular.

Impairment of assets

During the reporting period, asset value, including the value of each of the hotel properties, is assessed annually.

Where an indication of impairment exists, in the judgment of management, or when annual impairment testing for a hotel property included in property, plant and equipment is required, the hotel property's recoverable amount is estimated by management. A hotel property's recoverable amount is calculated as the higher of the property's value in use and its fair value less costs to sell (as estimated by management), and is determined for an individual property.

An impairment loss is recognized only if the carrying amount of a hotel property exceeds its recoverable amount. Value in use is normally determined by reference to an independent valuation. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made by management at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss of a hotel property is reversed only if there has been a change in the estimates used to determine the recoverable amount of that property, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation / amortization), had no impairment loss been recognized for the property in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

In 2002, the Regal Group had intended to dispose of two of its hotel properties, namely Regal Riverside Hotel and Regal Oriental Hotel as part of its contemplated financial restructuring. A sale and purchase agreement for the disposal of Regal Oriental Hotel for a consideration of HK$350 million was entered into in 2003, but no sale and purchase agreement was entered into in respect of the intended disposal of Regal Riverside Hotel. These two hotel properties were stated at their then expected net realizable values of HK$690 million for Regal Riverside Hotel and HK$287 million for Regal Oriental Hotel, respectively as at December 31, 2002 on a quick sale basis, calculated at a discount to their valuations at December 31, 2002 as performed by an independent valuer on an open market, existing use basis. The discount rate was determined by Regal's directors based on professional advice obtained from the independent valuer. The total accumulated impairment loss in respect of these hotels amounted to HK$2,494.3 million as at December 31, 2002.

In addition, there was also an accumulated impairment loss in the amount of HK$263.3 million in respect of the Regal Kowloon Hotel at December 31, 2002. This loss had resulted from an intragroup transfer of that hotel property in 1988 which resulted in a higher carrying cost of that property than would otherwise have been the case.

In 2003, in light of the improved financial position of the Regal Group, the directors of Regal considered it no longer appropriate to state Regal Riverside Hotel at its net realizable value and, accordingly, the impairment loss was partially written back by HK$488.1 million, based on a valuation performed by an independent valuer on an open market, existing use basis. The impairment loss in respect of Regal Kowloon Hotel was also partially written back in 2003 by HK$155.9 million based on a valuation performed by the same valuer on the same basis. Consequently a write-back of impairment loss amounting to HK$644.0 million, aggregate, was recognized in the income statement for the year ended December 31, 2003.

In connection with the contemplated disposal of hotels by the Regal Group mentioned above, a sale and purchase agreement was entered into by the Regal Group in 2003 for the disposal of its entire interest in the immediate holding company of the company owning Regal Oriental Hotel to an independent third party and, accordingly, Regal Oriental Hotel continued to be stated at its net realizable value at December 31, 2003. In 2004, the board of directors of Regal considered it in the interests of Regal and the shareholders of Regal as a whole to terminate the relevant sale and purchase agreement in view of the continuing improvement of the local hotel business sector and the overall tourism industry in Hong Kong and based on a valuation performed by an independent valuer on an open market, existing use basis as at December 31, 2004, the impairment loss of HK$459.8 million to Regal Oriental Hotel was written back. In addition, there was further in aggregate, write-back of impairment loss amounting to HK$689.4 million in respect of Regal Riverside Hotel and Regal Kowloon Hotel, based on valuations performed by the same valuer on the same basis. Consequently write-backs of the impairment loss amounting to HK$1,149.2 million in aggregate, was recognized in the income statement for the year ended December 31, 2004.

Based on a valuation performed by an independent valuer on an open market, existing use basis as at December 31, 2005, the remaining balance of the accumulated impairment loss in respect of Regal Riverside Hotel amounting to HK$964.4 million was fully written back and recognized in the income statement for the year ended December 31, 2005.

The independent valuer for the years ended December 31, 2002 and 2003 was Sallmanns (Far East) Limited and for the years ended December 31, 2004 and 2005 was Savills Valuation and Professional Services Limited.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

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 recognized for all taxable temporary differences. Deferred tax assets are recognized for 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 utilized. Recognition primarily involved judgment regarding the future performance of the Predecessor Group. A variety of other factors were also evaluated in considering whether there was convincing evidence that it was probable that some portion or all of the deferred tax assets would ultimately be realized, such as tax planning strategies and the periods in which estimated tax losses could be utilized. The carrying amount of deferred tax assets and related taxable profits projection was reviewed at each balance sheet date. The total gross deferred tax assets recognized by the Predecessor Group amounted to HK$70.1 million, HK$102.3 million, HK$211.2 million and HK$211.5 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, with corresponding tax credits of HK$70.1 million, HK$32.3 million, HK$108.8 million and HK$0.3 million recognized in the income statements in the respective years of 2003, 2004 and 2005 and the nine months, ended September 30, 2006.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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.

Property, plant and equipment and depreciation

Property, plant and equipment, which comprise (i) the Initial Hotel Properties; (ii) furniture, fixtures and equipment; and (iii) motor vehicles used in connection with the hotel operations, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated, in the judgment of management, that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, in the judgment of management, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Category	Useful life
Hotel buildings	Over the shorter of 100 years or the remaining lease terms
Furniture, fixtures and equipment	4 to 10 years
Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Predecessor Group is the lessor, assets leased by the Predecessor 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 Predecessor Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases in respect of the leasehold land on which the Initial Hotel Properties are situated, are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Factors Affecting the Results of the Predecessor Group

Visitor arrivals

The results of the Predecessor Group were significantly affected by the number and profile of visitor arrivals to Hong Kong as such visitors represent the bulk of demand for hotel accommodation. The outbreak of SARS that began in mainland China and Hong Kong in early 2003 and which spread elsewhere around the world, led to a significant decline in travel volumes and hotel occupancy rate in Hong Kong and throughout most of Asia. After 2003, visitor numbers rebounded quickly and continued to grow, increasing by 40.4% between 2003 and 2004 by 7.1% between 2004 and 2005 and a further 8.1% between 2005 and 2006 according to the Market Consultant. Between 2003 and 2006, the profile of visitors also began to change as the growth in mainland Chinese visitors during this period made them the single most important source of tourists to Hong Kong. By 2006, visitors from the PRC totaled approximately 13.6 million, representing approximately 53.8% of visitor arrivals that year. This growth in mainland Chinese visitors was driven by the introduction in July 2003 of the Individual Visit Scheme which allows travelers from selected PRC cities to visit Hong Kong independently instead of coming in tour groups only. The Individual Visit Scheme contributed positively to the occupancy rates of the Initial Hotel Properties for the period from 2003 to 2006 and the scheme has been subsequently extended to more than 49 cities in the PRC with a total population of more than 260 million people. Going forward, the Initial Hotel Properties will be leased to the Lessee pursuant to the Lease Agreements, and the rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Since its primary source of revenue will be the rental payments payable under the Lease Agreements, Regal REIT will have significantly less exposure to the results of the operations of the Initial Hotel Properties than the Vendor had in the case of the Predecessor Group where the principal source of revenue was income from the hotel operation of the Initial Hotel Properties. See the section entitled "Management's Discussion and Analysis of Future Operations".

Improved economic conditions

Following the remission of the outbreak of SARS, the Hong Kong economy has rebounded and grown, with GDP growing annually, 8.6% in 2004 and 7.3% in 2005. The 8.6% growth recorded between 2003 and 2004 represented the highest GDP growth rate since 2000. The economy of the PRC, from where most guests originated, also continued to grow significantly during this time, with GDP growing annually by 10.0% in 2003, 10.1% in 2004 and 10.2% in 2005 (source: China Statistical Yearbook 2006). Widely regarded as a key factor in Hong Kong's economic success, the integration of the PRC and Hong Kong economies has been advanced by the Closer Economic Partnership Arrangement ("**CEPA**") which liberalizes trade between the two economies. A strengthening of the relationship between the two economies has the potential to further support the growth of the financial services, logistics and tourism sectors of the Hong Kong economy. The growth in economic activity after the outbreak of SARS in 2003 drove demand for hotel accommodation by business travelers between 2003 and 2005. Furthermore, the improving domestic economy also helped to boost revenues at the food and beverage outlets operated by the Predecessor Group. Hotel room demand has historically shown a strong correlation to economic activity in Hong Kong, as measured by GDP. Hence, the improved economic conditions in Hong Kong over the period from 2003 to 2005 positively contributed to the increase in the average room rates and occupancy rates of the Initial Hotel Properties.

Costs

Historically, the largest component of the Predecessor Group's costs of sales was staff costs, followed by food and beverage costs and energy costs. For most of the three years from 2003 to 2005, Hong Kong was experiencing price deflation which assisted the Predecessor Group to contain such costs. From 2002 to 2004, average wage growth in Hong Kong was negative and only turned positive in 2005. This deflationary effect was also seen in the CPI which had recorded 68 consecutive months of declining prices until July 2004. Except for a temporary decline in January 2005, CPI growth rates have remained positive and the rate of change in the composite CPI for the year 2005 has increased by approximately 1.0%. The cost structure of Regal REIT will be different from the Predecessor Group. For example, hotel operating costs in respect of the Initial Hotel Properties will not be costs of Regal REIT as they will be borne by the Lessee. See the section entitled "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations".

Valuation of Real Property

In 2002, the Regal Group recognized accumulated impairment losses in the aggregate amount of HK$2,757.6 million with respect to Regal Riverside Hotel, Regal Oriental Hotel and Regal Kowloon Hotel. Subsequently, these hotels were revalued by an independent property valuer on an open market, existing use basis, and over the period from 2003 to 2005, the full amount of the impairment was written back. See "Financial Information and Profit Forecast — Management's Discussion and Analysis of Financial Condition and Results of Predecessor Group — Critical Accounting Policies — Impairment of assets" above. The write-back of impairment of assets comprised 104%, 89% and 82% of net profit for 2003, 2004 and 2005, respectively.

Intense competition

The hotel industry in Hong Kong is highly competitive with hotels competing in areas such as room rates, quality of accommodation, brand recognition, service levels, convenience of location and the quality and scope of lobby areas and other amenities, including food and beverage facilities.

Description of Selected Income Statement Items

Revenues

During the periods under review, substantially all of the revenue of the Predecessor Group was derived from hotel operations. The balance comprised rental income from the leasing of commercial space, primarily the shopping areas of the Initial Hotel Properties. Revenues from hotel operations comprise:

- *Room revenue* from letting hotel rooms, which represented 66.9% of income from hotel operations in the nine months ended September 30, 2006, 66.7% in 2005, 65.6% in 2004 and 57.6% in 2003.

- *Food and beverage revenue* from sales in restaurants, bars, room service and in banquet and meeting space, etc., which represented 28.9% of income from hotel operations in the nine months ended September 30, 2006, 29.3% in 2005, 29.9% in 2004 and 37.0% in 2003.

- *Other Income* from usage of telephones, internet, business and health centers, and from ancillary sources such as parking, foreign exchange and dry cleaning and laundry services.

Cost of Sales

Cost of sales consisted of the following:

- *Room expense*, including expenses for room related supplies and reservation related expenses.

- *Food and beverage expense*, being the cost of food and beverage, food and beverage outlet supplies such as kitchenware, and decoration and entertainment expenses at food and beverage outlets, including food, alcohol and other material served.

- *Staff costs*, including salaries and wages and staff retirement scheme contributions for management, front and back office staff, and other staff involved in the hotels’ operations.

- *Energy costs*, primarily electricity charges, fuel, steam and water.

- *Hotel management fees*, being the portion of management fees paid to the Hotel Manager, directly attributable to the hotel operations of the Predecessor Group.

- *Marketing and promotion expenses*, including advertising and other costs of promoting the Initial Hotel Properties.

- *Repairs and maintenance*, comprising the cost of materials, labor and contracts relating to repairing and maintaining the interior and exterior of the building.

- *Others*, mainly direct operating costs of various operating departments, administrative and general expenses.

Variations in food and beverage sales will affect the cost of sales more directly. An increase in table turnover in restaurants and bars and an increase in the number of banquets and conferences will result in higher food and beverage costs (e.g. cost of produce, wine, etc.) and will require more staffing resources, supplies and increased energy costs.

Gross profit

Gross profit was revenue less cost of sales. Gross profit margin was derived by dividing gross profit by revenue.

Other income and gains

Other income and gains comprised mainly rental income in respect of laundry equipment rented by Bauhinia Hotels Limited to a subsidiary of Regal until December 31, 2005. In the nine months ended September 30, 2006, other income and gains included primarily interest income on both overdue rental and utility deposits. In 2005, it also included the net settlement amount received for business interruption insurance claims primarily related to the outbreak of SARS.

Administrative expenses

Administrative expenses comprised mainly the portion of the management fee payable to a subsidiary of Regal attributable to the portion of general overhead expenses of the Regal Group allocated to the Predecessor Group.

Other operating expenses

Other operating expenses comprised mainly impairment on rental receivable in relation to shopping areas in the Initial Hotel Properties.

Write-back of impairment of hotel buildings

The write-back of impairment of hotel buildings represented the reversals of impairment losses previously recognized in respect of Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel as a result of a change in the estimates used to determine the recoverable amount of the respective properties. See "Financial Information and Profit Forecast — Management's Discussion and Analysis of Financial Condition and Results of Predecessor Group — Critical Accounting Policies — Impairment of assets" above.

Depreciation and amortization

Depreciation and amortization represented the aggregate of depreciation of hotel buildings, furniture, fixtures and equipment and motor vehicles and amortization of prepaid land lease payments.

Finance costs

Finance costs represented finance costs in relation to an intercompany loan and bank borrowings. The Predecessor Group's bank borrowings bore interest at a variable rate of a fixed margin over HIBOR which changes periodically. The Predecessor Group's borrowings were denominated in Hong Kong dollars. Since the Hong Kong dollar has a managed exchange rate with the U.S. dollar, changes in U.S. interest rates tend to have a similar effect on interest rates in Hong Kong, which in turn affected the Predecessor Group's finance cost. As U.S. interest rates increased during the period under review, the Predecessor Group's borrowing costs increased correspondingly.

Tax

Profit derived by the companies comprising the Predecessor Group from the operation of the Initial Hotel Properties was assessable to Hong Kong profits tax at the prevailing tax rate of 17.5%. Profit for these purposes was arrived at after deducting from the gross income from hotel operations: (i) all expenses necessarily incurred in earning such income; (ii) any applicable tax allowances; and (iii) tax losses brought forward. See "Other Information — Taxation".

Deferred tax was provided for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, and includes: (i) the increase in fair value in hotel properties; (ii) accelerated tax depreciation; (iii) taxation losses, to the extent that it is probable that taxable profit will be available against which the carry forward of unused tax losses can be utilized; and (iv) the effect of changes in tax rates charged to the income statement.

Results of Predecessor Group

Revenue and Gross Profit Trends

The following table sets forth the Predecessor Group's revenue and gross profit for the years ended December 31, 2003, 2004 and 2005 and the nine months ended 2005 and 2006[1].

	For the nine months ended September 30, 2006					
	Regal Airport Hotel	Regal Hongkong Hotel	Regal Kowloon Hotel	Regal Oriental Hotel	Regal Riverside Hotel	Initial Hotel Properties
	(HK$ thousands)					
Revenue from hotel operations	265,286	178,190	159,035	74,179	140,470	817,160
Rental income	6,318	1,564	11,874	335	4,279	24,370
Total revenue	271,604	179,754	170,909	74,514	144,749	841,530
Cost of sales	(132,878)	(98,699)	(83,745)	(50,501)	(88,480)	(454,303)
Gross profit	138,726	81,055	87,164	24,013	56,269	387,227

	For the nine months ended September 30, 2005					
	Regal Airport Hotel	Regal Hongkong Hotel	Regal Kowloon Hotel	Regal Oriental Hotel	Regal Riverside Hotel	Initial Hotel Properties
	(HK$ thousands)					
Revenue from hotel operations	247,062	161,638	137,096	67,259	121,792	734,847
Rental income	5,813	1,873	9,776	148	796	18,406
Total revenue	252,875	163,511	146,872	67,407	122,588	753,253
Cost of sales	(132,630)	(100,814)	(81,557)	(53,169)	(83,582)	(451,752)
Gross profit	120,245	62,697	65,315	14,238	39,006	301,501

	For the year ended December 31, 2005					
	Regal Airport Hotel	Regal Hongkong Hotel	Regal Kowloon Hotel	Regal Oriental Hotel	Regal Riverside Hotel	Initial Hotel Properties
	(HK$ thousands)					
Revenue from hotel operations	344,449	233,777	201,977	95,649	175,296	1,051,148
Rental income	7,931	2,497	13,461	208	1,917	26,014
Total revenue	352,380	236,274	215,438	95,857	177,213	1,077,162
Cost of sales	(178,726)	(139,524)	(114,987)	(71,992)	(115,167)	(620,396)
Gross profit	173,654	96,750	100,451	23,865	62,046	456,766

	For the year ended December 31, 2004					
	Regal Airport Hotel	Regal Hongkong Hotel	Regal Kowloon Hotel	Regal Oriental Hotel	Regal Riverside Hotel	Initial Hotel Properties
	(HK$ thousands)					
Revenue from hotel operations	325,859	208,886	177,417	89,306	169,158	970,626
Rental income	7,252	2,491	11,509	2	1,623	22,877
Total revenue	333,111	211,377	188,926	89,308	170,781	993,503
Cost of sales	(176,599)	(137,309)	(106,051)	(70,828)	(111,181)	(601,968)
Gross profit	156,512	74,068	82,875	18,480	59,600	391,535

	For the year ended December 31, 2003					
	Regal Airport Hotel	Regal Hongkong Hotel	Regal Kowloon Hotel	Regal Oriental Hotel	Regal Riverside Hotel	Initial Hotel Properties
	(HK$ thousands)					
Revenue from hotel operations	232,805	148,623	126,335	61,684	123,671	693,118
Rental income	7,158	2,504	8,561	81	6,795	25,099
Total revenue	239,963	151,127	134,896	61,765	130,466	718,217
Cost of sales	(155,033)	(119,168)	(91,847)	(62,515)	(99,738)	(528,301)
Gross profit/(loss)	84,930	31,959	43,049	(750)	30,728	189,916

Note:

(1) The above tables represent the selected financial information of the respective Property Companies. All figures in the tables, except those for the nine months ended September 30, 2005, are audited.

Key Indicators of the Initial Hotel Properties' Performance

The following discussion of the results of the Predecessor Group should be read in conjunction with the Predecessor Group's combined financial statements and the accompanying notes thereto set out in Appendix I to this Offering Circular.

In the hotel industry, the following indicators are commonly used to judge the performance of a hotel:

- *Occupancy rate*: Total number of room nights sold divided by the total number of room nights available for sale during the relevant period
- *Average room rate*: Total room revenue divided by the total number of room nights sold during the relevant period
- *Revenue per available room* ("***RevPAR***"): Total room revenue divided by the total number of room nights available for sale during the relevant period or the average room rate multiplied by the occupancy rate during the relevant period.

In addition, gross profit margin is also used in the analysis of the Predecessor Group.

- *Gross profit margin*: Gross profit (revenue less cost of sales) divided by revenue, usually expressed as a percentage

Of these four performance indicators, hotel operators will focus on maximizing RevPAR which will also generally maximize gross profit.

A significant part of the costs incurred in operating a hotel are fixed and do not vary proportionately with occupancy rates. A hotel is open 24 hours a day, seven days a week and incurs costs that will not vary significantly with high or low occupancy rate over the week, month or season. Operating a hotel therefore involves a significant amount of fixed costs which limits the ability of management to respond to adverse market conditions by cutting costs and can aggravate the negative impact on profits when the hotel market is weak.

Increases in RevPAR resulting from higher average room rates typically only result in increases in limited categories of operating costs and expenses such as credit card and travel agent commissions and other reservation costs and management and marketing fees. On the other hand, increases in occupancy rates typically require more resources and will result in higher operating costs but these are usually limited to cleaning materials and housekeeping staff, some energy cost and wear and tear. Most other hotel operating costs and expenses do not vary proportionately with occupancy rate, e.g. staffing of the reception will only marginally vary or not vary at all with occupancy rate.

The high portion of fixed costs creates operating leverage, whereby increases in RevPAR (as a result of a favorable market environment or good hotel management) will disproportionately affect operating results with improvements in average room rate having a more significant impact on improving operating margins than occupancy rate. Most professional hotel operators will therefore attempt to maximize RevPAR by focusing on occupancy rates when the market is weak and focusing on achieving higher average room rates when demand is strong and they are satisfied with occupancy rate.

The following table sets forth information on the occupancy rates of the Initial Hotel Properties for the years ended December 31, 2003, 2004 and 2005, and the nine months ended September 30, 2005 and 2006.

	For the year ended December 31,			For the nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	(%)	(%)	(%)	(%)	(%)
Regal Airport Hotel	51.9	73.3	66.0	64.8	62.5
Regal Hongkong Hotel	66.6	92.1	89.9	88.7	89.6
Regal Kowloon Hotel	60.9	84.2	84.2	82.0	84.9
Regal Oriental Hotel	68.5	91.1	91.6	90.7	89.6
Regal Riverside Hotel	63.4	90.1	91.4	90.8	93.0
Initial Hotel Properties(1)	60.1	83.9	81.6	80.4	80.7

Note:

(1) Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

The following table sets forth information on the average room rate of each of the Initial Hotel Properties for the years ended December 31, 2003, 2004 and 2005, and the nine months ended September 30, 2005 and 2006.

	For the year ended December 31,			For the nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	(HK$)	**(HK$)**	**(HK$)**	**(HK$)**	**(HK$)**
Regal Airport Hotel	725.6	780.6	925.6	903.1	999.0
Regal Hongkong Hotel	701.6	813.2	962.7	885.5	1,002.4
Regal Kowloon Hotel	582.5	655.2	768.9	710.4	825.6
Regal Oriental Hotel	334.4	434.5	463.0	430.2	488.0
Regal Riverside Hotel	346.9	418.3	440.6	411.2	451.2
Initial Hotel Properties(1)	545.0	621.9	706.0	664.9	743.5

Note:

(1) Average room rate of the Initial Hotel Properties is defined as total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

The following table sets forth information on RevPAR for each of the Initial Hotel Properties for the years ended December 31, 2003, 2004 and 2005, and the nine months ended September 30, 2005 and 2006.

	For the year ended December 31,			For the nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	(HK$)	**(HK$)**	**(HK$)**	**(HK$)**	**(HK$)**
Regal Airport Hotel	376.6	572.2	610.9	585.2	624.4
Regal Hongkong Hotel	467.3	749.0	865.5	785.4	898.2
Regal Kowloon Hotel	354.7	551.7	647.4	582.5	700.9
Regal Oriental Hotel	229.1	395.8	424.1	390.2	437.2
Regal Riverside Hotel	219.9	376.9	402.7	373.4	419.6
Initial Hotel Properties(1)	327.5	521.8	576.1	534.6	600.0

Note:

(1) RevPAR of the Initial Hotel Properties is defined as total room revenue divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

RevPAR increased from HK$534.6 for the nine months ended September 30, 2005 to HK$600.0 for the nine months ended September 30, 2006, an increase of 12.2%, primarily as a result of a 11.8% increase in average room rates as compared to the same period in 2005, due to a continuous improvement in guest mix at the Initial Hotel Properties and a generally robust hotel market in Hong Kong.

RevPAR increased from HK$521.8 in 2004 to HK$576.1 in 2005, an increase of 10.4%, primarily as a result of increased average room rates at each of the Initial Hotel Properties which were achieved mainly owing to an overall strategic focus on repositioning each of the Initial Hotel Properties closer towards the higher end to achieve a better business mix (e.g. fewer tour groups) by offering a better product and better service at a higher price and partly owing also to the general economic upturn. The higher average room rates were partially offset by lower occupancy rate at Regal Airport Hotel due to the repositioning of the hotel towards higher paying customers.

RevPAR increased from HK$327.5 in 2003 to HK$521.8 in 2004, an increase of 59.3%, primarily as a result of an overall increase in occupancy rate from 60.1% in 2003 to 83.9% in 2004 and also due to increased average room rates of 14.1%, for the Initial Hotel Properties as a whole, which reflected the recovery from the outbreak of SARS in 2003, increasing numbers of travelers from mainland China and improved economic conditions in Hong Kong and elsewhere in the PRC.

Nine months ended September 30, 2006 compared to nine months ended September 30, 2005

Overview

The following table sets forth a breakdown of the combined income statement for the nine months ended September 30, 2005 and 2006.

	For the nine months ended September 30,		
	2005	2006	% change
	(HK$ thousands)		(%)
	(unaudited)		
Revenue	753,253	841,530	11.7
Cost of sales	(451,752)	(454,303)	0.6
Gross profit	301,501	387,227	28.4
Other income and gains	23,733	152	(99.4)
Administrative expenses	(6,443)	(6,911)	7.3
Operating profit before depreciation and amortization	318,791	380,468	19.3
Depreciation and amortization	(125,885)	(149,727)	18.9
Operating profit	192,906	230,741	19.6
Finance costs	(116,911)	(158,578)	35.6
Profit before tax	75,995	72,163	(5.0)
Tax	12,147	(2,328)	N/A
Profit for the period	88,142	69,835	(20.8)

Revenue

Revenue increased by HK$88.2 million, or 11.7%, from HK$753.3 million for the nine months ended September 30, 2005 to HK$841.5 million for the nine months ended September 30, 2006. The increase was due primarily to increased revenues from hotel operations resulting from both higher room revenues and higher food and beverage sales at the Initial Hotel Properties.

The following table sets forth a breakdown of the Predecessor Group's revenue for the nine months ended September 30, 2005 and 2006.

	For the nine months ended September 30,		
	2005	**2006**	**% change**
	(HK$ thousands) (unaudited)		**(%)**
Revenue from hotel operations			
Room	486,462	546,289	12.3
Food and beverage	216,568	235,912	8.9
Other	31,817	34,959	9.9
	734,847	817,160	11.2
Rental income	18,406	24,370	32.4
	753,253	841,530	11.7

Revenue from hotel operations. Revenue from hotel operations increased from HK$734.8 million for the nine months ended September 30, 2005 to HK$817.2 million for the nine months ended September 30, 2006, an increase of 11.2%. The HK$59.8 million, or 12.3%, increase in room revenue was primarily the result of a 11.8% increase in the average room rate for all hotels from HK$664.9 for the nine months ended September 30, 2005 to HK$743.5 for the nine months ended September 30, 2006 as a result of improved mix of business/leisure travelers, which was complemented by a slight increase in the occupancy rate from 80.4% to 80.7%. The highest increase in average room rate was recorded in the Regal Kowloon Hotel with a 16.2% increase while all other four Initial Hotel Properties recorded an increase in the range between 10% to 13%. With mostly stable room occupancies in the first nine months of the year ranging from 63% to 93%, the growth in the average room rates of the hotels resulted in a 12.2% overall increase in the RevPAR for the Initial Hotel Properties. The process of being repositioned to target more high-yield business travelers and improve the guest mix with a view to further improving average room rates continued in the first nine months of 2006. The HK$19.3 million or 8.9% increase in food and beverage revenue reflected the continued buoyancy in the Hong Kong economy and demand from local residents and the upgrading of a number of food and beverage outlets. Other income increased slightly primarily due to the hotel laundry operation taken over by Regal Airport Hotel from a subsidiary of the Regal Group with effect from January 1, 2006.

Rental income. Rental income in respect of commercial space, primarily the shopping areas of the Initial Hotel Property, increased from HK$18.4 million for the nine months ended September 30, 2005 to HK$24.4 million for the nine months ended September 30, 2006, an increase of 32.4%, primarily due to leases being renewed at higher lease rates compared to former leases and higher occupancy rate due to the better market conditions for retail space. Rental income represented 2.4% and 2.9% respectively of revenue for the nine months ended September 30, 2005 and for the nine months ended September 30, 2006 respectively.

Cost of Sales

The following table sets forth a breakdown of the Predecessor Group's cost of sales for the nine months ended September 30, 2005 and 2006.

	For the nine months ended September 30		
	2005	2006	% change
	(HK$ thousands)		(%)
	(unaudited)		
Room	29,928	35,620	19.0
Food and beverage	83,112	90,884	9.4
Staff costs	196,803	198,150	0.7
Energy costs	49,404	49,356	(0.1)
Management fees	20,184	8,172	(59.5)
Marketing and promotion expenses	19,955	20,073	0.6
Repairs and maintenance	17,423	16,631	(4.5)
Others	34,943	35,417	1.4
Total cost of sales	451,752	454,303	0.6

Cost of sales increased marginally by 0.6% from HK$451.8 million to HK$454.3 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increase in room costs was due primarily to an increase in revenue and enhancement of guest services while the increase in food and beverage cost was also in line with the increase in revenue. The increase in staff costs was primarily due to an increase in the number of staff from 1,493 to 1,581. These increases were offset by a decrease of management fees, which decreased by HK$12.0 million, or 59.5%, from HK$20.2 million for the nine months ended September 30, 2005 to HK$8.2 million for the nine months ended September 30, 2006 due to the revision of the basis for the calculation from 3% to 1% of the revenue. Other expenses remained steady for the nine months ended September 30, 2006 compared to the same period of 2005.

Gross profit

Gross profit increased from HK$301.5 million for the nine months ended September 30, 2005 to HK$387.2 million for the nine months ended September 30, 2006, an increase of 28.4%, as a result of revenue increasing at a high rate primarily due to the improvement in the average room rate and cost of sales remaining steady. The increase in gross profit relative to the increase in revenue for the nine months ended September 30, 2006 was 97.1%. Such ratio indicates that, on average, each dollar increase in revenue resulted in a 97 cent increase in gross profit during the period. The gross profit margin for the Predecessor Group increased from 40.0% for the nine months ended September 30, 2005 to 46.0% for the nine months ended September 30, 2006 which also reflected the result of the higher increase in the average room rate with limited increases in limited categories of operating costs and expenses.

Other income and gains

Other income and gains decreased from HK$23.7 million for the nine months ended September 30, 2005 to HK$0.2 million for the nine months ended September 30, 2006 due to the one time effect of the receipt of a settlement from business interruption insurance (which, in the Predecessor Group's case, covered losses arising from an epidemic) for claims arising primarily from the outbreak of SARS in the nine months ended September 30, 2005 amounting to HK$22.4 million. No further insurance claims are outstanding in relation to the outbreak of SARS.

Administrative expenses

Administrative expenses increased by HK$0.5 million, or 7.3%, from HK$6.4 million for the nine months ended September 30, 2005 to HK$6.9 million for the nine months ended September 30, 2006. The increase was primarily due to the increase in the Predecessor Group's share of corporate overhead paid on a cost reimbursement basis to a subsidiary of Regal.

Depreciation and amortization

Depreciation and amortization increased by HK$23.8 million, or 18.9%, from HK$125.9 million for the nine months ended September 30, 2005 to HK$149.7 million for the nine months ended September 30, 2006. The write-back of impairment of hotel buildings at the end of 2005 increased the book value of those properties which in turn resulted in higher depreciation and amortization expenses.

Finance costs

Finance costs increased by HK$41.7 million, or 35.6%, from HK$116.9 million for the nine months ended September 30, 2005 to HK$158.6 million for the nine months ended September 30, 2006. The increase was mainly due to the increase in the rates of the Predecessor Group's variable rate loans which rose from the range of 1.6% to 4.8% in the first nine months of 2005 to the range of 5.2% to 5.9% in the first nine months of 2006.

Tax

The tax charge of HK$2.3 million for the nine months ended September 30, 2006, as compared to a tax credit of HK$12.1 million, resulted primarily from release of deferred tax assets due to a decrease in unused tax losses. No provision for Hong Kong profits tax was made in either periods as the companies comprising the Predecessor Group applied tax losses brought forward from prior years to offset the estimated assessable profits.

Profit for the period

Although gross profit increased as noted above, profit for the period decreased by HK$18.3 million, or 20.8%, from HK$88.1 million for the nine months ended September 30, 2005 to HK$69.8 million for the nine months ended September 30, 2006 primarily because of higher other income relating to the one time insurance claims receipt in 2005, increased depreciation expense in 2006 due to the cumulative effect of the write-backs of impairment of hotel buildings in the periods under review as well as higher finance costs caused primarily by higher interest rates.

2005 compared to 2004

Overview

The following table sets forth a breakdown of the combined income statement for the years ended December 31, 2004 and 2005.

	For the year ended December 31,		
	2004	**2005**	**% change**
	(HK$ thousands)		(%)
Revenue	993,503	1,077,162	8.4
Cost of sales	(601,968)	(620,396)	3.1
Gross profit	391,535	456,766	16.7
Other income and gains	1,956	24,143	1,134.3
Administrative expenses	(8,884)	(11,367)	27.9
Other operating expenses	(875)	—	N/A
Write-back of impairment of hotel buildings	1,149,230	964,370	(16.1)
Operating profit before depreciation and amortization	1,532,962	1,433,912	(6.5)
Depreciation and amortization	(146,557)	(174,615)	19.1
Operating profit	1,386,405	1,259,297	(9.2)
Finance costs	(109,912)	(174,248)	58.5
Profit before tax	1,276,493	1,085,049	(15.0)
Tax credit	20,914	97,193	364.7
Profit for the year	1,297,407	1,182,242	(8.9)

Revenue

Revenue increased by HK$83.7 million, or 8.4%, from HK$993.5 million in 2004 to HK$1,077.2 million in 2005. The increase was due primarily to increased revenues from hotel operations resulting from both higher room revenues and higher food and beverage sales at the Initial Hotel Properties.

The following table sets forth a breakdown of the Predecessor Group's revenue for the years ended December 31, 2004 and 2005.

	For the year ended December 31,		
	2004	**2005**	**% change**
	(HK$ thousands)		(%)
Revenue from hotel operations			
Room	636,703	700,853	10.1
Food and beverage	290,087	307,581	6.0
Other	43,836	42,714	(2.6)
	970,626	1,051,148	8.3
Rental income	22,877	26,014	13.7
	993,503	1,077,162	8.4

Revenue from hotel operations. Revenue from hotel operations increased from HK$970.6 million in 2004 to HK$1,051.1 million in 2005, an increase of 8.3%. The HK$64.2 million, or 10.1%, increase in room revenue was primarily the result of a 13.5% increase in the average room rate for all hotels from HK$621.9 in 2004 to HK$706.0 in 2005 as a result of improved mix of business/leisure travelers, which was partially offset by a slight decrease in the occupancy rate from 83.9% to 81.6% as a result of more leisure travelers who tend to spend more and fewer tour groups which tend to pay lower room rates. Notwithstanding that mainland Chinese visitors to Hong Kong totaled approximately 12.5 million, representing approximately 53.7% of visitors to Hong Kong in 2005, occupancy rates decreased, primarily as a result of the revenue management strategy of improving the guest mix to include more high spending business and leisure travelers (at the expense of losing some low-spending PRC guests). The slight decrease in the combined occupancy rate was also due to the drop in occupancy at Regal Airport Hotel from 73.3% in 2004 to 66.0% in 2005 attributable to a gradual change in guest mix mentioned above. All the other four Initial Hotel Properties achieved an occupancy between 84% to 92% for 2005, which was about the same level as 2004. The increase in room rates at Regal Oriental Hotel and Regal Riverside Hotel which targeted mainly tourists from the PRC, was only about 6.6% and 5.3% respectively as compared to 2004. The average room rates at the other three Initial Hotel Properties, namely Regal Airport Hotel, Regal Hongkong Hotel and Regal Kowloon Hotel, increased by 17% to 19% in 2005 as compared to 2004 and as a result, the combined RevPAR for the Initial Hotel Properties increased by 10.4%. The HK$17.5 million, or 6.0%, increase in food and beverage revenue of the Initial Hotel Properties reflected the continued buoyancy in the Hong Kong economy and demand from local residents and the upgrading of a number of food and beverage outlets. Other income fell slightly in line with the slight drop in occupancy rates over the year.

Rental income. Rental income in respect of commercial space, primarily shopping areas of the Initial Hotel Property increased from HK$22.9 million in 2004 to HK$26.0 million in 2005, an increase of approximately 13.7%, primarily due to leases being renewed at higher lease rates compared to former leases entered into when the outbreak of SARS had adversely affected the commercial property market and higher occupancy rate. Rental income in respect of land and buildings represented 2.3% and 2.4% respectively of revenue in 2004 and 2005.

Cost of sales

The following table sets forth a breakdown of the Predecessor Group's cost of sales for the years ended December 31, 2004 and 2005.

	For the year ended December 31,		
	2004	**2005**	**% change**
	(HK$ thousands)		**(%)**
	(unaudited)	(unaudited)	
Room	38,760	40,448	4.4
Food and beverage	110,335	115,137	4.4
Staff costs	261,632	271,471	3.8
Energy costs	62,607	64,688	3.3
Management fees	26,644	28,852	8.3
Marketing and promotion expenses	23,653	27,370	15.7
Repairs and maintenance	30,614	24,162	(21.1)
Others	47,723	48,268	1.1
Total cost of sales	601,968	620,396	3.1

Cost of sales increased by HK$18.4 million, or 3.1%, from HK$602.0 million in 2004 to HK$620.4 million in 2005. The increase was primarily due to increases in staff costs as a result of both an increase in staff members from 1,468 to 1,501 and modest salary increases as Hong Kong's economy emerged from the recession. Nearly one-half of the increase was due to higher food and beverage costs and marketing and promotion expenses partially offset by a decrease in repairs and maintenance. The increases in food and beverage costs and a smaller increase in room costs were due primarily to an increase in revenue and enhancement of guest services while the increase in staff costs was primarily due to an increase in the number of staff from 1,468 to 1,501 and also modest salary increases. Repairs and maintenance fell back to more normal levels in 2005 as costs in 2004 had increased significantly due to work which had been delayed or deferred from 2003 to 2004 due to the more difficult operating conditions created by the outbreak of SARS. The increase in marketing and promotion expenses from 2004 to 2005 was in line with improved economic conditions in Hong Kong.

Gross profit

Gross profit increased from HK$391.5 million in 2004 to HK$456.8 million in 2005, an increase of 16.7%, as a result of revenue increasing at a higher rate than cost of sales primarily due to the improvement in the average room rate. The increase in gross profit relative to the increase in revenue for the year ended December 31, 2005 was 78.0%. Such ratio indicates that, on average, any dollar increase in revenue resulted in a 78 cent increase in gross profit during the period. The gross profit margin for the Predecessor Group increased from 39.4% in 2004 to 42.4% in 2005 which also reflected the result of the higher increase in the average room rate with limited increases in certain categories of costs of sale.

Other income and gains

Other income and gains increased from HK$2.0 million in 2004 to HK$24.1 million in 2005. The increase was due to the one time settlement from business interruption insurance for claims of HK$22.4 million arising primarily from the outbreak of SARS in 2003. No further insurance claims are outstanding in relation to the outbreak of SARS.

Administrative expenses

Administrative expenses increased by HK$2.5 million, or 27.9%, from HK$8.9 million in 2004 to HK$11.4 million in 2005. The increase was primarily due to the increase in the Predecessor Group's share of corporate overhead determined and paid on a cost reimbursement basis to a subsidiary of Regal by reference to the improving results of operations of the Predecessor Group.

Write-back of impairment of hotel buildings

Based on an independent valuation, the write-back of impairments was HK$1,149.2 million in 2004 in respect of Regal Oriental Hotel (HK$459.8 million), Regal Riverside Hotel (HK$582.0 million) and Regal Kowloon Hotel (HK$107.4 million), compared to HK$964.4 million in 2005 representing the write-back of the remaining balance of the impairment in respect of Regal Riverside Hotel. See "Critical Accounting Policies — Impairment of Assets".

Depreciation and amortization

Depreciation and amortization increased by HK$28.0 million, or 19.1%, from HK$146.6 million in 2004 to HK$174.6 million in 2005. The increase was mainly due to the depreciation of the increased book value of the hotel buildings whose impairment was written back in 2004.

Finance costs

Finance costs increased by HK$64.3 million, or 58.5%, from HK$109.9 million in 2004 to HK$174.2 million in 2005. The increase was mainly due to the increase in interest rates of the Predecessor Group's variable rate loans compared to the Predecessor Group's bank borrowing in prior periods.

Tax credit

Tax credit increased by HK$76.3 million, or 364.7%, from HK$20.9 million in 2004 to HK$97.2 million in 2005. The increase was due primarily to a decrease in deferred tax asset not recognized. No provision for Hong Kong profits tax was made in 2005 and 2004 as the companies comprising the Predecessor Group applied tax losses brought forward from prior years to offset the estimated assessable profits.

Profit for the year

Although gross profit increased as noted above, profit for the year decreased by HK$115.2 million, or 8.9%, from HK$1,297.4 million in 2004 to HK$1,182.2 million in 2005 primarily because the write-back of impairment of hotel buildings was larger in 2004 than in 2005, depreciation expense and finance costs in 2005 were higher.

2004 compared to 2003

Overview

The following table sets forth a breakdown of the combined income statement for the years ended December 31, 2003 and 2004.

	For the year ended December 31,		
	2003	2004	% change
	(HK$ thousands)		(%)
Revenue	718,217	993,503	38.3
Cost of sales	(528,301)	(601,968)	13.9
Gross profit	189,916	391,535	106.2
Other income and gains	2,347	1,956	(16.7)
Administrative expenses	(11,928)	(8,884)	(25.5)
Other operating expenses	(2,929)	(875)	(70.1)
Write-back of impairment of hotel buildings	644,001	1,149,230	78.5
Operating profit before depreciation and amortization	821,407	1,532,962	86.6
Depreciation and amortization	(139,550)	(146,557)	5.0
Operating profit	681,857	1,386,405	103.3
Finance costs	(111,860)	(109,912)	(1.7)
Profit before tax	569,997	1,276,493	123.9
Tax credit	50,431	20,914	(58.5)
Profit for the year	620,428	1,297,407	109.1

Revenue

Revenue increased by HK$275.3 million, or 38.3%, from HK$718.2 million in 2003 to HK$993.5 million in 2004. The increase was due primarily to the turnaround in the tourism industry in Hong Kong in 2004 following the outbreak of SARS in 2003 as occupancy rate increased from 60.1% in 2003 to 83.9% in 2004 and average room rate increased from HK$545.0 in 2003 to HK$621.9 in 2004.

The following table sets forth a breakdown of the Predecessor Group's revenue for the years ended December 31, 2003 and 2004.

	For the year ended December 31,		
	2003	2004	% change
	(HK$ thousands)		(%)
Revenue from hotel operations			
Room	398,991	636,703	59.6
Food and beverage	256,278	290,087	13.2
Other	37,849	43,836	15.8
	693,118	970,626	40.0
Rental income	25,099	22,877	(8.9)
	718,217	993,503	38.3

The low level of room revenue in 2003 was primarily due to the outbreak of SARS. Tourism and the hotel businesses in Hong Kong were drastically affected, with the total number of visitors to Hong Kong decreasing by approximately 20% in the first half of 2003, as compared with the same period in 2002.

Revenue from hotel operations. Revenue from hotel operations increased by HK$277.5 million, or 40.0%, from HK$693.1 million in 2003 to HK$970.6 million in 2004 primarily as a result of a 59.6% increase in room revenue. The increase in room revenue was due primarily to an increase in both the occupancy rate and the average room rate achieved at each of the Initial Hotel Properties. The occupancy rate recovered from 60.1% in 2003, the year in which SARS broke out, to 83.9% in 2004. All Initial Hotel Properties recorded over 20 percentage points increase in occupancy rates with the highest increases at Regal Riverside Hotel, from 63.4% to 90.1%, and Regal Hongkong Hotel, from 66.6% to 92.1%. Regal Oriental Hotel and Regal Riverside Hotel recorded the highest increase in average room rate of 29.9% and 20.6% respectively over 2003 mainly due to a strong influx of PRC tourists. The average room rate of the Initial Hotel Properties similarly recovered and increased by HK$76.9 to HK$621.9 in 2004 from HK$545.0 in 2003. The resultant combined RevPAR for the Initial Hotel Properties increased by 59.3% in 2004. The extension of the Individual Visit Scheme to over 30 cities in China and the gradual recovery of major overseas markets to their pre-SARS levels in 2004 contributed to the increased revenue from hotel operations. Food and beverage revenue increased between 2003 and 2004, but not as significantly as room revenues, since food and beverage revenue depends on the volume of hotel guest and local patronage the latter of which was less severely affected during the outbreak of SARS. Other income also increased in 2004 as a result of the increase in occupancy rates.

Rental income. Rental income in respect of commercial space, primarily shopping areas of the Initial Hotel Property, decreased by HK$2.2 million, or 8.9%, from HK$25.1 million in 2003 to HK$22.9 million in 2004 due primarily to one large tenant terminating its lease of shop area at Regal Riverside Hotel.

Cost of sales

The following table sets forth a breakdown of the Predecessor Group's cost of sales for the years ended December 31, 2003 and 2004.

	For the year ended December 31,		
	2003	2004	% change
	(HK$ thousands)		(%)
	(unaudited)	(unaudited)	
Room	33,014	38,760	17.4
Food and beverage	98,421	110,335	12.1
Staff costs	236,078	261,632	10.8
Energy costs	55,455	62,607	12.9
Management fees	19,038	26,644	40.0
Marketing and promotion expenses	18,778	23,653	26.0
Repairs and maintenance	23,112	30,614	32.5
Others	44,405	47,723	7.5
Total cost of sales	528,301	601,968	13.9

Cost of sales increased by HK$73.7 million, or 13.9%, from HK$528.3 million in 2003 to HK$602.0 million in 2004 due primarily to increases in all cost items as a result of the increase in occupancy rate and an increase in food and beverage revenue. The increase in staff costs was mainly due to the increase in salary expenses as a result of a significant number of staff returning from unpaid leave after the end of the outbreak of SARS which abnormally reduced staff costs in 2003 as well as performance bonus payable in 2004. Repairs and maintenance costs increased significantly because work that would have been carried out in 2003 had been delayed or deferred to 2004 due to the more difficult operating conditions created by the outbreak of SARS in 2003. Management fees increased in the same proportion as the revenue increase.

Gross profit

Gross profit increased by HK$201.6 million, or 106.2%, from HK$189.9 million in 2003 to HK$391.5 million in 2004, as a result of hotel revenues increasing by a higher rate than cost of sales. The increase in gross profit relative to the increase in revenue for the year ended December 31, 2004 was 73.2%. Such ratio indicates that, on average, every dollar increase in revenue resulted in a 73 cent increase in gross profit during the period. The gross profit margin for the Predecessor Group increased by 13.0% from 26.4% in 2003 to 39.4% in 2004 due to the high fixed cost nature of hotel operations, the marginal revenue from each additional guest substantially exceeds the marginal cost of deriving that revenue.

Other income and gains

Other income and gains decreased by HK$0.3 million, or 16.7%, from HK$2.3 million in 2003 to HK$2.0 million in 2004.

Administrative expenses

Administrative expenses decreased by HK$3.0 million, or 25.5%, from HK$11.9 million in 2003 to HK$8.9 million in 2004. The decrease was due primarily to the decrease in the Predecessor Group's share of corporate overhead paid on a cost-reimbursement basis to a subsidiary of Regal.

Write-back of impairment of hotel buildings

In 2004, there was an additional write-back of impairment of hotel buildings of HK$1,149.2 million (comprising write-backs of HK$107.4 million for Regal Kowloon Hotel, HK$459.8 million for Regal Oriental Hotel and HK$582.0 million for Regal Riverside Hotel) compared to a write-back of HK$644.0 million (comprising write-backs of HK$155.9 million for Regal Kowloon Hotel and HK$488.1 million for Regal Riverside Hotel) in 2003.

Depreciation and amortization

Depreciation and amortization increased by HK$7.0 million, or 5.0%, from HK$139.6 million in 2003 to HK$146.6 million in 2004. The increase was due primarily to the depreciation of the increased book value of the hotel buildings whose impairment was written back in 2003 on a straight-line basis over the shorter of 100 years or the remaining lease term.

Finance costs

Finance costs decreased by HK$2.0 million, or 1.7%, from HK$111.9 million in 2003 to HK$109.9 million in 2004. The slight decrease was due primarily to a decrease in interest expenses charged by a fellow subsidiary company.

Tax credit

Tax credit decreased by HK$29.5 million, or 58.5%, from HK$50.4 million in 2003 to HK$20.9 million in 2004. The decrease was due primarily to the combined effect of increased taxable income, the utilization of tax losses brought forward from previous periods and a decrease in additional deferred tax assets recognized. No provision for Hong Kong profits tax has been made in 2004 and 2003 as the companies comprising the Predecessor Group applied tax losses carried forward from prior years to offset the estimated assessable profits.

Profit for the year

Profit for the year increased by HK$677.0 million, or 109.1%, from HK$620.4 million in 2003 to HK$1,297.4 million in 2004, primarily as a result of the write-back of impairment of hotel buildings was greater in 2004 than in 2003.

Liquidity and Capital Resources

During the periods under review, the principal sources of funding for the Predecessor Group included its operating activities, working capital, bank borrowings and intercompany loans from the Regal Group. The Predecessor Group's primary use for cash was the renovation of the Initial Hotel Properties.

The following table presents selected cash flow data from the Predecessor Group's consolidated cash flow statements for the years ended December 31, 2003, 2004 and 2005 and nine months ended September 30, 2005 and 2006.

	For the year ended December 31,			**For the nine months ended September 30,**	
	2003	**2004**	**2005**	**2005**	**2006**
	(HK$ thousands)	**(HK$ thousands)**	**(HK$ thousands)**	**(HK$ thousands)** (unaudited)	**(HK$ thousands)**
Cash flows from operating activities					
Net cash provided by operations[(1)]	179,946	384,201	469,643	318,960	380,214
Net change in working capital[(2)]	399	18,733	(11,559)	(33,419)	(44,393)
Total	180,345	402,934	458,084	285,541	335,821
Net cash used in investing activities	(17,967)	(42,798)	(63,216)	(36,471)	(64,379)
Net cash used in financing activities	(166,681)	(352,113)	(388,102)	(251,759)	(275,026)
Net increase/(decrease) in cash and cash equivalents	(4,303)	8,023	6,766	(2,689)	(3,584)

Notes:

(1) Represents profit from operations as adjusted for finance costs, write-back of impairment of hotel buildings, interest income, depreciation, recognition of prepaid land lease payments, impairment on trade debtors and write-off of bad debts.

(2) Represents increases/(decreases) in hotel inventories; debtors, deposits and prepayments; creditors and accruals; and deposits received.

Operating activities. Net cash provided by operating activities was HK$335.8 million for the nine months ended September 30, 2006. For the same period, the Predecessor Group reported profit for the period of HK$69.8 million. Net cash provided by operating activities was HK$458.1 million for the year ended December 31, 2005. For the same period, the Predecessor Group reported profit for the year of HK$1,182.2 million. Net cash provided by operating activities was HK$402.9 million in the year ended December 31, 2004. For the same period, the Predecessor Group reported profit for the year of HK$1,297.4 million. Net cash provided by operating activities was HK$180.3 million for the year ended December 31, 2003. For the same period, the Predecessor Group reported profit for the year of HK$620.4 million. Profit for the year increased in each period prior to 2006 primarily due to write-backs in respect of three of the Initial Hotel Properties, however cash flows from operating activities also increased in each period primarily due to increased profit from operations as a result of the improved economic environment in Hong Kong which correlated with higher RevPAR, and was partially offset in 2005 by net cash used in working capital of HK$32.0 million for payments in respect of debtors, deposits and prepayments because of a higher level of trade receivable balance. Improvement in working capital conditions for the year ended December 31, 2004 was due to the increase in amounts due to creditors and accruals of approximately HK$19.4 million compared to the year ended December 31, 2003 primarily due to performance bonus accrued at the end of 2004.

Investing activities. Cash provided by or used in investment activities fluctuated primarily based on renovations of hotels and concomitant purchases of items of property, plant and equipment. Net cash used in investing activities was HK$64.4 million for the nine months ended September 30, 2006. Net cash used in investing activities was HK$63.2 million in the year ended December 31, 2005 compared to HK$42.8 million in the year ended December 31, 2004. Net cash used in investing activities was HK$18.0 million for the year ended December 31, 2003. The increase in net cash used in investing activities in 2005 compared to net cash used in investing activities in 2004 resulted from refurbishment and upgrading of various food and beverage outlets in the Initial Hotel Properties and the opening of a new coffee shop in the Regal Kowloon Hotel. The increase in net cash used in investing activities in 2004 compared to net cash used in investing activities in 2003 resulted in part from unusually low levels during 2003 due to projects postponed during the outbreak of SARS, and from refurbishment programs begun in 2004.

Financing activities. Net cash used in financing activities was HK$275.0 million for the nine months ended September 30, 2006, HK$388.1 million in 2005, HK$352.1 million in 2004 and HK$166.7 million in 2003. The net cash outflow in 2005 was primarily due to repayment of an amount due in respect of the intercompany loan from the Regal Group of HK$230.5 million together with interest paid of HK$157.6 million on both an intercompany loan from the Regal Group and a bank loan. The loan from a fellow subsidiary company had the same principal balance in 2005 and 2004, whereas the bank loan's principal balance was approximately HK$3.3 million higher in 2005 than in 2004, when interest expense was approximately HK$109.9 million. Since the principal balance of long-term borrowings changed by only a small amount from 2004 to 2005, the increased interest expense in 2005 compared to 2004 was due to higher interest rates on long-term borrowings. The net cash outflow in 2004 was primarily due to the repayment of an existing bank loan of HK$1.1 billion and the repayment of an amount due to a fellow subsidiary company of HK$573.3 million as well as interest paid of HK$124.7 million. Cash outflow in 2004 was partially offset by a new bank borrowing of HK$1.4 billion incurred to refinance debt. Interest expense from 2003 to 2004 was fairly stable in spite of higher long-term borrowings due to a favorable interest rate environment. The net cash outflow in 2003 was primarily due to interest paid of HK$110.1 million, repayment of an amount due to a fellow subsidiary company of HK$50.0 million and repayment on a bank loan of HK$6.6 million. The principal amount of the bank loan increased in 2004 compared to 2003 by approximately HK$341.1 million when the earlier loan was refinanced. Consequently interest expense on the bank loan increased by approximately HK$1.7 million in 2004 compared to 2003, partially offset in 2004 by lower interest expense of approximately HK$5.4 million on the loan from a fellow subsidiary company (whose principal balance remained the same) compared to 2003.

Contractual Obligations

The Predecessor Group's capital requirements included primarily debt repayment and expenditures for expansion relating to the refurbishment and upgrading of hotels, which capital requirements were financed by cash flows from operations and the net proceeds received from bank borrowings.

As set forth elsewhere in this Offering Circular, including in the section headed "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations," following the Acquisition and this Offering, Regal REIT will have different obligations and expenses.

Indebtedness

Historically, the indebtedness of the Predecessor Group consisted primarily of intercompany loans and bank borrowings. As at September 30, 2006, the outstanding intercompany loan due to Fortune Nice Investment Limited, a subsidiary of Regal, and bank borrowings amounted to approximately HK$2,386.0 million and HK$1,389.2 million, respectively. The bank loan was interest bearing, with interest rates ranging from 1.125% to 2.25% plus HIBOR. The annual interest rate of the intercompany loan increased from approximately 1.8% in 2004 to 5.6% in 2005. In addition, there was also an interest-free intercompany loan owing to Long Profit Investments Limited, a subsidiary of Regal, in the amount of HK$5,073.8 million as at September 30, 2006. Accordingly, the aggregate indebtedness of the Predecessor Group amounted to approximately HK$8,849.0 million in total as at September 30, 2006.

Capital Expenditure

Capital expenditure incurred by the Predecessor Group for each of 2003, 2004 and 2005 and for the nine months ended September 30, 2006, which primarily comprised additions of property, plant and equipment, amounted to HK$14.7 million, HK$44.2 million, HK$71.8 million and HK$58.7 million, respectively. In addition to the normal replacement of hotel furniture and equipment, these expenditures also included amounts incurred in connection with the renovation and upgrading of guest floors and food and beverage outlets, the refurbishment of hotel lobbies and other public areas, the opening of new food and beverage outlets, replacement work and upgrading of CCTV, ventilation, air-conditioning, plumbing and drainage systems and fire service alteration works. The increase in capital expenditure in 2004 over 2003 was primarily due to the relatively low level of expenditure incurred in 2003 in the wake of the outbreak of SARS, and the inclusion of consultancy fees of HK$18.7 million paid in 2004 in relation to the settlement of certain claims with the Airport Authority Hong Kong regarding the construction of the Regal Airport Hotel and an extension of the term of the sub-lease concluded with the Airport Authority Hong Kong. In 2005 and the nine months ended September 30, 2006, further capital expenditures were incurred in all Initial Hotel Properties to improve their quality in response to the continuous improvement in the local hotel market.

With the objective of enhancing the value of the Initial Hotel Properties and increasing the revenue generated from the Initial Hotel Properties, the Vendor has undertaken, under the terms of the Sale and Purchase Agreement, to complete the Asset Enhancement Program, which includes an addition of no less than 468 rooms to the Initial Hotel Properties. The capital expenditure in connection with the Asset Enhancement Program will be borne by Regal.

Quantitative and Qualitative Disclosure About Market Risk

The main risks arising from the Predecessor Group's financial instruments were interest rate risk, credit risk and liquidity risk. For the periods under review, the Predecessor Group did not use any derivatives or other instruments for hedging purposes. The Predecessor Group did not hold or issue derivative financial instruments for trading purposes. The directors of the Predecessor Group reviewed and agreed policies for managing each of these risks and they are summarized below:

Interest rate risk. The Predecessor Group's exposure to the risk of changes in market interest rates related primarily to the Predecessor Group's long term debt obligations with a floating interest rate. Floating rate interest income and expenses were charged to the income statement as incurred. The Predecessor Group did not have any financial instrument for the purpose of hedging.

Credit risk. The Predecessor Group traded only with third parties it recognized as creditworthy. It was the Predecessor Group's policy that all customers who wished to trade on credit terms were subject to credit verification procedures. In addition, receivable balances were monitored on an ongoing basis and the Predecessor Group's exposure to bad debts was not significant. The credit risk of the Predecessor Group's other financial assets, which comprised cash and cash equivalents and pledged time deposits, arose from default of counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the Predecessor Group traded only with third parties that it recognized as creditworthy, there was no requirement for collateral.

Liquidity risk. The Predecessor Group's objective was to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows were closely monitored on an ongoing basis. The policy of the Predecessor Group was to raise funds from either the financial market or from sale of its assets if required in event of a liquidity problem.

Off-Balance Sheet Arrangements

The Predecessor Group had no outstanding derivative financial instruments or off-balance sheet guarantees. In the ordinary course of business, the Predecessor Group entered into operating lease commitments, capital commitments and other contractual obligations. These transactions were disclosed in the Predecessor Group's combined financial statements in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS. The Predecessor Group had a contingent liability in respect of possible future long service payments to employees under Hong Kong's Employment Ordinance, with a maximum possible amount of HK$10.7 million, HK$6.6 million, HK$5.4 million and HK$3.1 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, as further explained in note 2(n) to the combined financial statements included in Appendix I to this Offering Circular. The contingent liability arose because, at the balance sheet dates, a number of current employees had achieved the required number of years of service to the Predecessor Group, and were eligible for long service payments under Hong Kong's Employment Ordinance if their employment were terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Predecessor Group. In the context of Regal REIT, the applicable obligations will be assumed by the Regal Group pursuant to the Sale and Purchase Agreement.

After the Acquisition, Regal REIT's operations will not be comparable to the Predecessor Group because of the different legal, financial and operating structure under which the Initial Hotel Properties will be owned, but not operated by Regal REIT.

As a result, the following discussion has been prepared to assist investors' evaluation of the factors which may affect Regal REIT's future results of operations. Such statements are subject to uncertainties and assumptions, and under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the REIT Manager, the Trustee, the Underwriters or any other person.

The REIT Manager consider the assumptions to be reasonable.

Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof.

Background

The audited and unaudited combined financial information of the Predecessor Group set forth in Appendix I to this Offering Circular and the other historical financial information have been prepared by the directors of the companies comprising the Predecessor Group based on the historical operations of the Predecessor Group.

Upon completion of the Global Offering, Regal REIT will have entered into a Sale and Purchase Agreement with Regal to acquire the Initial Hotel Properties. The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. Variable Rents allow Unitholders to share the upside of the Initial Hotel Properties' Net Property Income. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

After the Acquisition, Regal REIT's operations will not be comparable to the Predecessor Group. As a result, the following discussion has been prepared to assist investors' evaluation of the factors which may affect Regal REIT's future level of distributions to Unitholders.

Since its primary source of revenue will be the rental payments payable under the Lease Agreements which are expected to be passed up as dividends from its subsidiaries, Regal REIT will have significantly less exposure to the results of the operations of the Initial Hotel Properties than the Vendor had in the case of the Predecessor Group in relation to which the principal source of revenue was income from the operation of the Initial Hotel Properties. On the other hand, as Variable Rents are payable in the amounts of between 50%-100% of Collective NPI Excess in 2007-2010, Regal REIT will not get all of the upside from the operation of the Initial Hotel Properties.

The cost structure of Regal REIT will also be different from the Predecessor Group. For example, hotel operating costs and hotel management fees in respect of the Initial Hotel Properties will not be costs of Regal REIT as they will be borne by the Lessee. Furthermore, certain costs, such as the REIT Manager's and Trustee's fees, will be costs of Regal REIT going forward that were not costs of the Predecessor Group historically.

The format and presentation of Regal REIT's financial information will also differ from that of the audited financial information of the Predecessor Group set forth in Appendix I.

Critical Accounting Policies Adopted By Regal REIT

Critical accounting policies are those that are expected to have a significant impact on the reporting of financial conditions and results of operation and required management to make estimates and judgments that affect the reported results. These estimates are evaluated on an ongoing basis, based on historical experience, information that is currently available and various assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Due to the different legal, financial and operating structure of Regal REIT compared to the Predecessor Group's operations, Regal REIT will adopt certain accounting treatments that will differ in certain respects from those used in preparing the audited financial statements of the Predecessor Group. As a result of Regal REIT entering into the Lease Agreements, the Hotel Management Agreements and the Financing Agreement, and based on the provisions of the Trust Deed, the REIT Manager expects to adopt the following critical accounting policies which it anticipates will require the most significant judgments and estimates in the preparation of Regal REIT's consolidated financial statements and have the most significant effect on the presentation of Regal REIT's results. In the event of any future changes to Regal REIT's business, including any termination or non-renewal of the Lease Agreements or the potential acquisition of additional hotel properties under different operating arrangements, Regal REIT may be required to adopt different or additional critical accounting policies which may be similar to those used in the preparation of the combined financial statements of the Predecessor Group.

(a) Investment properties

The Initial Hotel Properties to be acquired by Regal REIT and held for rental income purpose will be accounted for as investment properties. Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

Initially Regal REIT will recognize the acquired investment properties at their fair values by reference to an independent professional valuation. Subsequent to initial recognition, investment properties will be stated at fair value, which will normally be their open market values for existing use at the subsequent balance sheet date, on the basis of annual professional valuations to be conducted by an independent valuer.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In case an investment property is retired or disposed of, the gains or losses on the retirement or disposal are recognized in the income statement in the year of the retirement or disposal.

(b) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to Regal REIT and when the revenue can be measured reliably, on the following bases:

(i) rental income, which in the case of Base Rent is recognized in the period in which the Initial Hotel Properties are leased and on a straight-line basis over the lease terms and in the case of Variable Rent is recognized on an accrual basis;

(ii) contribution by lessee in respect of furniture, fixture and equipment is recognized on an accrual basis; and

(iii) interest income, 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.

(c) Income tax

Income tax comprises current and deferred tax. Income tax charges are generally recognized in the income statement, but they would be recognized in equity if they relate to items recognized directly in equity whether in the same period or a different one.

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 recognized for all taxable temporary differences. On the Listing Date, Regal REIT is expected to have deferred tax liabilities in the amount of approximately HK$1,527 million which primarily represent the deferred tax liabilities calculated on the valuation gain on the Initial Hotel Properties purchased by Regal REIT through the acquisition of the immediate holding companies owning these properties and the deferred tax liabilities acquired from the Predecessor Group in accordance with the Sale and Purchase Agreement. Based on current tax legislation, no capital gain tax is payable upon disposal of the Initial Hotel Properties.

Deferred tax assets are recognized for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the tax losses can be utilized. Recognition primarily involves judgment regarding the future performance of Regal REIT. A variety of other factors are 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 realized, such as tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred tax assets and related taxable profits projection are reviewed at each balance sheet. On the Listing Date, the total gross deferred tax assets of Regal REIT are estimated at approximately HK$182 million.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

(d) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Regal REIT is the lessor and accordingly, assets leased by Regal REIT under operating leases i.e. the Initial Hotel Properties, are classified as investment properties under the non-current assets section of the balance sheet, and Base Rents receivable under the Lease Agreements are credited to the income statement on a straight-line basis over the lease terms.

(e) Goodwill

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

Goodwill arising on the acquisition is initially recognized in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the business of Regal REIT. Impairment is determined by assessing the recoverable amount of the business to which the goodwill relates. Where the recoverable amount of the business is less than the carrying amount, an impairment loss is recognized.

Where goodwill forms part of the business and part of the operation within that business is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the business retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

On the Listing Date, goodwill will arise because the consideration for the acquisition by Regal REIT of the immediate holding companies of the Initial Hotel Properties will exceed the net assets of such companies primarily due to the provision for deferred tax liabilities in respect of the revaluation surplus of these Initial Hotel Properties, which will be required under Hong Kong Accounting Standard 12 "Income taxes". Depending on the level of the Offer Price, excess over the cost of business combination may arise, which will be credited to the consolidated income statement immediately as incurred. As the Initial Hotel Properties have been held by their respective owner companies for the long term, Regal REIT does not believe that any eventual disposal would give rise to a profits tax liability. Accordingly, any impairment/write-off of goodwill resulting from any decrease in the fair value/disposal of the Initial Hotel Properties will give rise to a corresponding release of the relevant portion of the provision for deferred tax liabilities.

(f) Interest-bearing bank loans

All bank loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing bank loans are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the term of the loans using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

(g) Financial instruments

Regal REIT may use derivative financial instruments such as interest rate hedging agreements to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognized 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.

The fair value of the interest rate hedging agreements is determined by reference to the present value of estimated future cash flows. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year. A hedge of the interest rate risk is accounted for as a cash flow hedge, which is hedge for Regal REIT's exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

At the inception of a hedge relationship, Regal REIT will formally designate and document the hedge relationship to which Regal REIT wishes to apply hedge accounting, the risk management objective and the 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 Regal REIT 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 recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. If the forecast transaction is no longer expected to occur, the amounts previously recognized in equity are transferred to profit or loss. 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 recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

(h) Finance costs

Finance costs are recognized as expenses in the income statement in the period in which they are incurred.

Where debt establishment costs including upfront fees and legal and professional fees are incurred when a borrowing arrangement is set up, such fees will be subject to amortization as described in note (f) above.

Factors Affecting the results of Regal REIT

Lease Agreements

Regal REIT will receive rental income comprising Base Rent and Variable Rent, if any. The Base Rent is a fixed amount. The amount of Variable Rent which Regal REIT may receive depends on the results of operations of the Initial Hotel Properties. See "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations — Discussion of key future income statement items — Revenue" below.

Other Factors Affecting Hotel Operations

The Variable Rent portion of Regal REIT's rental income depends on the results of operations of the Initial Hotel Properties which is affected by factors affecting the hotel industry in general. A discussion of how such factors affect the Initial Hotel Property can be found in "Financial Information and Profit Forecast — Management's Discussion and Analysis of Financial Condition and Results of Predecessor Group — Factors Affecting the Results of the Predecessor Group" above. In particular, the REIT Manager anticipates that the key drivers that may affect the future results of operations of the Initial Hotel Properties or of any additional hotel properties in Hong Kong that Regal REIT may acquire are likely to include the expansion of the Individual Visit Scheme to more provinces and cities in mainland China, growth in the GDP of the PRC economy and that of other nearby countries as well as of the Hong Kong economy, continued integration of the PRC and Hong Kong economies, intense competition in the hotel industry in Hong Kong and the completion of the Asset Enhancement Program and Regal REIT's acquisitions, if any, of additional hotel properties.

The Initial Hotel Properties have historically experienced seasonal differences typical of the hotel industry, with higher revenue in the fourth quarter of each calendar year, which reflects the high season for trade fairs and leisure travelers in Hong Kong, compared with the rest of the year. However, this seasonality is not expected to cause fluctuations in Regal REIT's revenue relating to the Initial Hotel Properties because the Base Rent is set monthly on an equal basis for the years from 2007 to 2010 on the basis of projected earnings, and is guaranteed by Regal under the Lease Agreements.

Valuation of Real Property

Regal REIT will adopt the fair value model prescribed under Hong Kong Accounting Standard 40 "Investment Property" to account for the Initial Hotel Properties as investment properties and to state them at fair value, which reflects market conditions at the relevant balance sheet date. Consequently, gains or losses arising from changes in the fair values of the Initial Hotel Properties are reflected in the income statement for the relevant period. See "Financial Information and Profit Forecast — Management's Discussion and Analysis of Future Operations — Critical Accounting Policies Adopted by Regal REIT — Investment Properties" above.

Discussion of key future income statement items

As a result of entering into the Lease Agreements, the Hotel Management Agreements and the Financing Agreement, and based on the provisions of the Trust Deed, Regal REIT's future income statement is expected to follow substantially the format described below.

In the event of any future changes to Regal REIT's business, including any termination or non-renewal of the Lease Agreements or the potential acquisition of additional hotel properties under different operating arrangements, the structure and composition of Regal REIT's income statement and of individual income and expense items may change. In the absence of lease arrangements, for example, Regal REIT could be directly exposed to the risk and rewards of operating its hotel properties. In such circumstances Regal REIT's income statement would include items similar to those included in the historical combined financial statements of the Predecessor Group.

Revenue

Rental income

Regal REIT will lease the Initial Hotel Properties to the Lessee for a term expiring on December 31, 2015, which will provide Regal REIT with a predetermined base income stream (or Base Rent) and profit sharing arrangements with potential upside (or Variable Rent) for the period from the Listing Date to December 31, 2010. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent year from 2011 to 2015. The Lessee shall pay to the Lessors the higher of the monthly base rent comprised within such market rental package as determined by such valuer and the Floor Rent (HK$400 million per annum) in such manner that the monthly rental income of the Lessors will be not less than one-twelfth of the Floor Rent. See the section headed "Material Agreements — Lease Agreements" in this Offering Circular for more details.

Accordingly, the sources of revenue of Regal REIT will be entirely different to those of the Predecessor Group in relation to which the principal source of revenue was income from the operation of the Initial Hotel Properties because Regal REIT will not, while the Lease Agreements are in place, be operating the Initial Hotel Properties.

However, the results of future operations of the Initial Hotel Properties may impact on the Lessee' s ability to perform its obligations under the Lease Agreements and on the revenue of Regal REIT.

(i) Base Rent

The Lease Agreements provide for the payment by the Lessee of Base Rent (in aggregate) of HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007, being HK$475.9 million), HK$700 million, HK$750 million and HK$780 million for the second, third and fourth fiscal years respectively. All Base Rents are apportioned and payable in equal amounts, monthly in advance.

(ii) Variable Rent

The Lease Agreements also provide for the payment by the Lessee, semi-annually in arrears, by way of Variable Rent for each such year, a sum which represents 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010 respectively. The Variable Rent shall be payable semi-annually with the first installment payable on or before September 30 of each year, and the second installment payable on or before the date occurring 95 days after the end of each year.

In the event the aggregate of the Variable Rent paid by the Lessee under the Lease Agreements for the period from the Listing Date to December 31, 2010 shall be less than HK$220 million (which amount shall be subject to downward adjustments as a result of, inter alia, any payment received by Regal REIT under the Distributable Income Guarantee Deed and cash compensation for failure to complete the Asset Enhancement Program on time, as described in the section headed "Material Agreements — Lease Agreements" in this Offering Circular), the Lessee shall pay the shortfall within 95 days after the end of the fourth fiscal year.

(iii) Floor Rent

For each of the years from 2011 to 2015, the Lessee is required to pay the higher of the Floor Rent and the monthly base rent comprised within such market rental package as may be determined on an annual basis by the jointly appointed independent professional property valuer, in such manner that the monthly lease income of the Lessors will be not less than one-twelfth of the Floor Rent.

(iv) Other revenue

Other revenue includes the interest income earned on Regal REIT's cash balance, income in relation to the RHK Supporting Premises and RHK Licence Agreements and contributions from the Lessee to the FF&E Reserve.

Operating Expenses

The cost structure of Regal REIT will also differ in certain significant respects from that of the Predecessor Group.

In particular, the hotel operating costs and hotel management fees in respect of the Initial Hotel Properties will not be for the account of Regal REIT as they will be borne by the Lessee. Furthermore, certain costs, such as the REIT Manager's and Trustee's fees, as more fully described below, will be costs for the account of Regal REIT going forward, that were not costs of the Predecessor Group.

REIT Manager's Fees

(i) Base Fee

Regal REIT will pay a Base Fee to the REIT Manager, currently 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of the Deposited Property, which fee shall be calculated monthly and shall be a sum equal to the applicable percentage of the value of the Deposited Property, multiplied by the number of days in the applicable month on which the Base Fee accrues, divided by 365, subject to a year end adjustment, as more fully described in the section headed "Structure and Management — REIT Manager".

(ii) Variable Fee

Regal REIT's direct costs will also include the REIT Manager's Variable Fee. Under the Trust Deed, the REIT Manager will receive a Variable Fee, in respect of each piece of real estate, of currently 3% per annum, subject to a maximum of 5%, of the Net Property Income.

(iii) Payment in the form of Units

From the Listing Date to December 31, 2010, the Base Fee (a) referable to the Initial Hotel Properties, shall be paid to the REIT Manager in the form of Units, (b) referable to real estate acquired by Regal REIT other than the Initial Hotel Properties, shall be paid to the REIT Manager in the form of cash, and (c) relating to that part of the Deposited Property other than real estate, shall be paid to the REIT Manager in the form of Units. After December 31, 2010, the Base Fee shall be paid to the REIT Manager in the form of cash and/or Units (as the REIT Manager may elect).

From the Listing Date to December 31, 2010, the Variable Fee referable to the Initial Hotel Properties shall be paid to the REIT Manager in the form of Units. After December 31, 2010, the Variable Fee shall be paid to the REIT Manager in the form of cash and/or Units (as the REIT Manager may elect).

The issuance of Units to the REIT Manager as all or part of its compensation will result in dilution to Unitholders, including the amount of distributions per Unit. The Base Fee and the Variable Fee, whether paid in cash or in Units, will be treated as an expense item in Regal REIT's income statement. When the Base Fee and the Variable Fee are paid in the form of Units, their aggregate value will be added back as Adjustments for distribution purposes. For further information on these arrangements, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

(iv) Acquisition Fee and Divestment Fee

The REIT Manager will also be entitled to receive an acquisition fee not exceeding 1% of the purchase price of any property acquired by Regal REIT. The acquisition fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager and with the prior approval of Unitholders by Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units.

Further, the REIT Manager will be entitled to receive a divestment fee not exceeding 0.5% of the sale price of any property sold or divested by Regal REIT. The divestment fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager and with the prior approval of Unitholders by Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. For further information on these arrangements and a detailed description of the REIT Manager's fees, see the section headed "Structure and Management — REIT Manager — Fees, Costs and Expenses of the REIT Manager" in this Offering Circular.

Trustee's Fees

Regal REIT's direct costs will also include the Trustee's Fee which will be calculated and paid quarterly as an on-going fee of not more than 0.025% per annum of the value of the Deposited Property with reference to the unaudited management accounts of Regal REIT for the relevant quarter (which may be increased up to a maximum of 0.06% per annum of the value of the Deposited Property as at the end of such year with the approval of the REIT Manager, unless otherwise approved by the Unitholders) subject to a minimum of HK$66,000 per month and a year end adjustment, as more fully described in the section headed "Material Agreements — Trust Deed".

In addition, Regal REIT will also pay the Trustee a one-time inception fee of no more than HK$200,000. For further information on these arrangements, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

Additional fees may be payable to the Trustee in certain circumstances. The Trustee may also charge Regal REIT additional fees on a time-cost basis at a rate to be agreed with the REIT Manager from time to time, if the Trustee were to undertake duties that are of an exceptional nature or otherwise outside the scope of its normal duties in the ordinary course of normal day-to-day business operation of Regal REIT, such as acquisitions or divestments of investments by Regal REIT after the IPO. Such fees shall be subject to the following limits:

(i) where such fees relate to a transaction, an aggregate amount not exceeding 0.05% of the acquisition price or sale price (as the case may be) of the real estate; and

(ii) the aggregate amount of such fees that do not relate to any specific transaction described in (i) above shall be limited to 30% of the Trustee's ongoing fees (as stated above) for that financial year.

Administrative Expenses

Administrative expenses will include stamp duty on the Lease Agreements, of which 35% is borne by the Lessors.

Other administrative expenses will include the operating expenses in respect of Regal REIT such as annual listing fees, registrar fees, accounting fees, audit and tax advisor's fees, valuation fees, costs associated with the preparation and distribution of reports to Unitholders and other miscellaneous expenses including payments in relation to the RHK Supporting Premises and the RHK Licence Agreements.

Change in Fair Value of Investment Properties and Financial Instruments

Movements in the valuation of investment properties and financial instruments will be reflected in the income statement of Regal REIT. The extent of any changes in the valuation of investment properties and financial instruments in the future will be established by reference to market conditions at the time. The annual mark-to-market of its investment properties and financial instruments may therefore have a material effect on Regal REIT's reported results.

Finance Costs and Interest Rate Hedging Agreements

On the Listing Date, the Finance Companies will have in place the Facility, comprising a term loan in the amount of HK$4.35 billion and a revolving credit facility of HK$150 million available to be drawn down on or immediately before the Listing Date by the Finance Companies. For a description of the agreements under the Facility, see the section headed "Material Agreements — Financing Agreement" in this Offering Circular.

Each term loan facility and revolving credit facility will bear interest at a variable rate. In order to hedge against the floating interest rate of the term loans, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates, at an average rate of 4.54%, until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012.

The counterparties of the interest rate hedging agreements will pay to such Finance Company on a quarterly basis an aggregate amount equivalent to the floating rate interest under the term loan, which such Finance Company will use to meet the interest payments due under the term loan. In return, such Finance Company will pay to the counterparties of the interest rate hedging agreements the fixed interest rate on the notional amount.

Debt establishment costs including upfront fees and legal and professional fees estimated at approximately HK$41.7 million are netted off against the interest-bearing bank loans. Any difference between the net proceeds and the redemption value of the interest-bearing bank loans is recognized in the income statement over the term of the loans using the effective interest method.

Profits Tax

The Property Companies and Finance Companies are subject to Hong Kong profits tax in respect of profits derived from the leasing of the Initial Hotel Properties, which is currently levied at the rate of 17.5%.

Regal REIT, as a collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO, is exempt from Hong Kong profits tax. Distributions made by Regal REIT to Unitholders are not subject to any withholding tax in Hong Kong. However, the Property Companies are subject to Hong Kong profits tax in respect of the profits derived from the leasing of the Initial Hotel Properties. Based on current tax legislation, no capital gains tax would be payable upon disposal of the Initial Hotel Properties.

Liquidity and Capital Resources

Upon completion of the Global Offering, the REIT Manager expects Regal REIT's primary uses for cash will be for acquisitions of other properties, capital expenditures for hotels, operating expenses and distributions to holders of Units. The REIT Manager also expects Regal REIT's primary sources of cash will continue to be the rental payments under the Lease Agreements and its working capital. In addition, Regal REIT has entered into a senior secured credit facility, as described under "Material Agreements — Financing Agreement".

The REIT Manager believes that Regal REIT's pro forma capital structure, including a HK$4.35 billion term loan and a HK$150 million revolving credit facility, and cash flow from operations, will provide Regal REIT with sufficient liquidity to meet its operating expenses and other expenses directly associated with its business and properties. As at the Listing Date, Regal REIT is expected to have aggregate borrowings of 27.4% of its total gross asset value (based on the Minimum Offer Price and the information in the section headed "Financial Information and Profit Forecast — Unaudited Pro Forma Balance Sheet" in this Offering Circular).

The REIT Manager believes that this debt capital structure is appropriate for the operating characteristics of Regal REIT's business and provides for prepayment and refinancing flexibility.

In the future, the REIT Manager may also explore other financing alternatives, including issuance of equity and debt securities by Regal REIT. Regal REIT's ability to incur additional debt depends on a number of factors, including its level of indebtedness, the value of its unencumbered assets and borrowing restrictions imposed by existing and new lenders (including the lender(s) under the Facility), and by the REIT Code. Regal REIT's ability to raise funds through the issuance of equity and debt securities depends on, among other things, general market conditions for hotel companies and REITs and market perceptions about Regal REIT. The REIT Manager will continue to analyze which source of capital is most advantageous to Regal REIT at any particular time, however, the capital markets may not be available to Regal REIT, when needed, on favorable terms or at all.

- Upon completion of the Global Offering, Regal REIT's primary future sources of funding will be the following:
  - the recurrent income generated from leasing out the Initial Hotel Properties;
  - the issuance of further Units which would result in dilution to Unitholders;
  - the contribution made by the Lessee towards the FF&E Reserve in accordance with the terms of the Lease Agreements; and
  - new credit facilities or the issue of debt securities, particularly in relation to any proposal to acquire further properties. However, Regal REIT may not be able to raise additional capital, should it become necessary or desirable to do so, on terms acceptable to it or at all. Among other factors, under the REIT Code, Regal REIT is generally only allowed to borrow up to 45% of its total gross asset value as at the date on which the borrowing is incurred.
- The principal application of Regal REIT's funds will be as follows:
  - to make distributions to Unitholders; and
  - to pay for various expenses incurred.

The REIT Manager intends to distribute to Unitholders 100% of Regal REIT's Total Distributable Income for each financial year. Under the REIT Code, Regal REIT is required to distribute at least 90% of its audited annual net income after tax to Unitholders.

Since the REIT Manager is not required to spend the entire available amount in the FF&E Reserve each year, capital expenditure on furniture, fixture and equipment may fluctuate from year to year. In addition, under the Hotel Management Agreements, the REIT Manager may finance all or part of capital additions as agreed with the Lessee and the Hotel Manager. Furthermore, Regal REIT's capital expenditures could increase if the REIT Manager determines to acquire, renovate or redevelop additional hotels in the future. In such circumstances, the REIT Manager will only seek to incur capital expenditure that will enhance the value of the relevant property, which may allow the REIT Manager further flexibility to borrow in accordance with the REIT Code.

As at the Listing Date, Regal REIT will not have any contractual commitments or obligations to make any capital expenditures other than pursuant to AEP Contracts in respect of which it has been indemnified by the Regal Group pursuant to the Sale and Purchase Agreement and the AEP Agency Deed. Regal REIT has no plans to make any material capital expenditures in relation to the Initial Hotel Properties as the Regal Group has undertaken to indemnify the Property Companies from and against all costs, losses and liabilities arising from the AEP Contracts and to settle all payments on behalf of the Property Companies. For further information, see the section headed "Material Agreements — Sale and Purchase Agreement" in this Offering Circular.

Contractual Obligations of Regal REIT

The following table presents, as of the Listing Date, the scheduled maturities of Regal REIT's contractual obligations for long-term debt, assuming the drawdown of the term loan of HK$4.35 billion under the Financing Agreement on or before the Listing Date. There are no contractual obligations for operating leases other than the obligation of Cityability Limited to pay rent to Treasure Spot Investments Limited in respect of the RHK Supporting Premises, as the Lessee is required to pay an amount equal to such rent to Cityability Limited pursuant to Lease Agreement No. 2. Pursuant to the Sale and Purchase Agreement, the Vendor has undertaken to complete the Asset Enhancement Program, at its own and full cost, including any cost overruns and land premium payable, whereby no less than 468 rooms are expected to be added to the Initial Hotel Properties in stages by the end of 2008. These costs are therefore excluded from the table below.

	Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**After 1 year but within 5 years**	**More than 5 years**
	(HK$ thousands)			
Long-term debt obligations	4,350,000	—	4,350,000	—

Regal REIT's future capital requirements are expected to include primarily debt repayment, expenditures for furniture, fixtures and equipment, and expenditures for expansion relating to the acquisition of other properties. Expenditures for furniture, fixtures and equipment are expected to be met from the FF&E Reserve, a reserve account for such expenditures, equal to 2% of Total Hotel Revenue to which the Lessee shall contribute monthly from the Listing Date up to December 31, 2010 and thereafter, as may be determined by a jointly-appointed independent professional property valuer upon the annual rent reviews under the Lease Agreements. Because Regal REIT must distribute at least 90% of distributable income to remain in compliance with the REIT Code, capital requirements for debt repayment and hotel acquisitions are not expected to be financed by cash flow from operations, but rather by the net proceeds received from bank borrowings that, together with all other borrowings of Regal REIT, may not exceed 45% of Regal REIT's gross asset value, and by the net proceeds received from any issuance of additional Units.

Quantitative and Qualitative Disclosure About Market Risk

The main risks arising from Regal REIT's financial instruments are interest rate risk and credit risk. The REIT Manager will cause Regal REIT to enter into interest rate hedging agreements solely for hedging purposes. The REIT Manager does not intend to hold or issue derivative financial instruments for trading purposes.

Interest rate risk. Regal REIT's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with a floating interest rate. Interest income and expense will be charged to the income statement as incurred. Regal REIT's future income, cash flows and fair values relevant to financial instruments will be dependent upon prevailing market interest rates. This risk refers to the risk of loss from adverse changes in market prices and interest rates. Regal REIT's Facility will have a variable interest rate. The REIT Manager will only enter into contracts with major financial institutions based on their credit rating and other factors. In order to hedge its exposure to floating rates of interest under the Facility, Regal REIT has entered into interest rate hedging agreements — see the section headed "Material Agreements — Financing Agreement" in this Offering Circular.

Credit risk. Regal REIT's primary source of income will initially be lease payments from the Lessee, which is a wholly-owned subsidiary of Regal. Regal has provided a guarantee of the lease payments and has procured that there is, at all times over the tenure of the Lease Agreements, an unconditional and irrevocable guarantee issued by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee in an aggregate amount of HK$1 billion until June 30, 2011, and for the remaining term of the Lease Agreements, in an amount determined pursuant to the Lease Guarantees which shall be not less than 50% of the Floor Rent (i.e. HK$200 million).

Working Capital Statement

Taking into consideration the financial resources available to Regal REIT, including its internally generated funds, the Facility and the estimated net proceeds of the Global Offering, the REIT Manager believes that Regal REIT has sufficient liquid assets to meet its working capital and operating requirements for the period from the Listing Date to March 31, 2008. To the extent that Regal REIT makes any acquisitions, it would be required to rely on external borrowings and equity or debt securities offerings to finance such acquisitions. The sale of additional equity or equity-linked securities may result in additional dilution to Unitholders. However, Regal REIT may not be able to raise additional capital, should that become necessary, on terms acceptable to it or at all.

Indebtedness

As at the Listing Date, the aggregate borrowing of Regal REIT is expected to be HK$4.35 billion. In preparation for the Acquisition, the REIT Manager has put in place the Facility in order to fund the costs of the acquisition of the Initial Hotel Properties. The Financing Agreement comprises a term loan facility of HK$4.35 billion to be drawn down on or immediately before the Listing Date and a revolving credit facility of HK$150 million which is available for draw down during the first 24 months after the Listing Date. ABN AMRO Bank N.V., Singapore Branch will act as facility agent under the Facility. The Facility is required to be repaid on the date which is five years from the Listing Date.

The annual interest rate for both the term loan and the revolving credit loan is HIBOR plus 60 basis points, with 75 basis points as an upfront fee for the term loan facility and the revolving credit facility and an ongoing commitment fee of 25 basis points per annum on the undrawn portion of: (i) the term loan facility (provided that such commitment fee is capped at HK$1.1 million from the date of the Financing Agreement until March 31, 2007); and (ii) the revolving credit facility. In order to hedge against the floating interest rate of the Facility, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates, at an average rate of 4.54%, until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012.

For information on the security in relation to the Facility and the interest rate hedging agreements, see the section headed "Material Agreements — Financing Agreement" in this Offering Circular.

No Material Adverse Change

The REIT Manager confirms that, having performed reasonable due diligence on the Property Companies, there has been no material adverse change in their financial or trading position or prospects since September 30, 2006, which is the end of the period covered by the Accountants' Report included in Appendix I to this Offering Circular.

Statements contained in this profit forecast section that are not historical facts may be forward-looking statements. Such statements are based on the assumptions set forth in this section and are subject to certain risks and uncertainties which may cause actual results to differ materially from those projected in this section and elsewhere in this Offering Circular. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Vendor, Regal REIT, the REIT Manager, the Trustee, the Joint Global Coordinators or any other person involved in the Offering, nor that these results will be achieved or are likely to be achieved. None of the Vendor, the REIT Manager, the Trustee or the Joint Global Coordinators guarantees the performance of Regal REIT or the payment of any (or any particular) return on the Units. Investors in Units are cautioned not to place undue reliance on these forward looking statements which are made only as at the date of this Offering Circular. See the section headed "Key Investment Information and Highlights — Risk Factors" in this Offering Circular.

The profit forecast (including the underlying assumptions), for which the REIT Manager is responsible, has been approved by the Board. The forecast has been prepared on the bases and assumptions set out below and in accordance with accounting principles generally accepted in Hong Kong and is consistent in all material respects with those accounting policies the REIT Manager expects to adopt for Regal REIT as set out in the section headed "Management's Discussion and Analysis of Future Operations." The forecast income statement of Regal REIT on the following page of this Offering Circular has been prepared on a consolidated basis, reflecting the forecast consolidated income statement of Regal REIT and its consolidated entities, including the Finance Companies and the Property Companies for the period from the Listing Date to December 31, 2007 (the "Forecast Period").This forecast assumes that the Listing Date will be March 30, 2007 and will vary if the Listing Date is different.

The audited financial results in the Offering Circular only cover the three years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006. The financial information relating to the Predecessor Group for the period from October 1, 2006 to the Listing Date has not been prepared by the REIT Manager and the financial results of the Predecessor Group for such period are unaudited. In preparing this profit forecast, the REIT Manager has made certain assumptions with respect to the operations of Regal REIT as set out below. To the extent that the REIT Manager has not identified events which have occurred or may occur in respect of the Predecessor Group during the period from October 1, 2006 to the Listing Date, the impact of such events on the future results of Regal REIT has not been taken into account in this profit forecast.

Investors should note that for reasons stated herein, in arriving at the consolidated forecast results of Regal REIT, it has been assumed that there will be no change in the price of the Units over the Forecast Period. Should the market value of the Initial Hotel Properties as at December 31, 2007 drop below or increase above their Appraised Values, the deficit or surplus, along with any associated deferred taxation, would be charged or credited to the income statement. However, such deficit or surplus (after taking into account any associated deferred taxation), which is non-cash in nature, would not reduce or increase the Total Distributable Income for the Forecast Period. Investors should also note that the format and individual items in Regal REIT's future financial reports and statements may differ from those used for the purposes of this forecast. Such items should not be viewed as individual forecasts but form part of the overall bases and assumptions used in arriving at distributable income for the Forecast Period. This forecast, for which the Directors are solely responsible, should be read in conjunction with the letters set out in Appendix III headed "Letters in Relation to Profit Forecast" and Appendix IV headed "Independent Property Valuer's Valuation Report," to this Offering Circular and the principal bases and assumptions set out below.

The profit forecast and calculations made in preparing the profit forecast have been reviewed by Ernst & Young and the Sole Listing Agent. Please refer to Appendix III for letters from Ernst & Young and the Listing Agent on the accounting policies adopted and calculations made in arriving at the profit forecast. The REIT Manager and the Listing Agent consider the assumptions made in arriving at the profit forecast to be reasonable.

Profit Forecast for the Forecast Period

The following table sets forth Regal REIT's forecast consolidated profit and loss data and distribution for the Forecast Period.

	Forecast(1) For the period from the Listing Date to December 31, 2007 (HK$ million)
Revenue	
Rental income	
Base Rent	545.9
Variable Rent	97.3
Other revenue	28.3
Operating expenses	
REIT Manager's Fee	
Base Fee	(36.6)
Variable Fee	(17.9)
Trustee's fees	(2.2)
Administrative expenses	(6.7)
Change in fair value of investment properties(2)	—
Finance costs	(155.7)
Profit before tax	452.4
Taxation for the period	—
Deferred tax	(70.8)
Net profit for the period	381.6
Distribution data	
Net profit for the period	381.6
Adjustments(3)	38.7
Total Distributable Income	420.3

	Forecast(1) For the period from the Listing Date to December 31, 2007	
	Minimum Offer Price	Maximum Offer Price
Offer price (HK$)	2.68	3.38
Assumed number of Units outstanding as of Record Date for the Forecast Period (million)(4)	3,124.9	3,120.7
Number of AEP Units (million)	373.1	295.9
Forecast distribution per Unit (HK$)	0.1527	0.1488
Forecast annualized profit yield after taxation(5)	**6.82%**	**5.27%**
Forecast annualized distribution yield after taxation(6)	**7.51%**	**5.80%**

During the Forecast Period, the AEP Units will not be entitled to distributions pursuant to the Distribution Deed. Such Units will become entitled to distribution only at a certain time after the corresponding portion of the Asset Enhancement Program is completed (currently scheduled to be completed in stages by the end of 2008 and accordingly, the AEP Units will not receive any distribution for the Forecast Period) or when the Trustee receives cash compensation pursuant to the Sale and Purchase Agreement if the Asset Enhancement Program is not completed by the relevant Long-Stop Dates. In the event that the AEP Units become entitled to distributions, the total number of Units entitled to distributions will increase, which may result in dilution of DPU in the absence of any increase of Total Distributable Income.

The following table sets forth the profit yield and distribution yield of Regal REIT, for illustrative purposes only, assuming all the AEP Units would be entitled to distributions during the Forecast Period (but total rental income remains unchanged), which is not permitted under the Distribution Deed.

	Forecast(1)	
	For the period from the Listing Date to December 31, 2007	
	Minimum Offer Price	**Maximum Offer Price**
Forecast annualized profit yield after taxation without taking into account the distribution waived in respect of the AEP Units(7)	6.00%	4.77%
Forecast annualized distribution yield after taxation without taking into account the distribution waived in respect of the AEP Units(8)	6.61%	5.25%

Notes:

(1) In preparing the profit forecast for the Forecast Period, the REIT Manager has excluded: (a) any goodwill or excess over the cost of business combination; and (b) the estimated costs and expenses of obtaining the listing status of Regal REIT of approximately HK$2.7 million which have to be charged to the income statement. The REIT Manager considers that these items are non-recurring in nature and the inclusion of such items will distort the comparability of profit/loss from period to period. In any case, such items will have no impact on the Total Distributable Income of Regal REIT.

(2) The REIT Manager considers that there is no reliable basis for determining the market values for the Initial Hotel Properties as of any future date. Accordingly, for the purpose of the profit forecast, the REIT Manager has assumed that the market value of the Initial Hotel Properties as of December 31, 2007 will be the same as the Appraised Value. Changes in the fair value of investment properties will affect REIT Manager's fees and Trustee's fees.

(3) Refers to the following adjustments:

	Forecast For the period from the Listing Date to December 31, 2007 (HK$ million)
Difference in accounting Base Rent and actual contracted cash Base Rent(i)	(70.0)
Amortization of debt establishment cost	5.7
REIT Manager's fee paid in Units(ii)	54.5
Deferred tax(iii)	70.8
Amount set aside on account of the FF&E Reserve(iv)	(22.3)
Total Adjustments	38.7

(i) Base Rent is recognized as revenue on a straight-line basis over the lease term in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS.

(ii) The arrangement for payment of the REIT Manager's fee in Units is described in more detail in the paragraphs titled "REIT Manager's Base Fee" and "REIT Manager's Variable Fee" in the section headed "Financial Information and Profit Forecast — Profit Forecast".

(iii) Deferred taxation relating to temporary differences in respect of tax depreciation and available tax losses is a non-cash item.

(iv) As required under the Hotel Management Agreements.

(4) For the purpose of calculating the DPU (HK$) of the Units held by Unitholders as of the Record Date for the 2007 Distribution Period set forth in the table above, it is assumed the number of Units issued and outstanding remains unchanged save for the estimated number of Units issued as the REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period. Investors are advised that the DPU for the 2007 Distribution Periods take into account the distribution waived in respect of the AEP Units, and such effect will diminish when the AEP Units become entitled to distribution pursuant to the Distribution Deed.

(5) The forecast annualized profit yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period assuming no change in fair value of investment properties / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period - AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(6) The forecast annualized distribution yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period - AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(7) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized profit yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(8) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized distribution yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

Investors should note that the distribution yield after taxation is different from the profit yield after taxation. The difference between the distribution yield and the profit yield is due to the Adjustments as described in note 3 above.

None of Regal REIT, the REIT Manager, the Trustee, the Underwriters, the Sole Listing Agent, the Vendor or any other person guarantees the performance of Regal REIT, the repayment of capital or the payment of any distributions, or any particular return on the Units, other than Regal pursuant to the Lease Guarantees and the Distributable Income Guarantee. The profit forecast and projected profit and distribution yields stated in the table above are calculated based on the Maximum Offer Price and the Minimum Offer Price. Such profit and distribution yields will vary for investors who purchase Units in the secondary market at a market price that differs from the Maximum Offer Price and the Minimum Offer Price.

Bases and Assumptions

The key assumptions based on which the REIT Manager has prepared the profit forecast for the Forecast Period are set out in this Offering Circular. The REIT Manager considers these assumptions to be appropriate and reasonable as at the date of the Offering Circular. However, all recipients of this Offering Circular and all prospective investors in the Units should consider the profit forecast in the light of such assumptions and make their own assessment of the future performance of Regal REIT.

Revenue

Rental Income

The rental income for the Forecast Period is forecast to be HK$643.2 million, including HK$545.9 million in Base Rent and HK$97.3 million in Variable Rent.

Base Rent for the Forecast Period is forecast to be HK$545.9 million, calculated on a pro-rata basis based on 277 days of the average Base Rent of HK$719.3 million per annum, which was calculated on a straight-line basis over the initial lease term.

Variable Rent for the Forecast Period is forecast to be HK$97.3 million, calculated as 100% of the Collective NPI Excess of the Initial Hotel Properties. Collective NPI Excess is forecast to be HK$97.3 million, calculated as the excess of the aggregate Net Property Income of HK$573.2 million over the aggregate cash Base Rent of HK$475.9 million for Forecast Period. Variable Rent will be recognized on an accrual basis.

In projecting the operating performance of the Initial Hotel Properties during the Forecast Period, the REIT Manager has taken into account the market trends and factors specific to the Initial Hotel Properties during the Forecast Period, including the expected increase in the number of visitor arrivals in Hong Kong including both business travelers and leisure travelers as forecast by the Market Consultant taking into account the recent slowdown in the growth rate of mainland Chinese visitor arrivals in Hong Kong pursuant to the Individual Visit Scheme and the shortened length of stay of visitors from mainland China, as well as limited new hotel room supply in the markets where the Initial Hotel Properties are located, the Hotel Manager's planned strategy to continue to increase RevPAR by improving guest mix and strengthening sales and marketing programs, the Asset Enhancement Program to benefit from projected room rate increases in Hong Kong as a whole and the Hotel Manager's continuous effort to improve operating efficiency.

According to the Market Consultant, hotel demand in Hong Kong is expected to remain under sustained upward pressure. The Market Consultant has taken into account of Hong Kong's unique positioning in Asia and globally in its market study and projections, including Hong Kong's strategic location in the "Sino-sphere" and its historical high ranking as a travel destination for long-haul and short-haul visitors. Given Hong Kong's unique positioning, as well as limited room capacity growth in the coming years, the Market Consultant is projecting the overall occupancy reaching 89% in 2008 and remaining so until 2010 while average room rates continue to grow from 2007 to 2010.

The forecast and projected operating performance of the Initial Hotel Properties used in computing Regal REIT's rental income is as follows:

Total Hotel Revenue, gross operating profit and Net Property Income

	For the period from the Listing Date to December 31, 2007					
	Regal Airport Hotel	**Regal Hongkong Hotel**	**Regal Kowloon Hotel**	**Regal Oriental Hotel**	**Regal Riverside Hotel**	**Total**
	(HK$ million)					
Room revenue	261.4	136.8	151.8	65.0	117.6	732.6
F&B revenue	91.2	88.6	60.6	33.6	58.5	332.5
Other income	24.1	9.0	8.2	1.5	4.7	47.5
Total Hotel Revenue	376.7	234.4	220.6	100.1	180.8	1,112.6
Operating expenses	(165.4)	(112.3)	(98.0)	(57.6)	(101.0)	(534.3)
Gross operating profit	211.3	122.1	122.6	42.5	79.8	578.3
Other expenses	(9.0)	(8.5)	(5.1)	(2.5)	(4.1)	(29.2)
Net Rental Income	6.8	1.1	10.9	1.0	4.3	24.1
Net Property Income	209.1	114.7	128.4	41.0	80.0	573.2

The Initial Hotel Properties' Total Hotel Revenue, operating expenses, other expenses, Net Rental Income and Net Property Income are forecast and projected based on the following assumptions and on a pro-rata basis based on the number of days from the Listing Date to the end of 2007.

Total Hotel Revenue

The Initial Hotel Properties' revenue consists of (i) room revenue, (ii) F&B revenue and (iii) other income.

(i) *Room revenue*

The forecast and projected room revenue are based on each Initial Hotel Properties' number of rooms and RevPAR, which in turn are driven by the average room rate and the occupancy rate assumptions, for the Forecast Period.

The following table sets forth the key operating data assumptions at the Initial Hotel Properties, including RevPAR, average room rate, occupancy rate and number of rooms for each of the Initial Hotel Properties during the Forecast Period based on its historical operating data and the expected market growth with reference to the projections made by the Independent Property Valuer.

	RevPAR			
	For the year ended/ending December 31,			
	2004	2005	2006	2007
	(HK$)	(HK$)	(HK$)	(HK$)
Regal Airport Hotel	572.2	610.9	658.5	842.0
Regal Hongkong Hotel	749.0	865.5	978.7	1,130.8
Regal Kowloon Hotel	551.7	647.4	761.3	913.2
Regal Oriental Hotel	395.8	424.1	466.7	583.7
Regal Riverside Hotel	376.9	402.7	434.9	507.4
Initial Hotel Properties(1)	521.8	576.1	639.0	779.0

	Average Room Rate			
	For the year ended/ending December 31,			
	2004	2005	2006	2007
	(HK$)	(HK$)	(HK$)	(HK$)
Regal Airport Hotel	780.6	925.6	1,027.3	1,079.5
Regal Hongkong Hotel	813.2	962.7	1,086.2	1,235.9
Regal Kowloon Hotel	655.2	768.9	889.4	1,030.7
Regal Oriental Hotel	434.5	463.0	518.6	629.0
Regal Riverside Hotel	418.3	440.6	471.7	545.6
Initial Hotel Properties(2)	621.9	706.0	786.9	894.4

	Occupancy Rate			
	For the year ended/ending December 31,			
	2004	2005	2006	2007
	(%)	(%)	(%)	(%)
Regal Airport Hotel	73.3	66.0	64.1	78.0
Regal Hongkong Hotel	92.1	89.9	90.1	91.5
Regal Kowloon Hotel	84.2	84.2	85.6	88.6
Regal Oriental Hotel	91.1	91.6	90.0	92.8
Regal Riverside Hotel	90.1	91.4	92.2	93.0
Initial Hotel Properties(3)	83.9	81.6	81.2	87.1

	Number of Rooms			
	As at December 31,			
	2004	2005	2006	2007
Regal Airport Hotel	1,104	1,104	1,104	1,171
Regal Hongkong Hotel	424	424	424	474
Regal Kowloon Hotel	600	600	600	600
Regal Oriental Hotel	390	390	390	439
Regal Riverside Hotel	830	830	830	858
Initial Hotel Properties(4)	3,348	3,348	3,348	3,542

Notes:

(1) RevPAR of the Initial Hotel Properties is defined as the average room rate multiplied by the occupancy rate of the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(2) Average room rate of the Initial Hotel Properties is defined as the total room revenue divided by the total number of room nights sold at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(3) Occupancy rate of the Initial Hotel Properties is defined as the total number of room nights sold divided by the total number of room nights available for sale at the Initial Hotel Properties during the relevant period. House-use rooms are excluded in the calculation.

(4) Please refer to the section headed "The Initial Hotel Properties" in the Offering Circular for each of the Initial Hotel Properties' number of house-use rooms (e.g. rooms for general managers of the hotel) for the years ended December 31, 2004, 2005 and 2006. There are expected to be no house-use rooms as at December 31, 2007.

ii) *Food and beverage revenue*

Food and beverage revenue are from sales in restaurants, bars, room service and in banquet and meeting space, etc. For the Forecast Period, food and beverage revenue is expected to constitute approximately 29.9% of the total hotel revenue of the Initial Hotel Properties.

The forecast and projected food and beverage revenue are estimated based on the historical performance of the food and beverage outlets of the Initial Hotel Properties and taking into account the location of the Initial Hotel Properties, the competitive position of the Initial Hotel Properties' food and beverage outlets, popularity and reputation of the food and beverage outlets, as well as expected bookings for banquets, wedding dinners and corporate events and expected market growth with reference to the projections made by the Independent Property Valuer.

iii) *Other income*

Other income includes income from usage of telephones, internet, business and health centers, and from ancillary sources such as parking, foreign exchange and dry cleaning and laundry services.

Usage of internet broadband services and laundry services are expected to increase as the Initial Hotel Properties continue their initiative to reposition themselves to target corporate guests who are traditionally heavier users of such services as compared to leisure guests. For the Forecast Period, the remaining constituents of other income are estimated based on the historical levels achieved by each of the Initial Hotel Properties.

Hotel Operating Expenses

The forecast operating expenses are estimated based on the historical performance of the Initial Hotel Properties and taking into account the expected market growth and improving efficiencies with reference to the projections made by the Independent Property Valuer.

Major operating expenses consist of the following:

(i) Room expense, including expenses for room related supplies, commission, reservation and guest services related expenses.

For the Forecast Period, room expenses are projected to be approximately 5-7% of the projected room revenue of individual Initial Hotel Properties.

(ii) Food and beverage expense, being the cost of food and beverage, food and beverage outlet supplies such as kitchenware, and decoration and entertainment expenses at food and beverage outlets.

Food and beverage expense has been forecast and projected to vary in proportion to the F&B revenue for the Forecast Period.

(iii) Other operating departments expenses, including mainly direct operating costs of various minor operating departments.

For the Forecast Period, the operating expenses of the minor operating departments are projected based on a percentage of the minor operating departments' revenue of the respective Initial Hotel Properties by reference to the historical trend.

(iv) Staff costs, including salaries and wages, staff retirement scheme contributions and other staff benefits for management, front and back office staff, and other staff involved in the hotels' operations, both permanent and casual.

For the Forecast Period, staff costs are estimated based on the Initial Hotel Properties' historical payroll costs and after adjusting for an expected increment in each year. In addition, consideration has been given to staffing requirements at the Initial Hotel Properties by taking into account the forecast and projected performance of the Initial Hotel Properties (in particular, expected occupancy levels and the increased number of rooms upon completion of the respective AEP programs at the Initial Hotel Properties).

(v) Energy costs, including primarily electricity charges, fuel, gas and water.

For the Forecast Period, it has been assumed that energy and utilities costs are based on contracted utilities rates (where applicable) and where utilities rates are not contracted, are based on the estimated utilities costs, taking into consideration historical rates, expected rate increments and expected utilization.

(vi) Marketing and promotion expenses, including advertising and other costs of promoting the Initial Hotel Properties.

For the Forecast Period, the marketing and promotion expenses are projected to be approximately 3% of the hotel revenue of the Initial Hotel Properties.

(vii) Repairs and maintenance, comprising the costs incurred for the provision of services and upkeep of the Initial Hotel Properties, including the cost of materials, supplies and contracts related to the general repair and maintenance.

For the Forecast Period, the repairs and maintenance is projected to be approximately 2% of the hotel revenue, taking into account of the increased number of rooms upon completion of the AEP programs at the relevant Initial Hotel Properties.

(viii) Administrative and general expenses, including mainly credit card commission, other back office and administrative expenses.

For the Forecast Period, the administrative and general expenses are projected to be approximately 1-2% of the hotel revenue of the Initial Hotel Properties.

Other Expenses

Other expenses comprised mainly management fees paid to the Hotel Manager, directly attributable to the hotel operations of the Initial Hotel Properties, and fixed charges which mainly include government rent and rates for the hotel premises and rental expenses paid to third parties for leasing additional spaces for the purpose of the hotel operation.

For the Forecast Period, the hotel management fees are projected based on the terms in the Hotel Management Agreements using the forecast revenue and net property income of the Initial Hotel Properties, whilst the government rent and rates are projected using a growth rate by reference to the revenue growth of each Initial Hotel Properties, and the rental expenses paid to third parties are projected based on the current applicable rental rates.

Net Rental Income

Net Rental Income comprised rental, license fee and other income, air conditioning and management fee charges received in respect of the lettable areas and other spaces of the Initial Hotel Properties under the existing tenancy and license agreements, less any outgoing and related expenses.

For the Forecast Period, the net rental income is projected based on the applicable terms under the existing tenancy and license agreements, and where appropriate, assuming a gradual increase in occupancy with additional spaces to be leased out at the prevailing market rate. The forecast and projected Net Rental Income is estimated based on the historical performance of the Initial Hotel Properties and taking into account the location of the Initial Hotel Properties, the competitive position of the Initial Hotel Properties' lettable areas and expected market growth with reference to the projections made by the Independent Property Valuer.

Net Property Income

The REIT Manager's forecast of the aggregate Net Property Income in respect of the Initial Hotel Properties for the Forecast Period has been made after consideration of various third party reports including the Independent Property Valuer's report, the Market Consultant's report and meetings, discussions and analysis of various different factors including those for occupancy rates, average room rates, total hotel revenue, room revenue, food and beverage revenue, other income and hotel operating expenses with the Hotel Manager.

Other Revenue

The REIT Manager assumes that Regal REIT will earn interest income monthly on its cash balance at an interest rate of 3.0% per annum, a conservative estimate based on existing deposit rates of 3.5% to 4.0% earned by Regal. Interest income for the Forecast Period is forecast to be HK$3.5 million.

Other revenue also includes rental income of approximately HK$2.5 million in relation to the RHK Supporting Premises for the Forecast Period.

It also includes payments received from the Lessee as its contribution to the FF&E Reserve in the amounts of approximately HK$22.3 million for the Forecast Period. The Lessee's monthly contribution to the FF&E Reserve is calculated based on 2% of Total Hotel Revenue. Total Hotel Revenue for the Forecast Period is forecast to be approximately HK$1,112.6 million.

Operating Expenses

REIT Manager's Base Fee

Under the Trust Deed, the REIT Manager will receive a Base Fee from Regal REIT currently in the amount equal to 0.3% per annum, subject to a maximum of 0.5% per annum, of the value of the Deposited Property. For the Forecast Period, the REIT Manager is expected to receive a Base Fee of approximately HK$36.6 million, all paid in Units based on Market Price as defined in the section headed "Structure and Management — REIT Manager" in this Offering Circular.

REIT Manager's Variable Fee

Under the Trust Deed, the REIT Manager will also receive a Variable Fee, in respect of each piece of real estate, from Regal REIT currently in the amount equal to 3% per annum, subject to a maximum of 5%, of Net Property Income (i.e. Lease Income in respect of the Initial Hotel Properties which are leased under the Lease Agreements). For the Forecast Period, it is forecast that the REIT Manager will receive a Variable Fee of HK$17.9 million, all paid in Units based on Market Price as defined in the "Structure and Management — REIT Manager" section of this Offering Circular.

Acquisition Fee and Divestment Fee

It is assumed that there will be no acquisition or divestment of real estate during the Forecast Period. Hence, no acquisition or divestment fee has been included in the profit forecast.

Trustee's Fees

The Trustee will, from the date Regal REIT acquires the Initial Hotel Properties, be entitled to receive remuneration according to a sliding fee scale of between 0.015% and 0.025% (the percentage rates of which may be increased to a maximum of 0.06%) per annum of the value of the Deposited Property subject to a minimum fee of HK$66,000 per month and adjustment in the appropriate circumstances (see the section headed "Material Agreements — Trust Deed" in this Offering Circular). Based on the forecast value of Deposited Property during the Forecast Period, a Trustee's fee of 0.0165% of the value of the Deposited Property per annum is assumed. The Trustee will also be entitled to receive a one-off inception fee of HK$200,000. On the basis that the Initial Hotel Properties are acquired on the Listing Date, the Trustee's fees for the Forecast Period are estimated, based on the current estimated value of the Deposited Property, to be HK$2.2 million, which are assumed to be non-tax deductible.

Administrative Expenses

Administrative expenses include a stamp duty on Lease Agreements of which 35% is borne by Regal REIT, estimated to be HK$2.0 million which is booked in the Forecast Period.

Other administrative expenses include recurring operating expenses of Regal REIT such as annual listing fees, registrar fees, accounting fees, audit and tax advisor's fees, valuation fees, costs associated with the preparation and distribution of reports to Unitholders and other administrative expenses, including the rental payment in relation to the RHK Supporting Premises of HK$2.5 million for the Forecast Period.

Change in Fair Value of Investment Properties and Financial Instruments

The Initial Hotel Properties will be acquired at a total discount of 7.8% (based on the Maximum Offer Price) to 21.4% (based on the Minimum Offer Price) to the Appraised Value of the Initial Hotel Properties of HK$15.9 billion (as at December 31, 2006) by the Independent Property Valuer. While it is expected that the Initial Hotel Properties will be revalued annually, effective December 31 of each year, the REIT Manager considers that there is no reasonable basis to forecast the market values for the Initial Hotel Properties as of any future date. Accordingly, the REIT Manager assumes that the market values of the Initial Hotel Properties as at December 31, 2007 will be the same as the Appraisal Value. Hence, the profit forecast for the Forecast Period contains no change in the fair value of the Investment Properties.

Finance Costs and Interest Rate Hedging Instruments

On the Listing Date, the Finance Companies will have in place the Facility including a bullet-repayment term loan facility in the amount of HK$4.35 billion for a term of five years from the Listing Date, subject to the satisfaction of certain conditions precedent to be drawn down in full on or immediately before the Listing Date and a revolving credit facility in the amount of HK$150 million. The annual interest rate for both the term loan and the revolving credit facility is HIBOR plus 60 basis points, with 75 basis points upfront fee for the term loan facility and the revolving credit facility and an ongoing commitment fee of 25 basis points per annum on the undrawn portion of: (i) the term loan facility (provided that such commitment fee is capped at HK$1.1 million from the date of the Financing Agreement until March 31, 2007); and (ii) the revolving credit facility. See the section headed "Material Agreements — Financing Agreements" in this Offering Circular for further details on the Facility.

Each term loan facility and revolving credit facility will bear interest at a variable rate. In order to hedge against the floating interest rate of the term loans, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates, at an average rate of 4.54%, until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012.

For the purpose of the profit forecast, no early repayment of the term loans and no drawdown of the revolving credit facility are assumed. Finance costs are estimated to be HK$155.7 million for the Forecast Period.

Hong Kong Taxation

For the purposes of this profit forecast, tax expense is determined on the basis of tax effect accounting using the liability method. Tax expense has two components, namely, current tax expense and deferred tax expense. Current tax expense is the amount of tax payable to the Inland Revenue Department in Hong Kong based on the relevant year's net assessable profits (i.e. after set off of tax losses available) at the prevailing applicable profit tax rate. The current applicable profit tax rate is 17.5%.

Deferred taxation is provided for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized. The temporary differences comprise available tax losses and tax bases for the purpose of the profit forecast. Non-deductible expenses include Trustee's fee and expenses and other miscellaneous non-deductible items. While the REIT Manager will seek to achieve tax deductibility on the portion of the REIT Manager's Fee that will be charged to the Property Companies and Finance Companies, there is no certainty that such amounts will in fact be tax deductible.

No provision for current tax is projected as no net assessable profit has been projected for the Forecast Period. As at September 30, 2006, the Property Companies had tax losses available of approximately HK$1.3 billion. Deferred tax expense of HK$70.8 million has been projected to take into account the temporary differences in respect of accelerated tax depreciation and available tax losses for the Forecast Period.

Adjustments

In accordance with the Trust Deed, Total Distributable Income is arrived at after taking into account the effects of the Adjustments from the consolidated audited net profit after tax of Regal REIT. The Adjustments for the Forecast Period is projected to be HK$38.7 million, which consists of:

	Forecast
	For the period from the Listing Date to December 31, 2007
	(HK$ million)
Difference in accounting Base Rent and actual contracted cash Base Rent(1)	(70.0)
Amortization of debt establishment cost	5.7
REIT Manager's fee paid in Units(2)	54.5
Deferred tax(3)	70.8
Amount set aside on account of the FF&E Reserve(4)	(22.3)
Total Adjustments	38.7

Notes:

(1) Base Rent is recognized as revenue on a straight-line basis over the lease terms in accordance with the accounting policies set out in Appendix I to this Offering Circular, which conform with HKFRS.

(2) The arrangement for payment of the REIT Manager's fee in Units is described in more detail in the paragraphs titled "REIT Manager's Base Fee" and "REIT Manager's Variable Fee" in the section headed "Financial Information and Profit Forecast — Profit Forecast".

(3) Deferred taxation relating to temporary differences in respect of tax depreciation and available tax losses is a non-cash item.

(4) As required under the Hotel Management Agreements.

Costs Associated with Listing

The costs associated with the listing will be charged to equity or as expenses in accordance with Hong Kong Accounting Standard 32, under which "the transaction costs of an equity transaction are accounted for as deduction from equity (net of any related income benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense."

The costs and expenses associated with the establishment of Regal REIT, the issue of Units under the Global Offering and the listing of the Units will be borne by Regal REIT. Such costs and expenses, excluding underwriting commission, are estimated to be HK$70.4 million in aggregate. Of the HK$70.4 million, an estimated HK$67.7 million, together with the underwriting commission, will be charged against the issued equity in the balance sheet while the remainder will be charged to the income statement as expenses. For the purpose of the profit forecast, the portion that will be charged to the income statement of HK$2.7 million is excluded since it is regarded as a non-recurring item.

Other Assumptions

The REIT Manager has made the following assumptions in preparing the profit forecast for the Forecast Period:

- the property portfolio will remain unchanged;
- there will be no material change in the physical condition of the Initial Hotel Properties, other than pursuant to the Asset Enhancement Program;
- the Asset Enhancement Program in relation to Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel is completed according to schedule during the Forecast Period;
- no further debt will be incurred or units issued for cash;
- there will be no change to the REIT Code, legislation (including taxation), regulations or rules in Hong Kong, or any other country or territory, which may materially adversely affect the business of Regal REIT;
- no surplus or deficit would arise as a result of the valuation of Regal REIT's portfolio of investment properties as at December 31, 2007, hence deferred taxation relating to any change in the fair value of the Initial Hotel Properties will not arise;
- there will be no material change in the existing political, legal, fiscal, market, business or economic conditions in Hong Kong;
- there will be no material change in prevailing tax rate, interest rates and exchange rates;
- there will be no drawdown of the HK$150 million revolving credit facility;
- all Lease Agreements and Hotel Management Agreements are enforceable and are to be performed in accordance with their contracted terms;
- there will be no change in fair value of financial instruments including the interest rate hedging instruments entered into or to be entered into by the Finance Companies; and
- the REIT Manager will distribute 100% of Total Distributable Income to Unitholders and there will be no activation of the distribution reinvestment arrangement.

Accounting Standards

The REIT Manager has assumed no change in applicable accounting standards or other financial reporting requirements that may have a material effect on the forecast or projected net operating profit during the Forecast Period.

Distribution Reinvestment Arrangement

The Trust Deed allows the REIT Manager, where appropriate, the option of activating an arrangement whereby Unitholders may elect to re-invest all or part of their distribution entitlement in return for an issue of additional Units in Regal REIT. It has been assumed that the REIT Manager will not activate the distribution reinvestment arrangement for the Forecast Period.

Sensitivity Analysis

The forecast and projected distributions included in the Offering Circular are based on a number of assumptions that have been outlined above. The forecast and projected distributions are also subject to a number of risks as outlined in the section headed "Risk Factors" in the Offering Circular.

Investors are advised that future events cannot be predicted with any certainty and deviations from the figures forecast in the Offering Circular are to be expected. To assist investors in assessing the impact of these assumptions on the financial forecast, tables demonstrating the sensitivity of the annualized distribution and profit yields for the Forecast Period to changes in Variable Rent, occupancy rate, average room rate and assumed fair value of the Initial Hotel Properties as of December 31, 2007 are set forth below. Each term loan facility and revolving credit facility will bear interest at a variable rate. In order to hedge against the floating interest rate of the term loans, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates at an average rate of 4.54%, until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012. Accordingly, changes in interest rates will have no impact on the DPU of Regal REIT during the Forecast Period.

The sensitivity analysis is intended to provide a guide only and variations in actual performance could exceed the ranges shown. In addition, movement in other variables may offset or compound the effect of a change in any variable beyond the extent shown.

The following table illustrates the effect of an increase and a decrease of 5% in Variable Rent for the Forecast Period on the projected annualized 2007 distribution and profit yields (taking into account the distribution waived in respect of the AEP Units) based on the Maximum Offer Price and the Minimum Offer Price, assuming all other assumptions remain unchanged:

	For the period from the Listing Date to December 31, 2007(1)			
	Annualized profit yield based on the Minimum Offer Price(1)	Annualized distribution yield based on the Minimum Offer Price(1)	Annualized profit yield based on the Maximum Offer Price(1)	Annualized distribution yield based on the Maximum Offer Price(1)
Variable Rent				
5% decrease in Variable Rent	6.74%	7.43%	5.20%	5.74%
Yield as shown in the profit forecast(2)	6.82%	7.51%	5.27%	5.80%
5% increase in Variable Rent	6.91%	7.60%	5.34%	5.87%

Notes:

(1) The annualized yields for the Forecast Period are provided for illustrative purposes only.

(2) Based on assumptions used for preparing this profit forecast.

The following table illustrates the effect of an increase and a decrease of five percentage points in occupancy rate on the projected annualized 2007 distribution and profit yields (taking into account the distribution waived in respect of the AEP Units) based on the Maximum Offer Price and the Minimum Offer Price, assuming all other assumptions remain unchanged:

	For the period from the Listing Date to December 31, 2007(1)			
	Annualized profit yield based on the Minimum Offer Price(1)	Annualized distribution yield based on the Minimum Offer Price(1)	Annualized profit yield based on the Maximum Offer Price(1)	Annualized distribution yield based on the Maximum Offer Price(1)
Occupancy rate				
5% decrease in occupancy rate	6.43%	7.11%	4.97%	5.49%
Yield as shown in the profit forecast(2)	6.82%	7.51%	5.27%	5.80%
5% increase in occupancy rate	7.20%	7.91%	5.56%	6.11%

Notes:

(1) The annualized yields for the Forecast Period are provided for illustrative purposes only.

(2) Based on assumptions used for preparing this profit forecast.

The following table illustrates the effect of an increase and a decrease of 5% in average room rate on the projected annualized 2007 distribution and profit yields (taking into account the distribution waived in respect of the AEP Units) based on the Maximum Offer Price and the Minimum Offer Price, assuming all other assumptions remain unchanged:

	For the period from the Listing Date to December 31, 2007			
	Annualized profit yield based on the Minimum Offer Price(1)	**Annualized distribution yield based on the Minimum Offer Price(1)**	**Annualized profit yield based on the Maximum Offer Price(1)**	**Annualized distribution yield based on the Maximum Offer Price(1)**
Average room rate				
5% decrease in average room rate	6.49%	7.17%	5.01%	5.54%
Yield as shown in the profit forecast(2)	6.82%	7.51%	5.27%	5.80%
5% increase in average room rate	7.15%	7.85%	5.52%	6.06%

Notes:

(1) The annualized yields for the Forecast Period are provided for illustrative purposes only.

(2) Based on assumptions used for preparing this profit forecast.

The following table illustrates the effect of an increase and a decrease of 5% in fair value of the Initial Hotel Properties as of December 31, 2007 compared to the Appraised Value as of December 31, 2006 of HK$15.9 billion on the projected annualized 2007 distribution and profit yields (taking into account the distribution waived in respect of the AEP Units) based on the Maximum Offer Price and the Minimum Offer Price, assuming all other assumptions remain unchanged:

	For the period from the Listing Date to December 31, 2007(1)			
	Annualized profit yield based on the Minimum Offer Price(1)	**Annualized distribution yield based on the Minimum Offer Price(1)**	**Annualized profit yield based on the Maximum Offer Price(1)**	**Annualized distribution yield based on the Maximum Offer Price(1)**
Fair value of Initial Hotel Properties as of December 31, 2007				
5% decrease in fair value	(4.87%)	7.51%	(3.76%)	5.80%
Yield as shown in the profit forecast(2)	6.82%	7.51%	5.27%	5.80%
5% increase in fair value	18.50%	7.51%	14.29%	5.80%

Notes:

(1) The annualized yields for the Forecast Period are provided for illustrative purposes only.

(2) Based on assumptions used for preparing this profit forecast.

Regal has guaranteed that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007) in aggregate, will not be less than HK$420.3 million. Other than this guarantee, there are no guarantees, assurances or other forms of credit support with respect to the performance of Regal REIT, the REIT Manager or the Trustee, and no guarantees in respect of the repayment of capital or the payment of any dividends, or any particular return on the Units.

During the Forecast Period, the AEP Units will not be entitled to distributions pursuant to the Distribution Deed. Such Units will become entitled to distribution only at a certain time after the corresponding portion of the Asset Enhancement Program is completed (currently scheduled to be completed in stages by the end of 2008 and accordingly, the AEP Units will not receive any distribution for the Forecast Period) or when the Trustee receives cash compensation pursuant to the Sale and Purchase Agreement if the Asset Enhancement Program is not completed by the relevant Long-Stop Dates. In the event that the AEP Units become entitled to distributions, the total number of Units entitled to distributions will increase, which may result in dilution of DPU in the absence of any increase of Total Distributable Income.

Period from the Listing Date to June 30, 2007

For the period from the Listing Date to June 30, 2007, the indicative DPU is HK$0.0570 per Unit, based on the Minimum Offer Price, and HK$0.0555 per Unit, based on the Maximum Offer Price, taking into account the Units to be issued to the REIT Manager for the payment of the REIT Manager's fees in respect of the period from the Listing Date to June 30, 2007 and assuming that no other new Units will be issued during the period. Such distributions will be paid by the end of November 2007 to persons who are Unitholders as of the Record Date for such interim distribution.

Period from July 1, 2007 to December 31, 2007

For the period from July 1, 2007 to December 31, 2007, the indicative DPU is HK$0.0957 per Unit, based on the Minimum Offer Price, and HK$0.0933 per Unit, based on the Maximum Offer Price. The distributions for the period from July 1, 2007 to December 31, 2007, to be paid by the end of May 2008, shall take into account the Units to be issued to the REIT Manager for the payment of the REIT Manager's fees in respect of the period from the Listing Date to December 31, 2007 and assuming that no other new Units will be issued during the period. Such distributions will be paid by the end of May 2008 to persons who are Unitholders as of the Record Date for such final distribution.

Accordingly, Regal REIT expects that Unitholders will be paid, in the absence of unforeseen circumstances, total distributions of not less than HK$420.3 million for the period from the Listing Date to December 31, 2007, as the REIT Manager's current policy is to distribute 100% of Regal REIT's Total Distributable Income for each financial year, representing an annualized distribution yield of 7.51% based on the Minimum Offer Price (excluding other transaction costs) or 5.80% based on the Maximum Offer Price (excluding other transaction costs).

	For the period from the Listing Date to December 31, 2007	
	Based on the Minimum Offer Price	**Based on the Maximum Offer Price**
Forecast distribution per Unit (HK$)	0.1527	0.1488
Forecast annualized profit yield after taxation (without taking into account the distribution waived in respect of the AEP Units)(1)	6.00%	4.77%
Forecast annualized profit yield after taxation(2)	**6.82%**	**5.27%**
Forecast annualized distribution yield after taxation (without taking into account the distribution waived in respect of the AEP Units)(3)	6.61%	5.25%
Forecast annualized distribution yield after taxation(4)	**7.51%**	**5.80%**

Notes:

(1) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized profit yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(2) The forecast annualized profit yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized profit yield may differ, and is calculated as follows: (Profit for the Forecast Period assuming no change in fair value of investment properties / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period − AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(3) For the avoidance of doubt, the AEP Units will not be entitled to receive distributions for the Forecast Period. For illustrative purposes only, the forecast annualized distribution yield for the Forecast Period (without taking into account the distribution waived in respect of the AEP Units) is provided and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

(4) The forecast annualized distribution yield for the Forecast Period (taking into account the distribution waived in respect of the AEP Units) is provided for illustrative purposes only and the actual annualized distribution yield may differ, and is calculated as follows: (Total Distributable Income for the Forecast Period / number of days in the Forecast Period) x 365 / (number of Units outstanding as at the Record Date including estimated number of Units issued for REIT Manager's fee of 16.1 million Units based on the Maximum Offer Price and 20.3 million Units based on the Minimum Offer Price for the Forecast Period − AEP Units for the Forecast Period) / offer price, and excludes brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%.

Investors should note that the distribution yield after taxation is different from the profit yield after taxation. The difference between the distribution yield and the profit yield is due to the Adjustments as described in footnote (3) beneath the table under the heading "Profit Forecast for the Forecast Period" under the section headed "Profit Forecast" in this Offering Circular.

Bases and Assumptions

The above forecast annualized distribution yields are calculated based on the Maximum Offer Price and the Minimum Offer Price (excluding other transaction costs). The yield obtained by investors who purchase Units in the secondary market at a market price that differs from the Maximum Offer Price or Minimum Offer Price (excluding other transaction costs), calculated using such secondary market purchase price, will accordingly differ from the distribution yields stated above.

The following table sets out the unaudited pro forma balance sheet of Regal REIT as of the Listing Date following the completion of the Acquisition, the issuance of the Units pursuant to the Global Offering and the drawdown of the term loan of HK$4.35 billion under the Financing Agreement and should be read in conjunction with the report from Ernst & Young set out in Appendix II.

	Based on the Minimum Offer Price	Based on the Maximum Offer Price
	HK$ million	HK$ million
Assets		
Investment Properties[(1)]	14,900.0	14,900.0
Prepaid construction cost[(2)]	1,000.0	1,000.0
Goodwill[(3)]	—	102.7
Liabilities		
Accruals[(4)]	(2.0)	(2.0)
Amount drawn down under the Facility[(5)]	(4,350.0)	(4,350.0)
Debt establishment cost	41.7	41.7
Deferred tax liabilities[(6)]	(1,344.7)	(1,344.7)
Net assets	10,245.0	10,347.7
Represented by:		
Amount of Units to be issued	8,320.3	10,493.6
Retained Profits/(Accumulated losses)[(3)(7)]	2,050.6	(4.7)
Issue costs[(8)]	(125.9)	(141.2)
	10,245.0	10,347.7

Notes:

(1) Investment properties are stated at their fair market value determined by the Independent Property Valuer on December 31, 2006. The Directors consider that there will have been no material change in the fair market value of the Initial Hotel Properties in the period from December 31, 2006 to the Listing Date.

(2) Prepaid construction cost represents the fair market value of the Asset Enhancement Program.

(3) The goodwill arises because the consideration for the acquisition by Regal REIT of Holding SPV exceeds the consolidated net assets of Holding SPV primarily due to the provision for deferred tax liabilities in respect of the revaluation surplus of these Initial Hotel Properties which will be required under Hong Kong Accounting Standard 12 "Income Taxes". As the Initial Hotel Properties have been held by their respective immediate holding companies for the long term, the REIT Manager does not believe, based on the current tax legislation, that any eventual disposal would give rise to a tax liability. Accordingly, any impairment/write-off of goodwill resulting from any decrease in the fair market value/disposal of the Initial Hotel Properties will give rise to a corresponding release of the relevant portion of the provision for deferred tax liabilities.

Any excess over the cost of business combination which arises in the event that the consideration for the acquisition by Regal REIT of Holding SPV is less than the consolidated net assets of Holding SPV is credited to the income statement as incurred.

(4) This amount represents Regal REIT's share of the estimated stamp duty payable on the Lease Agreements in the amount of HK$2.0 million.

(5) The term loan of HK$4.35 billion will be fully drawn on the Listing Date and will be fully repaid after five years from the date of drawdown.

(6) This amount in respect of deferred tax liabilities represents the difference between gross deferred tax liabilities of HK$1,527.1 million and gross deferred tax assets of HK$182.4 million.

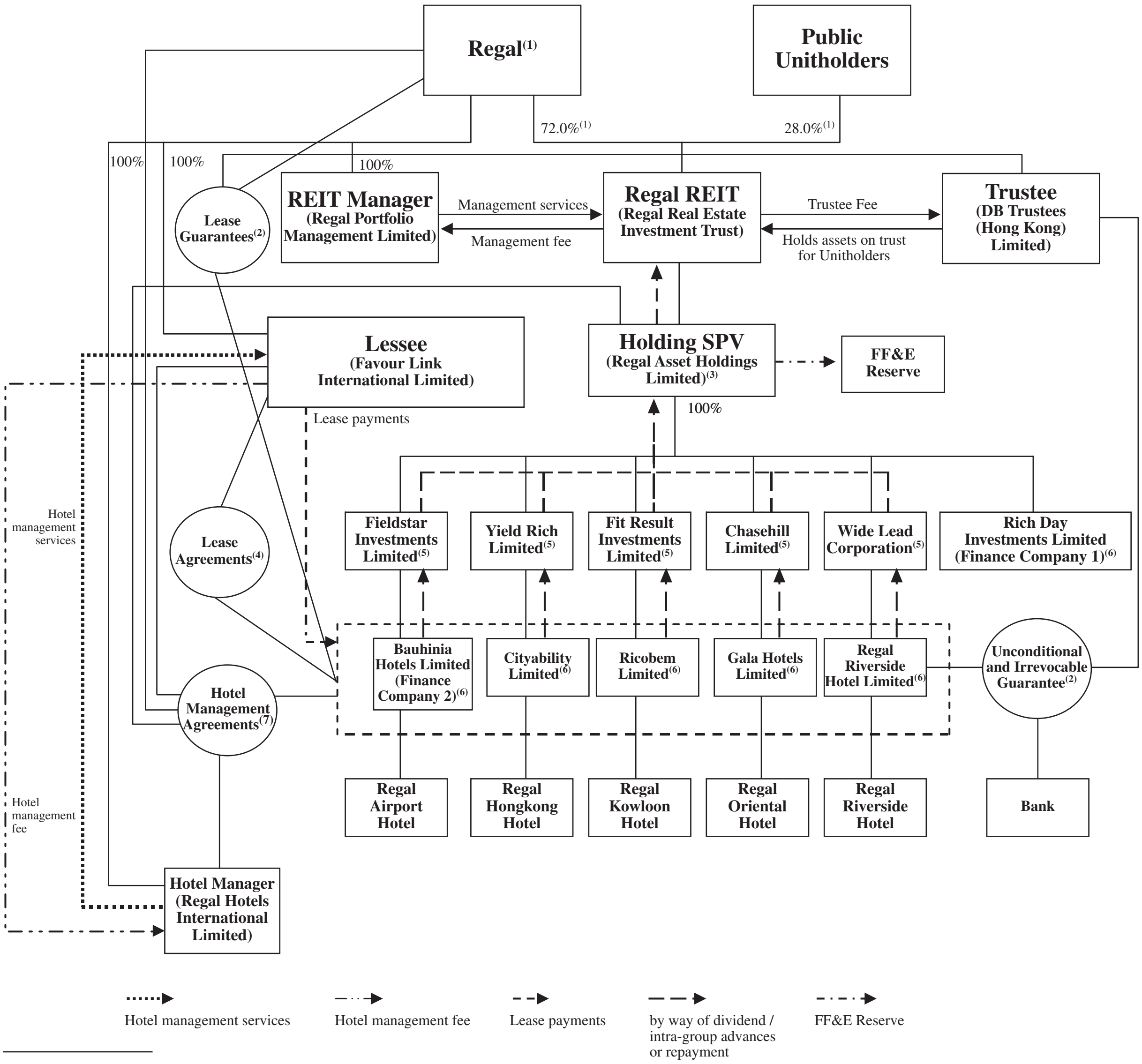
(7) Based on the Maximum Offer Price, the accumulated losses represent the aggregate of (i) Regal REIT's share of the estimated stamp duty payable on the Lease Agreements in the amount of HK$2.0 million and (ii) the portion of issue costs expensed of HK$2.7 million. Based on the Minimum Offer Price, such losses are netted off from the excess over the cost of business combination in the amount of HK$2,055.3 million, giving rise to retained profits of HK$2,050.6 million.

(8) The issue costs comprise underwriting commissions payable to the Underwriters, legal and professional fees, auditors' fees, printing costs, listing costs, roadshow expenses and fees for public relations in respect of the listing of Regal REIT, advertisement and marketing related expenses, and other administrative expenses.

The NTA per Unit as of the Listing Date is expected to be HK$3.73, before taking into account the effect of any purchase price adjustment for the acquisition of the Holding SPV Shares. The NTA per Unit is calculated based on the unaudited net tangible assets excluding goodwill and deferred tax assets net of deferred tax liabilities, which is equivalent to HK$11,589.7 million, and 3,104.6 million Units expected to be in issue. The Minimum Offer Price represents a 28.2% discount to the NTA per Unit and the Maximum Offer Price represents a 9.4% discount to the NTA per Unit.

STRUCTURE AND MANAGEMENT

The following diagram illustrates the ownership structure of Regal REIT immediately following the completion of the Global Offering (before any exercise of the Over-allotment Option). After the completion of the Global Offering, the percentages of Unit holdings may vary according to whether the Over-allotment Option is exercised, and whether it is exercised in whole or in part.



Notes:

(1) Assuming the Over-allotment Option is not exercised. Two subsidiaries of Regal, namely Complete Success Investments Limited and Great Prestige Investments Limited, failing whom, Regal, have agreed to subscribe for an aggregate of 2,235,316,748 Units.

(2) Regal has guaranteed to pay all amounts from time to time owing or payable by the Lessee to the Lessors and the Trustee under the Lease Agreements. In addition, Regal has procured an unconditional and irrevocable guarantee for HK$1 billion until June 30, 2011 to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee. For further details, please refer to the section headed "Material Agreements — Lease Guarantees" in this Offering Circular.

(3) Incorporated in Bermuda.

(4) The Property Companies, each as Lessor, have entered into separate Lease Agreements with Favour Link International Limited, as Lessee, in relation to the Initial Hotel Properties.

(5) Incorporated in the British Virgin Islands.

(6) Incorporated in Hong Kong.

(7) The Hotel Manager, the Property Companies, the Lessee, Holding SPV and Regal have entered into separate Hotel Management Agreements with respect to each of the Initial Hotel Properties.

Overview

Regal REIT is organized and managed in a manner which is consistent with the provisions and requirements of the REIT Code, subject as described in the section headed "Structure and Management — Modifications, Waivers and Licensing Conditions" in this Offering Circular. The REIT Manager is independent of the Trustee and possesses the skill and resources to perform and discharge its functions in relation to Regal REIT effectively and responsibly. In performing and discharging such functions, the REIT Manager is required to observe high standards of corporate governance. For details of the corporate governance policies and procedures of the REIT Manager, see the section headed "Structure and Management — Corporate Governance" in this Offering Circular.

The REIT Manager

Regal Portfolio Management Limited, a wholly-owned subsidiary of Regal, was incorporated in Hong Kong on February 20, 2006 for the sole purpose of managing the assets of Regal REIT. The REIT Manager is not involved in any other REIT.

The REIT Manager has general powers of management over the assets of Regal REIT under the Trust Deed. The REIT Manager's main responsibility is to manage the assets of Regal REIT for the benefit of Unitholders. The REIT Manager will set the strategic direction and risk management policies of Regal REIT and give direction to the Trustee on the acquisition, divestment or enhancement of assets of Regal REIT in accordance with its stated investment strategy. The REIT Manager will manage the assets of Regal REIT in accordance with the REIT Manager's investment strategy as stated in the section headed "Business and Strategy — Strategy" in this Offering Circular and in accordance with the provisions of the Trust Deed and the compliance procedures as described in section headed "Material Agreements — Trust Deed" in this Offering Circular. The REIT Manager is licensed by the SFC to conduct the regulated activity of asset management, as required by the REIT Code.

The REIT Manager will also be responsible for ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Listing Rules, the Trust Deed and all relevant contracts.

The REIT Manager may require the Trustee to borrow on behalf of Regal REIT (upon such terms and conditions as the REIT Manager deems fit, including the charging or mortgaging of all or any part of the Deposited Property) whenever the REIT Manager considers, among other things, that such borrowings are necessary or desirable in order to enable Regal REIT to meet any liabilities or to finance the acquisition of any property. However, the REIT Manager must not direct the Trustee to incur a borrowing if to do so would mean that Regal REIT's total borrowings exceed 45% (or such other limit as may be stipulated under the REIT Code or as may be specifically permitted by the relevant authorities) of the total gross asset value of the Deposited Property as set out in Regal REIT's latest published audited accounts immediately prior to such borrowing being effected as adjusted by (i) deducting the amount of any distribution proposed by the REIT Manager in such audited accounts, any distribution declared by the REIT Manager since the publication of such accounts and (ii) where appropriate, the latest published valuation of the assets of Regal REIT if such valuation is published after the publication of such accounts.

The Board of Directors of the REIT Manager

The Board is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of Regal REIT, including a system of internal control and business risk management processes.

The Board comprises seven Directors, three of whom are Independent Non-executive Directors. The executive Director is licensed by the SFC as a Responsible Officer of the REIT Manager for the purposes of the SFO.

For further information on the Board and its committees, see the section headed "Structure and Management — Corporate Governance" in this Offering Circular.

Directors

The Board is entrusted with the responsibility for the overall management of the REIT Manager. The following table sets forth information regarding the Directors:

Individual	Age
Chairman	
Mr. Lo Yuk Sui	62
Executive Director and Chief Executive Officer	
Mr. Kai Ole Ringenson	57
Independent Non-executive Directors	
Hon Abraham Shek Lai Him, J.P.	61
Mr. Alvin Lam Kwing Wai	62
Mr. John William Crawford, J.P.	64
Non-executive Directors	
Mr. Lo Yuk Sui	62
Mr. Donald Fan Tung	49
Mr. Jimmy Lo Chun To	33

Information on the business and working experience of the Directors is set out below:

Mr. Lo Yuk Sui, aged 62, Chairman − Mr. Lo has over 36 years of experience in real estate and hospitality. He is the chairman and chief executive officer of Regal. He has held the position as the Chairman of Regal since 1989 when Regal was established in Bermuda as the holding company for the Regal Group. Mr. Lo has been the managing director and the chairman of the predecessor listed company of the Regal 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 Regal is the listed associate. Mr. Lo obtained a Bachelor of Architecture degree from the University of Hong Kong and is a qualified architect. In his capacity as the chief executive officer, Mr. Lo oversees the overall policy and decision making of the Regal Group. He was the chairman of the Board of Management of the Hong Kong Tourist Association (now called the Hong Kong Tourism Board) for the period from 1996 to 2000. Mr. Lo is also currently a standing committee member of the Chinese People's Political Consultative Conference in Shenzhen, Guangdong Province, the PRC, and a member of the Court of the University of Hong Kong.

Mr. Kai Ole Ringenson, aged 57, sole Executive Director, Chief Executive Officer and Responsible Officer − Mr. Ringenson has extensive experience in international hotel management and asset management. During his more than 35 years in the hotel industry, he has managed hotels in Asia, Europe and the United States. He has considerable experience of 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. Mr. Ringenson joined the Regal Group in 2001 and was an executive director of Regal and the chief operating officer of the Hotel Manager from 2002 until he became a non-executive director of Regal in January 2004. Mr. Ringenson resigned as a non-executive director on November 22, 2006 to become the sole Executive Director and Chief Executive Officer of the REIT Manager. Mr. Ringenson was a founding non-executive director of Pandox AB, a dedicated hotel property company listed in Sweden from 1997 to 2004, during which time its portfolio grew from 17 to 47 hotels. Mr. Ringenson was the asset manager of Le Méridien Hotels & Resorts, on behalf of Lehman Brothers, during an 18 month restructuring period from 2004-2005. He is licensed by the SFC to undertake the regulated activity of asset management (RA 9).

Hon Abraham Shek Lai Him, J.P., aged 61, Independent Non-executive Director − Mr. Shek holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the Managing Board of KCRC, member of the Council of The Hong Kong University of Science & Technology, member of the Court of The University of Hong Kong and director of The Hong Kong Mortgage Corporation Limited. Mr. Shek is an independent non-executive director and a member of the audit committee of Chuang's Consortium International Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL (of which Regal Hotels International Holdings Limited is the listed associated company) and See Corporation Limited and an independent non-executive director of Hop Hing Holdings Limited and Titan Petrochemicals Group Limited, all of which are companies listed on the Hong Kong Stock Exchange. He is also an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust which is listed on the Hong Kong Stock Exchange.

Mr. Alvin Lam Kwing Wai, aged 62, Independent Non-executive Director − Mr. Lam is the managing director of Golden Resources Development International Limited ("**Golden Resources**"), a company listed on the Hong Kong Stock Exchange. Mr. Lam joined Golden Resources in 1970 after he obtained his Master of Business Administration degree from the University of California, Berkeley, U.S.A. He has extensive experience in financial management and investment planning.

Mr. John William Crawford, J.P., aged 64, Independent Non-executive Director − Mr. Crawford has been a resident of Hong Kong for over 33 years and 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. Mr. Crawford has continued to undertake consultancy/advisory work in a private capacity since retirement and 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, Mr. Crawford 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.

Mr. Donald Fan Tung, aged 49, Non-executive Director − Mr. Fan was appointed to the board of Regal in 2002. Mr. Fan has been with the Regal Group since 1987. He is in charge of all the hotel project works of the Regal Group. Mr. Fan is also an executive director of CCIHL and PHL and the chief operating officer of PHL. He is involved in the property development, architectural design and project management functions of PHL. He is a qualified architect.

Mr. Jimmy Lo Chun To, aged 33, Non-executive Director − Mr. Lo was appointed to the board of Regal in 1999. He is also an executive director of CCIHL and PHL. Mr. Jimmy Lo graduated from Cornell University, New York, U.S.A. with a Bachelor of Architecture degree. Apart from his involvement with the design of the Regal Group's property and hotel projects, he also undertakes responsibilities in the business development function of CCIHL. He is the son of Mr. Lo Yuk Sui.

Independence of Directors

In assessing the independence of a non-executive Director, the Audit Committee will take into account the following factors, none of which is necessarily conclusive. Independence is more likely to be questioned if the Director:

(1) holds more than 1% of the total issued Units in Regal REIT (including Units held legally or beneficially by the director, together with the total number of Units which may be issued to the director or his nominee upon the exercise of any outstanding options, convertible securities and other rights (whether contractual or otherwise) to call for the issue of Units). Any candidate for appointment who holds an interest of more than 1% must satisfy the Audit Committee, prior to the appointment, that he or she is independent. A candidate holding 5% or more would not normally be considered to be independent;

(2) has received an interest in the Units as a gift, or by means of other financial assistance, from Regal REIT or a connected person of Regal REIT (however, subject to the limit set out in (1) above). The director will still be considered independent if he/she receives Units from Regal REIT (but not from connected persons of Regal REIT) as part of his/her director's fee or pursuant to option schemes;

(3) is a director, partner or principal of a professional adviser which currently provides or has within one year immediately prior to the date of his/her proposed appointment provided services, or is an employee of such professional adviser who is or has been involved in providing such services during the same period, to:

   (a) Regal REIT or any connected person of Regal REIT; or

   (b) any person who was a chief executive or a director (other than an independent non-executive director) of the REIT Manager within one year immediately prior to the date of the proposed appointment, or any of their associates;

(4) has a material interest in any principal business activity of or is involved in any material business dealings with Regal REIT or any connected person of Regal REIT;

(5) is on the board specifically to protect the interests of an entity whose interests are not the same as those of Unitholders of Regal REIT as a whole;

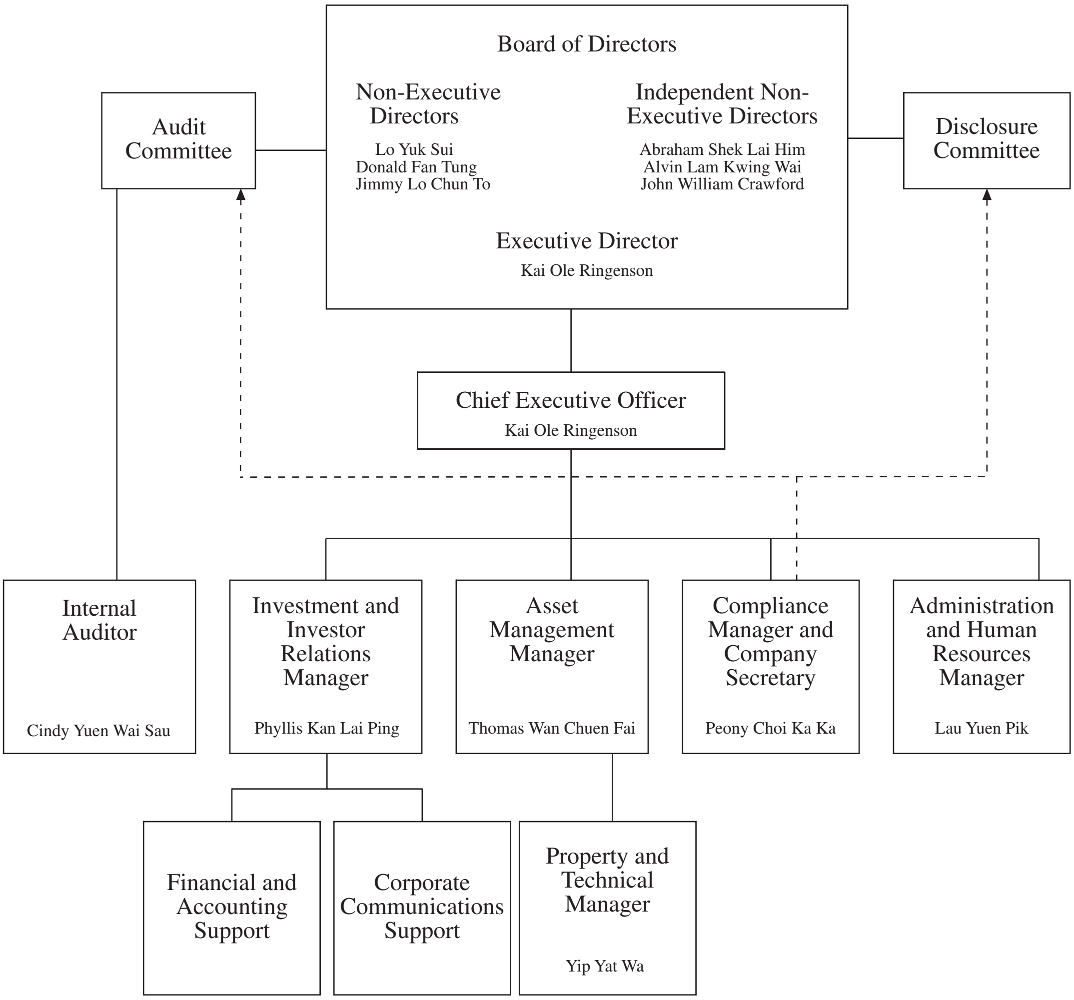
(6) is or was connected with a director or the chief executive of the REIT Manager, or a significant holder of Regal REIT, within two years immediately prior to the date of his/her proposed appointment;

(7) is, or has at any time during the two years immediately prior to the date of his/her proposed appointment been, an executive director (other than an independent non-executive director) of the REIT Manager or any other connected person of Regal REIT; and

(8) is financially dependent on Regal REIT or any connected person of Regal REIT.

Investors should refer to the full details of the assessment of the independence of non-executive Directors set out in the corporate governance policy of the REIT Manager (a copy of which is available for inspection in accordance with Appendix VIII to this Offering Circular).

Organizational and Reporting Structure of the REIT Manager



Note: Dotted lines represent ad hoc reporting on a case by case basis.

Roles of the Executive Officers of the REIT Manager

The **Chief Executive Officer** shall be responsible for working with the Board to determine the strategy for Regal REIT. The Chief Executive Officer will work with the other members of the REIT Manager's management team to ensure that Regal REIT is operated in accordance with the REIT Manager's stated investment strategy. Additionally, the Chief Executive Officer will be responsible for planning the strategic development of Regal REIT. The Chief Executive Officer is also responsible for the day-to-day operations of the REIT Manager and will supervise the REIT Manager's management team to ensure that Regal REIT is operated in accordance with the stated strategy, policies and regulations. The Chief Executive Officer is also responsible for (i) formulating the business plans of Regal REIT's properties with short, medium and long-term objectives with a view to maximizing rental income from the Initial Hotel Properties via active asset management — the Chief Executive Officer will monitor the Lessee's obligation to operate the Initial Hotel Properties to the prescribed operating standard under the Lease Agreements and will work closely with the Hotel Manager pursuant to the terms of the Hotel Management Agreements; (ii) identifying, evaluating and executing potential acquisitions for investment consistent with Regal REIT's investment strategy with a view to enhancing Regal REIT's portfolio including opportunities which may become available pursuant to the Deed of Non-Competition; and (iii) recommending and analyzing potential asset enhancement initiatives.

The **Investment and Investor Relations Manager** shall be responsible for evaluating potential acquisitions or investments consistent with Regal REIT's investment strategy with a view to enhancing Regal REIT's portfolio or divestments where a property is no longer strategic or fails to enhance the value of Regal REIT's portfolio. The Investment and Investor Relations Manager shall also recommend and analyze potential asset enhancement initiatives. She will also evaluate the financial implications in respect of leasing the Initial Hotel Properties. The Investment and Investor Relations Manager will make regular and transparent disclosures and other communications to Unitholders and the market, and will assist the Chief Executive Officer by facilitating and co-ordinating the formulation of strategic plans, promoting and marketing Regal REIT. She is also primarily responsible for the financial and risk management of Regal REIT and shall oversee a qualified accounting team. In consultation with the Chief Executive Officer, she will also consider what hedging activities, such as interest rate swaps, and methods may be appropriate in order to hedge against risk exposure arising from the investments of Regal REIT and will take implementation action appropriately.

The **Asset Management Manager** shall be responsible for monitoring the actual completion of the Asset Enhancement Program from a technical point of view and will attend building meetings with the contractor, receive and interpret technical reports and keep the Chief Executive Officer informed of the ongoing progress of the program. The Asset Management Manager will also review proposals from the Hotel Manager in relation to expenditure for the replacement of furniture, fixtures and equipment and will assist the Chief Executive Officer to assess the justification and feasibility of such expenditure. The Asset Management Manager will focus on the operations and implementation of the short to medium-term objectives of Regal REIT's portfolio and supervise the Hotel Manager pursuant to the terms of the Hotel Management Agreements in the implementation of Regal REIT's strategies. Furthermore, the Asset Management Manager will inspect and review all potential and new acquisitions from a structural and technical point of view.

The **Compliance Manager** is primarily responsible for (i) ensuring that in managing the affairs of Regal REIT, the REIT Manager shall comply with the Trust Deed, the REIT Code, the Listing Rules, the rules and regulations of the Stock Exchange (where applicable), the SFO, and other applicable laws, regulations and rules; and (ii) reviewing the accuracy and completeness of records of all operations and transactions of Regal REIT and ensuring that the REIT Manager's internal control system functions properly. She is also responsible for ensuring that the REIT Manager is kept up-to-date with any changes in applicable rules and regulations that relate to compliance matters; of reviewing and making recommendations to the Board or the Audit Committee (as the case may be) to ensure effective segregation of duties and operation functions of the REIT Manager, and ensure effectiveness and accuracy of the reporting of irregularities and infringements of the REIT Manager's operational and compliance procedures; and identifying contingency events and escalating them to the appropriate level within the REIT Manager. The Compliance Manager will establish an effective compliance framework and conduct regular compliance reviews to monitor its implementation.

The **Property and Technical Manager** is responsible for monitoring the actual completion of the Asset Enhancement Program from a technical point of view and will attend building meetings with the contractor, receive and interpret technical reports and keep the Chief Executive Officer informed of the ongoing progress of the program. The Property and Technical Manager will also review proposals from the Hotel Manager in relation to replacements of furniture, fixtures and equipment and assist the Chief Executive Officer with assessing the justification and feasibility of such expenditure. Furthermore, the Property and Technical Manager will further inspect and review all potential and new acquisitions from a technical point of view.

The **Internal Auditor** is responsible for reviewing the accuracy and completeness of records of all operations and transactions of Regal REIT and ensuring that the REIT Manager's internal control system functions properly. She is also responsible for reviewing and making recommendations to the Board or the Audit Committee (as the case may be) to ensure effective segregation of duties and operation functions of the REIT Manager, and ensure effectiveness and accuracy of the reporting of irregularities and infringements of the REIT Manager's operational and compliance procedures.

The **Administration and Human Resources Manager** is responsible for all matters relating to general administrative issues as well as the implementation of the REIT Manager's human resources' policies and procedures.

Executive Officers of the REIT Manager

The following sets forth information on the working experience of the executive officers of the REIT Manager, who are full-time employees of the REIT Manager:

Ms. Phyllis Kan Lai Ping, aged 48, Responsible Officer and Investment and Investor Relations Manager — Ms. Kan has over 25 years of working experience in both the private and public sectors. She has held various senior level positions in different organizations. Prior to her appointment as the Investment and Investor Relations Manager, she was a director and responsible officer at Asia Investment Management Limited, a specialised corporate advisory and investment management firm focusing on advising on asset management, mergers and acquisitions and other investment projects and Asia Investment Research Limited, involved in research work in Hong Kong and China based companies. Ms. Kan is a practising member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Institute of Certified Public Accountants of Singapore and an associate member of the Institute of Chartered Accountants in England and Wales. She is licensed by the SFC to undertake the regulated activity of asset management (RA 9).

Mr. Thomas Wan Chuen Fai, aged 57, Responsible Officer and Asset Management Manager. Mr. Wan graduated from the University of Houston with a Bachelor of Science in Electrical Engineering degree. Mr. Wan possesses both asset management and property management experience from his previous employment with the Baron Asset Management Limited and its related companies. Mr. Wan's investment management experience includes providing securities investment and asset management advice for investors. On the property management side, Mr. Wan has experience in managing the property maintenance and renovation works. Mr. Wan also has extensive mechanical and engineering expertise gained over 25 years.

Mr. Yip Yat Wa, aged 43, Property and Technical Manager — Mr. Yip has over 22 years of engineering experience. He had been involved in several large projects during his 22 years' employment, responsible for coordinating and monitoring building services installations and builder's work maintenance, repairing and renovation works for hotels (including Hong Kong Marriott Hotel) and commercial buildings. Prior to joining the REIT Manager, he worked for Regal Hotels International Limited as the Chief Engineer, responsible for the operation and maintenance of facilities and monitoring new works for Regal Hongkong Hotel.

Ms. Peony Choi Ka Ka, aged 26, Approved Person, Compliance Manager and Company Secretary — Ms. Choi has over three years of company secretarial experience. She is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She obtained a Bachelor of Laws degree in 2002 and a Master of Arts degree in Professional Accounting and Information Systems in 2005 in Hong Kong. Prior to joining the REIT Manager, Ms. Choi worked for Century City Holdings Limited as a company secretarial officer. She is familiar with compliance matters under the rules and laws of Hong Kong that are applicable to private and listed companies.

Ms. Lau Yuen Pik, aged 40, Administration and Human Resources Manager — Ms. Lau has over 18 years of administration and human resources experience. She obtained a diploma in Human Resources Management in Hong Kong in 2001. Prior to joining the REIT Manager, Ms. Lau worked for Century City Holdings Limited and Regal Hotels International Limited as an assistant manager in the finance and administration division, responsible for human resources related matters, coordinating the day to day administration function of the division, and liaising with analysts and fund managers.

Ms. Cindy Yuen Wai Sau, aged 41, Internal Auditor — Ms. Yuen has over 15 years of professional accounting experience, gained in Hong Kong and Canada. She is a member of Certified General Accountants of Ontario (CGA) and a member of American Institution of Certified Public Accountants (AICPA). Prior to joining the REIT Manager, Ms. Yuen worked for a Hong Kong headquartered trading company as the Finance and Administration Manager of its PRC operations, responsible for internal auditing, financial and management accounting, taxation and compliance of internal procedure.

Fees, Costs and Expenses of the REIT Manager

The REIT Manager is entitled to a Base Fee, a Variable Fee, an acquisition fee and a divestment fee, as described below. The Base Fee and Variable Fee will only be payable from the Listing Date.

Any increase in the rate or any change in the structure of the REIT Manager's management fees (including the acquisition and divestment fee described below) beyond the caps set as below must be approved by a Special Resolution of Unitholders passed at a Unitholders' meeting duly convened under the provisions of the Trust Deed.

Fees payable to the REIT Manager shall be paid in full, free of any restriction or condition, without set-off or counterclaim and free and clear of any deduction or withholding for or on account of any tax, local or otherwise. If any payment of the fees due is subject to any deduction or withholding for any present or future taxes, duties fees, liabilities or other charges imposed by any competent governmental authority, then an additional amount shall be paid or reimbursed to the REIT Manager as is necessary so that the amount actually received by the REIT Manager equals the full amount of fees payable or reimbursable under the Trust Deed.

Base Fee

The REIT Manager's remuneration shall comprise in each financial year, a base fee of currently 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of the Deposited Property, which fee shall be calculated monthly, as follows:

MF = 0.5% x DP / 365 x the number of days in that month on which the Base Fee accrues

where:

MF = monthly fee

DP = the value of the Deposited Property as per the published audited annual accounts for the immediately preceding financial year, provided that the value of Deposited Property for the first financial year shall be the value of consolidated gross assets of Regal REIT as disclosed in this Offering Circular

The base fee calculated in accordance with the formula above is subject to adjustment as follows:

adjustment = 0.5% x ADP - SMF

where:

ADP = the value of Deposited Property as per published audited annual accounts of Regal REIT for the financial year; and

SMF = the sum of the monthly base fees actually received by the REIT Manager in respect of the relevant financial year.

Where the above adjustment is positive, Regal REIT shall pay the difference to the REIT Manager in the form of cash within 30 days following publication of the audited annual accounts of Regal REIT; and where the above adjustment is negative, the REIT Manager shall pay the difference in the form of cash to Regal REIT within 30 days following publication of audited annual accounts of Regal REIT for the relevant financial year. The effect of the adjustment described above is that the total Base Fee paid in relation to a particular financial year will be based on the value of the Deposited Property as at the end of that financial year.

The REIT Manager may lower the rate of the Base Fee to a rate within the permitted limit by written notice to the Trustee. The REIT Manager may increase the rate of the Base Fee to a rate within the permitted limit by at least three months' prior written notice to all Unitholders and the Trustee. Any increase in the rate of the Base Fee above the permitted limit or any change in the structure of the Base Fee shall be subject to approval by a Special Resolution passed at a general meeting of Unitholders, duly convened and held in accordance with the provisions of the Trust Deed. The Base Fee shall be payable monthly in arrears within 60 days of the last day of the month to which the Base Fee relates provided that the Base Fee for the months in which the audited accounts for the preceding financial year have not been published will be payable within ten Business Days after the date of publication of such audited accounts.

From the Listing Date to December 31, 2010, the Base Fee (a) referable to the Initial Hotel Properties, shall be paid to the REIT Manager in the form of Units, (b) referable to real estate acquired by Regal REIT other than the Initial Hotel Properties, shall be paid to the REIT Manager in the form of cash, and (c) relating to that part of the Deposited Property other than real estate, shall be paid to the REIT Manager in the form of Units. After December 31, 2010, the Base Fee shall be paid to the REIT Manager in the form of cash and/or Units (as the REIT Manager may elect). The REIT Manager shall make the elections for the payment of the Base Fee in cash and/or Units and (if applicable) the respective percentages of the Base Fee to be paid in cash and in Units annually on or before January 15 of the year to which the Base Fee relates by way of notice in writing to the Trustee and an announcement to Unitholders, and such election shall be irrevocable once made. In the event that the REIT Manager fails to make such an election, the most recent valid election made by the REIT Manager shall apply and, if there is no such prior election by the REIT Manager, the Base Fee shall be paid in cash.

When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Base Fee attributable at the prevailing Market Price (as defined in the Trust Deed). If the relevant thresholds for issue of Units without Unitholders' approvals are exceeded (including the threshold of 20%) and Unitholders' approvals are not obtained, then payment of that excess part of the Base Fee will be paid to the REIT Manager in the form of cash.

Variable Fee

The REIT Manager shall be entitled to receive for its own account out of the Deposited Property in respect of each financial year the amount of Variable Fee accrued to the REIT Manager and remaining unpaid. The Variable Fee shall be payable annually to the REIT Manager in respect of each piece of real estate in an annual amount equal to currently 3.0% per annum, subject to a maximum of 5.0% per annum, of the Net Property Income.

From the Listing Date to December 31, 2010, the Variable Fee referable to the Initial Hotel Properties shall be paid to the REIT Manager in the form of Units. After December 31, 2010, the Variable Fee shall be paid to the REIT Manager in the form of cash and/or Units (as the REIT Manager may elect). The REIT Manager shall make the elections for the payment of the Variable Fee in cash and/or Units and (if applicable) the respective percentages of the Variable Fee to be paid in cash and in Units, in respect of the Variable Fee of the immediately preceding year, annually on or before January 15 of each financial year by way of notice in writing to the Trustee and an announcement to Unitholders, and each election shall be irrevocable once made. In the event that the REIT Manager fails to make such an election in any financial year, the most recent valid election made by the REIT Manager in a prior financial year (if any) shall apply and, if there is no such prior election by the REIT Manager, the Variable Fee shall be paid in cash.

When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Variable Fee at the prevailing Market Price at the time of the issue of such Units. If the relevant thresholds for the issuance of Units without Unitholders' approvals are exceeded (including the threshold of 20% or such other percentage as permitted by the REIT Code) and Unitholders' approvals are not obtained, then payment of that excess part of the Variable Fee will be paid in the form of cash.

Limitation on Payment of Base Fee and Variable Fee in Units

The maximum number of Units that may be issued to the REIT Manager in a financial year (including the period from the Listing Date until December 31, 2007) as payment of the REIT Manager's Base Fee and Variable Fee will be limited to such number of Units as represents no more than 3% of the number of Units outstanding as of the last day of the immediately preceding financial year plus the number of Units, if any, issued in that financial year for the purposes of financing any acquisition of real estate. The REIT Manager shall also make a public announcement to the Unitholders upon any issuance of such Units.

If the REIT Manager is prohibited from dealing in Units pursuant to the code of good practice adopted by the REIT Manager, the REIT Manager will be deemed to have elected to receive its Base Fee and Variable Fee in cash.

Whilst the REIT Manager may from time to time dispose of its Units issued in respect of the REIT Manager's fees, subject to a lock up restriction during the six month period after the Listing Date, it has no current intention to do so.

Acquisition and Divestment Fees

The REIT Manager is also entitled to:

- An acquisition fee at 1.0% of the purchase price of any real estate purchased directly or indirectly by Regal REIT (pro-rated if applicable to the proportion of Regal REIT's interest in the real estate acquired). However, no acquisition fee is payable to the REIT Manager in relation to Regal REIT's acquisition of the Initial Hotel Properties. The REIT Manager shall give Unitholders at least one month's prior written notice of any increase in the rate of the acquisition fee that the REIT Manager proposes to charge from time to time up to (but not exceeding) the permitted limit of 1.0% as specified in the Trust Deed. The acquisition fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager and with the prior approval of Unitholders by an Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. The acquisition fee is payable within 21 days after completion of the acquisition. When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the acquisition fee at the same issue price of Units used to finance or part finance such acquisition in respect of which the acquisition fee is payable or, where Units are not issued to finance or part finance such acquisition, at the issue price that is equal to the highest of the average closing price of Units in the ten trading days of the Stock Exchange immediately prior to the earliest of the following events: (a) the entry into of the agreement for the acquisition of the real estate; (b) the announcement in respect of the acquisition of the real estate; and (c) the completion of the acquisition of the real estate; and

- A divestment fee at 0.5% of the sale price of any real estate directly or indirectly sold or divested by Regal REIT (pro-rated if applicable to the proportion of Regal REIT's interest in the real estate sold). The divestment fee is payable within 21 days after completion of the divestment. The REIT Manager shall give Unitholders at least one month's prior written notice of any increase in rate of the divestment fee that the REIT Manager proposes to charge from time to time up to (but not exceeding) the permitted limit of 0.5% as specified in the Trust Deed. The divestment fee will be paid to the REIT Manager in the form of cash or, at the election of the REIT Manager and with the prior approval of Unitholders by an Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. When paid in the form of Units, the REIT Manager shall be entitled to receive such number of Units as may be purchased at the issue price that is equal to the highest of the average closing price of Units in the ten trading days of the Stock Exchange immediately prior to the earliest of the following events: (a) the entry into of the agreement for the disposal of the real estate; (b) the announcement in respect of the disposal of the real estate; and (c) the completion of the disposal of the real estate.

Any payment to third party agents or brokers in connection with the acquisition or divestment of any real estate for Regal REIT shall be paid out of the assets of Regal REIT.

The Trustee, acting in consultation with the REIT Manager, may rely on the recommendation of tax advisors and authorize the payment of any acquisition fee or divestment fee, either at the level of Regal REIT or at the level of the relevant Special Purpose Vehicle.

Any increase in the maximum permitted level of the acquisition fee or divestment fee must be approved by a Special Resolution of Unitholders passed at a Unitholders' meeting duly convened under the provision of the Trust Deed.

Resignation or Removal of the REIT Manager

The REIT Manager may resign, by 60 days' written notice to the Trustee, in favor of a corporation acceptable to the Trustee and the SFC.

Also, the REIT Manager may be removed by prior notice given in writing by the Trustee if:

- the REIT Manager goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of its assets or if a judicial manager is appointed in respect of the REIT Manager (or any such analogous process occurs or any analogous person is appointed in respect of the REIT Manager);
- the REIT Manager ceases to carry on asset management business;
- the REIT Manager fails or neglects, after reasonable notice from the Trustee, to carry out or satisfy any material obligation imposed on the REIT Manager by the Trust Deed provided that the Trustee has provided 30 days' prior notice in writing to the REIT Manager;
- Unitholders representing at least 75% in value of the Units issued and outstanding (excluding those held or deemed to be held by the REIT Manager and Unitholders who have an interest in retaining the REIT Manager) deliver to the Trustee a written request or by Special Resolution;
- for good and sufficient reason, the Trustee is of the opinion, and so states in writing such reason and opinion, that a change of the REIT Manager is desirable and in the interests of Unitholders; or
- the SFC withdraws its approval of the REIT Manager to act as the manager of Regal REIT.

In any of the cases aforesaid, the REIT Manager shall, upon notice by the Trustee as aforesaid, ipso facto cease to be the REIT Manager and the Trustee shall, with the prior approval of the SFC, by writing under its seal appoint some other corporation upon and subject to such corporation and the REIT Manager (to the extent the Trustee considers reasonably necessary) entering into such deed or deeds as the Trustee may consider necessary or desirable to be entered into by such corporation in order to secure the due performance of its duties as the manager of Regal REIT under the REIT Code, which deed shall if so required by the REIT Manager provide that the words "Regal" or "Regal REIT" or any abbreviation thereof shall not thereafter form part of the name of Regal REIT provided that this provision shall not prejudice the right of the Trustee to terminate the Trust in any of the events, where the right of terminating Regal REIT is vested in the Trustee.

In the absence of fraud, negligence, willful default, breach of the Trust Deed or other constitutive documents or breach of the REIT Code or any applicable laws or regulations by the REIT Manager, the REIT Manager shall not incur any liability by reason of any error of judgment or any matter or thing done or suffered or omitted to be done by it in good faith under the Trust Deed. In addition, the REIT Manager shall be entitled, for the purpose of indemnity against any actions, costs, claims, damages, expenses or demands to which it may be put as REIT Manager, to have recourse to the assets of Regal REIT or any part thereof, save where such action, cost, claim, damage, expense or demand is occasioned by the fraud, negligence, willful default, breach of the Trust Deed or other constitutive documents, the REIT Code or any applicable laws and regulations by the REIT Manager and any director, employee, servant, agent or delegate of the REIT Manager.

The REIT Manager may, in managing Regal REIT and in carrying out and performing its duties and obligations under the Trust Deed, to the extent permitted by applicable regulatory requirements, delegate to any person as it thinks fit, or appoint any agent to carry out, specific aspects (but not the whole) of the management and the administration of the assets of Regal REIT and any of the rights, trusts and discretions granted to the REIT Manager under the Trust Deed as it thinks fit to exercise any or all of its powers and discretions and to perform all or any of its obligations under the Trust Deed, provided always that the REIT Manager shall be fully liable for all acts and omissions of such persons as if such acts and omissions had been performed by the REIT Manager itself.

The Regal Group is, prior to Completion, one of the largest hotel owners and operators in Hong Kong by number of rooms and is listed on the Hong Kong Stock Exchange (Stock Code: 78) with a market capitalization of approximately HK$6.5 billion on the Latest Practicable Date. Historically, the Regal Group has been principally engaged in hotel and other property development, hotel ownership, hotel operation and management. After completion of the Global Offering, the Regal Group will focus on hotel and other property development and hotel operation and management (including of the Initial Hotel Properties) while Regal REIT will undertake the business of hotel ownership. The Regal Group intends to continue to identify opportunities in property development and hotel management, primarily in key cities in the PRC, to capitalize on its expertise and established brand name, and the Regal Group's extensive operational base in Hong Kong.

The Regal Group's other business activities include an interest in a mixed use property development in Beijing, the Regalia Bay luxury residential property development on the south side of Hong Kong and the management of two hotels in Shanghai, as described below. The Regal Group, through a 50%-owned associated company, is developing a site in the Central Business District of Beijing comprising office, residential, hotel, commercial and car parking space pursuant to a joint venture with a local partner (in which joint venture the aforesaid associated company has a 59% equity interest). Regalia Bay is a luxury residential property development joint venture project in which the Regal Group has a 70% interest. The project comprises 139 houses with sizes ranging from 3,900 square feet to 5,800 square feet all with panoramic sea views. As at the Latest Practicable Date, 99 houses have been sold for a gross consideration of over HK$4.6 billion. The Regal Group is managing two hotels in Shanghai — Regal International East Asia Hotel with 327 rooms and Regal Shanghai East Asia Hotel with 349 rooms. Both of these hotels are owned by third parties unrelated to the Regal Group.

In January 2007, the Regal Group signed a letter of intent with Cosmopolitan International Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 120), to participate in a large scale development project in Shenyang City, Liaoning Province, the PRC, involving the development of hotels, service apartments, shopping, exhibition, entertainment and recreational facilities (the "Hotel and related Project"), pursuant to which the Regal Group will act as the consultant to prepare feasibility and market studies and schematic designs on the Hotel and related Project. It will also have the right of first refusal to invest in 55% interest (or such other percentage as may be mutually agreed) in the Hotel and related Project, subject to such listed company having entered into a legally binding agreement with the relevant government authorities.

The following financial information has been extracted from Regal's audited consolidated financial statements for the nine months ended, and as at, September 30, 2006. Since the results of the Regal Group summarized below include information relating to a period prior to the divestiture of the Initial Hotel Properties, the information should not be regarded as representative of its future performance.

Consolidated Income Statement

	Nine months ended September 30, 2006
	(HK$ million)
Revenue	901.5
Profit attributable to shareholders	315.1

Consolidated Balance Sheet

	As at September 30, 2006
	(HK$ million)
Property, plant and equipment	2,896.2
Prepaid land lease payments	1,071.3
Interest in a jointly controlled entity	2,021.7
Other non-current assets	557.1
Net current liabilities	(1,746.3)
Non-current liabilities	(2,778.5)
	2,021.5
Representing:	
Issued capital	84.6
Equity component of convertible bonds	21.8
Reserves	1,913.8
Minority interests	1.3
	2,021.5

For further details, please refer to the circular issued by Regal to its shareholders dated February 21, 2007.

The following unaudited pro forma balance sheet of the Regal Group as at September 30, 2006 (the figures below reflect rounding), prepared on the assumption that the IPO had been completed on that date, reflects the potential effects which the IPO may have on the financial condition of the Regal Group.

	Pro Forma[1]
	As at September 30, 2006
	(HK$ million)
Property, plant and equipment	10.1
Interest in a jointly controlled entity	2,021.6
Other non-current assets	465.8
Interest in Regal REIT	304.0
Net current assets	1,511.9
Non-current liabilities	(132.6)
	4,180.8
Representing:	
Issued capital	84.6
Equity component of convertible bonds	21.8
Reserves	4,073.1
Minority interests	1.3
	4,180.8

For further details, please refer to the circular issued by Regal to its shareholders dated February 21, 2007.

Note:

(1) This unaudited pro forma balance sheet is extracted from the circular issued by Regal to its shareholders dated February 21, 2007 and was prepared by Regal based on various assumptions including that the aggregate consideration payable by Regal REIT for the acquisition of the Initial Hotel Properties is HK$12.5 billion and that the Regal Group will subscribe and retain a 72% interest in Regal REIT.

With the objectives of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of Regal REIT in a transparent manner and with built-in checks and balances. Set out below is a summary of the key components of the corporate governance policies that have been adopted and will be followed by the REIT Manager and Regal REIT.

Authorization Structure

Regal REIT is a collective investment scheme authorized by the SFC under section 104 of the SFO and regulated by the provisions of the REIT Code. The REIT Manager has been authorized by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The REIT Manager has three persons who are approved as Responsible Officers pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

Roles of the Trustee and Manager

The Trustee and the REIT Manager are independent of each other. The Trustee is primarily responsible under the Trust Deed for the safe custody of the assets of Regal REIT on behalf of Unitholders. The REIT Manager's role under the Trust Deed is to manage Regal REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of Regal REIT's assets are professionally managed in the sole interests of Unitholders. For more information, see the section headed "Material Agreements — Trust Deed".

Functions of the Board of Directors of the REIT Manager

The Board comprises seven members, three of whom are independent non-executive Directors.

The Board principally oversees the day-to-day management of the REIT Manager's affairs and the conduct of its business and is responsible for the overall governance of the REIT Manager. The Board exercises its general powers within the limits defined by the REIT Manager's Articles of Association, with a view to ensuring that management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board will also review major financial decisions and the performance of the REIT Manager. In accordance with the REIT Code, the REIT Manager is required to act in the best interests of Unitholders, to whom it owes a fiduciary duty.

Board Composition

With the aim of creating 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 20 Directors. Pursuant to the REIT Manager's corporate governance policy, independent non-executive Directors must be individuals who fulfill the independence criteria set out in the compliance manual adopted by the Manager. At least one-third of the Board will, at all times, comprise independent non-executive directors, and, there will be a minimum of three independent non-executive directors. The maximum term of office of an independent non-executive director is nine years.

The composition of the Board is determined using the following principles:

- the Chairman of the Board should be a non-executive Director of the REIT Manager;
- the Board should comprise Directors with a broad range of commercial experience including expertise in hotel investment and management, funds and asset management and/or the property industry.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

Audit Committee

The Audit Committee is appointed by the Board from among the non-executive directors of the REIT Manager; a majority of the members of the Audit Committee are required to be independent non-executive directors. As at the date of this Offering Circular, the members of the Audit Committee are Hon Abraham Shek Lai Him, J.P., Mr. Alvin Lam Kwing Wai and Mr. John William Crawford, J.P., all of whom are independent non-executive Directors. Mr. John William Crawford, J.P. has been appointed as the Chairman of the Audit Committee. The role of the Audit Committee is to monitor and evaluate the quality and integrity of the REIT Manager's internal controls. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports issued by the REIT Manager. The Audit Committee is responsible for the nomination of external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance.

The Audit Committee's responsibilities also include:

(1) reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;

(2) reviewing and monitoring on a regular basis the procedures in place to ensure compliance with applicable legislation, the REIT Code and the Listing Rules;

(3) reviewing all internal audit reviews;

(4) reviewing and monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Regal REIT and a "connected person" (as defined in the REIT Code); and

(5) making recommendations to the Board on persons for appointment and reappointment as Directors to, and persons for removal as Directors from, the full Board.

Disclosure Committee

The Disclosure Committee is appointed by the Board from among the directors of the REIT Manager. The Disclosure Committee will consist of the Chief Executive Officer, one non-executive Director and one independent non-executive Director of the REIT Manager. The role of the Disclosure Committee is to review matters relating to the disclosure of information to Unitholders and public announcements. The Disclosure Committee also works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosure Committee's responsibilities include:

(1) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, financial reporting, connected party transactions, and potential areas of conflict of interests;

(2) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Regal REIT to the public and applicable regulatory agencies;

(3) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Regal REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable; and

(4) reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies.

Management of Business Risk

The Board will meet quarterly or more often if necessary and will review the financial performance of the REIT Manager and Regal REIT against a previously approved budget. The Board will also review any risks to the assets of Regal REIT, examine liability management and will act upon any comments from the auditors of Regal REIT.

The REIT Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the REIT Manager and Regal REIT. In assessing business risk, the Board will consider the economic environment and property industry risk. It will review management reports and feasibility studies on individual development projects prior to approving major transactions.

Conflicts of Interest

There may be circumstances where Regal REIT competes directly with Regal and/or its subsidiaries/associates for acquisitions or disposals of properties as well as for visitors within the Hong Kong market as Regal, its subsidiaries and associates are engaged in and/or may engage in, amongst other things, investment in, and the development and management of hotel properties in Hong Kong or elsewhere.

Furthermore, notwithstanding the provisions of the Deed of Non-Competition, there can also be no assurance that conflicts of interest will not arise between Regal REIT and the Regal Group in relation to the acquisition of properties as well as competition in the Hong Kong hotel market.

See also the sections headed "Structure and Management — Connected Party Transactions" and "Material Agreements — Deed of Non-Competition" in this Offering Circular.

There may also be circumstances where the interests of Regal REIT conflict with the interests of Regal in relation to amendments, extensions and variations to the terms of the documents described in the section headed "Material Agreements".

The REIT Manager has instituted the following procedures to deal with conflicts of interest:

(1) The REIT Manager will be a dedicated manager to Regal REIT and will not manage any other real estate investment trust or be involved in any other real property business.

(2) All Executive Officers will be employed by the REIT Manager on a full time basis.

(3) All connected party transactions shall be managed in accordance with the procedures set out in the section headed "Structure and Management — Connected Party Transactions" in this Offering Circular.

Connected party transactions must be:

(i) carried out at arm's length terms and in an open and transparent manner;

(ii) valued by an independent property valuer (where the transaction relates to sale and purchase of property);

(iii) consistent with Regal REIT's investment objectives and strategy;

(iv) in the best interests of Unitholders;

(v) properly disclosed to Unitholders; and

(vi) approved by the independent non-executive directors of the REIT Manager (or a committee thereof) and, where the prior approval of Unitholders is required, the independent non-executive directors of the REIT Manager (or a committee thereof) shall confirm, in a letter set out in a circular to Unitholders, that the terms and conditions of the transaction are fair and reasonable and in the best interests of Unitholders and that Unitholders should vote in favor of the resolution.

The REIT Manager must demonstrate to the Audit Committee that all connected party transactions satisfy the foregoing criteria. Prior approval of Unitholders is required for connected party transactions where the value of the transaction is 5% or more of the latest NAV of the REIT. A Unitholder is prohibited from voting its Units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter in which the Unitholder has a material interest in the business to be conducted by Regal REIT different from the interest of other Unitholders.

Regal REIT has applied for and obtained a waiver from strict compliance with the above requirements in relation to certain transactions concerning the establishment of Regal REIT as explained in the section headed "Structure and Management — Connected Party Transactions" in this Offering Circular.

Various measures have been put in place to ensure that the material contracts between, on the one hand, the Regal Group and, on the other hand, Regal REIT, will be enforced from Regal REIT's perspective.

The right to terminate each Lease Agreement is held by each Lessor (of which the Chief Executive Officer of the REIT Manager is the sole director appointed by the Trustee) and is therefore held independently of the Regal Group. Any breach of the terms and conditions of the Lease Agreements by the Regal Group will be reported to the Board (the majority of which are independent of the Regal Group). Furthermore, the Trustee is empowered under the Trust Deed to exercise its power of control as shareholder of the Lessor (including, without limitation, removing any of director of the Lessor) if the Trustee considers such action necessary to comply with the Trust Deed or the REIT Code or is in the best interests of Unitholders. These measures are designed to safeguard Unitholders' interests in respect of the termination of the Lease Agreements.

General Meetings

Regal REIT will in each year (other than in 2006 and 2007) hold a general meeting as its annual general meeting in addition to any other general meetings in that year. The Trustee or the REIT Manager may at any time convene a meeting of Unitholders. The REIT Manager will also convene a meeting if requested in writing by not less than two Unitholders registered as together holding not less than 10% of the issued and outstanding Units. At least 14 days' notice of the meeting will be given to Unitholders, except that 21 days' notice will be given to Unitholders where a Special Resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding not less than 10% of the Units for the time being in issue will form a quorum for the transaction of all business, except for the purpose of passing a Special Resolution. The quorum for passing a Special Resolution will be two or more Unitholders present in person or by proxy registered as holding not less than 25% of the Units in issue.

Adjourned Meetings

If within half an hour from the time appointed for the general meeting a quorum of Unitholders is not present, the meeting shall stand adjourned to such day and time not being less than fifteen days thereafter and to such place as may be appointed by the REIT Manager or the Trustee, if appropriate, and, at such adjourned meeting, Unitholders present in person or by proxy shall be a quorum (irrespective of the number of Unitholders present or number of Units they hold) for transaction of business and any proxy for the original meeting shall be valid for twelve months from the date named in it as the date of its execution (unless the relevant proxy otherwise specifies).

Reporting and Transparency

Regal REIT will prepare its accounts in accordance with Hong Kong GAAP with a financial year-end of December 31 and a financial half-year of June 30. In accordance with the REIT Code, the annual report and accounts for Regal REIT will be published and sent 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.

As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to Regal REIT will be made on a timely basis in order to keep Unitholders apprised of the position of Regal REIT. Announcements will be made by publishing them in at least one leading Hong Kong English language and one Chinese language daily newspaper or by other means as may be permitted by the SFC and/or the Hong Kong Stock Exchange in future.

Issues of Further Units Post-Listing

To minimize 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. Such provisions require that further issues of Units be offered on a *pro rata* pre-emptive basis to existing Unitholders except that Units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of Units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of Unitholders by way of an Ordinary Resolution is obtained.

Regal is also subject to certain restrictions in respect of the Units held by it, the details of which are set out in the section headed "Key Investment Information and Highlights — The Global Offering" in this Offering Circular.

Interests of, and Dealings in Units by, Directors, the REIT Manager or the Significant Unitholders

To monitor and supervise any dealings of Units, the REIT Manager has adopted a code of good practice containing rules on dealings by the Directors and the REIT Manager. Pursuant to this code, any Directors or the REIT Manager wishing to deal in the Units must first have regard to provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct. In addition, a Director must not make any disclosure of confidential information or make any use of such information for the advantage of himself or others.

Directors who are aware of or privy to any negotiations or agreements related to intended acquisition or disposals which are significant transactions or any price-sensitive information must refrain from dealing in the Units as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules. Directors who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors 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.

Similarly, where the REIT Manager is in possession of any unpublished price-sensitive information, it must refrain from dealing in the Units as soon as it becomes aware of such information or privy to it until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules.

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 as required under the REIT Code and the deadline for Regal REIT to publish an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, a Director or the REIT Manager must not deal in any Units of Regal REIT unless the circumstances are exceptional. In any event, in the case of dealings by a Director or the REIT Manager, the Directors or the REIT Manager must comply with the procedure set out in the code of good practice containing rules on dealings by the Directors and the REIT Manager adopted by the REIT Manager.

The code of good practice may also be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine.

Provided that the REIT Manager is prohibited from dealing in Units pursuant to the code of good practice set out in the REIT Manager's compliance manual, the REIT Manager shall not elect to receive any of its fees in Units and will be deemed to have elected to receive its fees in cash.

The REIT Manager has also adopted procedures for monitoring of disclosure of interests by Directors, the chief executive of the REIT Manager, and the REIT Manager. The provisions of Part XV of the SFO governing disclosures of interests in securities 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 under him.

Under the Trust Deed, Unitholders with a holding of 5% or more of the Units in issue will have a notifiable interest and will be required to notify the Hong Kong Stock Exchange and the REIT Manager 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 inscription. The said register shall be available for inspection by the Trustee and any Unitholder upon reasonable request by the Trustee to the REIT Manager. For further details of the Trust Deed, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

Matters to be decided by 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: (i) change in the REIT Manager's investment objective and/or policy for Regal REIT; (ii) disposal of any land or an interest, option or right over any of the land forming part of the assets of Regal REIT or shares in any Property Company holding such land, option or right over any of the land for Regal REIT within two years of acquisition of such land; (iii) any increase in the rate above the permitted limit or change in structure of the REIT Manager's fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed other than those prescribed by the Trust Deed; (vi) termination of Regal REIT; and (vii) merger of Regal REIT.

Unitholders may also, by way of Special Resolution, remove and appoint auditors and remove the Trustee and the REIT Manager.

As stated above, the quorum for passing a Special Resolution is two or more Unitholders present in person or by proxy registered as holding not less than 25% of the Units in issue and outstanding or, in the case of an adjourned meeting, Unitholders present in person or by proxy shall be a quorum, irrespective of the number of Unitholders present and of the number of Units they hold in aggregate.

Details of Connected Party Transactions

Following completion of the Global Offering, there will be continuing transactions between Regal REIT and the following persons noted below, which will constitute connected party transactions of Regal REIT within the meaning of the REIT Code. Details of these transactions as well as the modifications or waivers sought by Regal REIT in relation to the relevant provisions in Chapter 8 of the REIT Code on connected party transactions are set out below.

Introduction

Following completion of the Global Offering there will be, and it is likely that there will continue to occur from time to time, a number of transactions between the REIT Manager, Regal REIT and the other companies or entities held or controlled by Regal REIT (collectively, the "**Regal REIT Group**") and parties which have a relationship or connection with Regal REIT.

The REIT Code contains rules (the "**connected party rules**") governing transactions between Regal REIT Group and certain defined categories of "connected persons" within the meaning of the REIT Code. Such transactions will constitute "connected party transactions" for the purposes of the REIT Code.

As well as "significant holders" (that is, holders of 10% or more of the outstanding Units), Regal REIT's "connected persons" will include, among others:

(i) the Trustee and companies within the same group or otherwise "associated" with the Trustee (the "**Trustee Connected Persons**") within the meaning of the REIT Code. As a result, the list of "connected persons" of Regal REIT will include Deutsche Bank AG and other members of its group because the Trustee is an wholly-owned subsidiary of Deutsche Bank AG; and

(ii) the directors of the REIT Manager and their respective "associates" as defined in the REIT Code. For this purpose, the "associates" of the directors of the REIT Manager include (among others) other companies of which they are directors.

The REIT Manager has established an internal control system intended to ensure that connected party transactions between Regal REIT Group and its "connected persons" are monitored and that they are undertaken on terms in compliance with the REIT Code. As required by the REIT Code, all connected party transactions must be carried out on arm's length terms and in the best interests of Unitholders.

The REIT Manager has applied for certain waivers from strict compliance with the REIT Code with respect to transactions (a) between Regal REIT Group and Regal Connected Persons Group or the REIT Manager Group; and (b) between the Trustee Connected Persons and Regal REIT Group. These waivers are subject to the conditions mentioned under the sub-section headed "Structure and Management — Connected Party Transactions — Waivers for Certain Transactions and Persons" below.

Internal Controls

The REIT Manager has established an internal control system intended to ensure that connected party transactions between Regal REIT Group and its "connected persons" are monitored and that these are undertaken on terms in compliance with the REIT Code. All connected party transactions must be:

(i) carried out at arm's length terms and in an open and transparent manner;

(ii) valued by an independent property valuer (where the transaction relates to property);

(iii) consistent with Regal REIT's investment objectives and strategy;

(iv) in the best interests of Unitholders;

(v) properly disclosed to Unitholders; and

(vi) approved by the independent non-executive directors of the REIT Manager (or a committee thereof) and, where the prior approval of Unitholders is required, the independent non-executive directors of the REIT Manager (or a committee thereof) shall confirm, in a letter set out in the circular to Unitholders, that the terms and conditions of the transaction are fair and reasonable and in the best interests of Unitholders and that Unitholders should vote in favor of the resolution.

The REIT Manager must demonstrate to the Audit Committee that all connected party transactions satisfy the foregoing criteria, which may entail (where practicable) obtaining quotations from parties unrelated to the REIT Manager, or obtaining one or more valuation letters from independent professional valuers. Prior approval of Unitholders is required for connected party transactions where the value of the transaction is 5% or more of the latest NAV of Regal REIT. A Unitholder is prohibited from voting its Units at, or being part of a quorum for, any meeting of Unitholders convened to approve any matter in which the Unitholder has a material interest in the business to be conducted and that interest is different from the interest of other Unitholders.

The REIT Manager shall investigate and monitor all transactions by Regal REIT in order to determine whether such transactions are connected party transactions. Furthermore, the REIT Manager shall maintain a register to record all connected party transactions which are entered into by Regal REIT and the bases, including any quotations from independent valuers obtained to support such bases, on which they are entered into. The REIT Manager shall also incorporate into its internal audit plan a review of all connected party transactions entered into by Regal REIT.

With respect to leases of real estate by members of Regal REIT Group to a connected party of Regal REIT in the ordinary course of business, transactions shall be evaluated for these purposes by reference to the value of rental for the term of the lease.

Waivers for Certain Transactions and Persons

Waivers for Certain Connected Party Transactions between Regal REIT Group, the Regal Connected Persons Group, and/or the REIT Manager Group

The SFC has granted a waiver from strict compliance with the disclosure and Unitholders' approvals requirements under Chapter 8 of the REIT Code in respect of the following categories of connected party transactions between Regal REIT Group, the Regal Connected Persons Group and/or the REIT Manager Group:

(i) Lease Agreements

Each of the Property Companies has entered into separate Lease Agreements with the Lessee in relation to the Initial Hotel Properties. The Lessee is a member of the Regal Connected Persons Group. The terms of the Lease Agreements expire on December 31, 2015.

Under the terms of each Lease Agreement, the Lessee is entitled to operate and manage one of the Initial Hotel Properties and accordingly all income received from the operation of the relevant Initial Hotel Property shall, during the term of the Lease Agreement, be retained by the Lessee.

(ii) Hotel Management Agreements

Under the terms of each Lease Agreement, the Lessee has delegated the operation and management of the relevant Initial Hotel Property to the Hotel Manager by entering into an agreement among (1) the relevant Lessor, (2) the Lessee, (3) the Hotel Manager, (4) Holding SPV and (5) Regal for a term of 20 years.

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

Holding SPV is a party to the Hotel Management Agreement. During the term of each Lease Agreement, Holding SPV shall maintain a cash reserve for FF&E, to which the Lessee will contribute, from the Listing Date up to December 31, 2010, and may continue to contribute after December 31, 2010, if required pursuant to an annual rent review.

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

(iii) Lease Guarantees

Regal has unconditionally and irrevocably guaranteed to pay all amounts from time to time owing or payable by the Lessee to the Lessors 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.

Regal has also procured an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a current credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011, and has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement shall remain in place and effective until the end of the term of the Lease Agreements upon the same terms and at an amount of equal to the highest of (i) the amount of security deposit as determined by the jointly appointed independent professional property valuer upon each annual rent review, (ii) 50% of the annual base rent as determined by such valuer upon each annual rent review and (iii) 50% of the Floor Rent. In addition, Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

(iv) Sale and Purchase Agreement

The Trustee has entered into a Sale and Purchase Agreement with the Vendor and Regal pursuant to which the Trustee conditionally agrees to acquire the entire issued share capital of Holding SPV, which indirectly holds the Property Companies, that own the Initial Hotel Properties, and the Promissory Notes.

The Sale and Purchase Agreement contains an undertaking of the Vendor to complete the Asset Enhancement Program. Regal has guaranteed the Vendor's obligations under the Sale and Purchase Agreement. The Vendor has also undertaken to make payment of all the costs and expenses in relation to the demolition and removal of the footbridge connecting the Regal Oriental Hotel with the former Hong Kong International Airport and to indemnify the REIT Manager, the Trustee and Gala Hotels Limited against any loss, damage, costs, expenses and other liabilities arising from the demolition and removal of the footbridge. In addition, the Vendor shall be responsible for all the costs, expenses, losses and liabilities incurred or suffered by Regal REIT Group to comply with the outstanding Building Order No. DR03344/K/03/TCW/TE dated April 16, 2004 issued by the Hong Kong Building Authority against the Incorporated Owners of Po Sing Court.

(v) Deed of Trade Mark Licence

Regal International Limited, a wholly owned subsidiary of Regal, has entered into a deed of trade mark licence with the REIT Manager, Holding SPV, the Holding Companies, Finance Company 1 and the Lessors. Regal International Limited has granted to the REIT Manager and each Lessor, 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 Property and/or use in connection with the business of each Initial Hotel Property.

(vi) AEP Agency Deed

To facilitate the carrying out of the Asset Enhancement Program, the relevant Property Companies, Regal Contracting Agency Limited, a wholly owned subsidiary of Regal (the "**AEP Agent**") and Regal have entered into the AEP Agency Deed, whereby each of the Property Companies appoints the AEP Agent to enter into the AEP Contracts on its behalf. However, unless the relevant Property Company has given its prior written consent (which, in the case of (i) below, shall not be unreasonably withheld), the AEP Agent shall not have any power to commit any Property Company to (i) assume any liability whatsoever, other than liability to pay contract sums which, in aggregate, do not amount to more than the estimated cost of the Asset Enhancement Program for its Initial Hotel Property, as set out in this Offering Circular, together with cost overruns limited to 30% of such estimated costs, in respect of AEP Contracts; or (ii) encumber any of its assets or discharge any other obligation. The AEP Agent is required to coordinate and ensure the carrying out and completion of the Asset Enhancement Program in accordance with the terms of the Sale and Purchase Agreement. Regal has guaranteed the AEP Agent's obligations under the AEP Agency Deed and undertaken to indemnify the Property Companies against all losses and damages sustained by them from any non-payment or default of any kind by the AEP Agent. The AEP Agent has undertaken to indemnify the Property Companies from and against all costs, losses and liabilities arising from the AEP Contracts, and has agreed to, among others, settle all payments on behalf of the Property Companies when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the AEP Contracts.

Waiver Conditions

(i) Duration

The waiver is for the period set out in the table below for the relevant documents, provided that the connected party transactions are duly and properly carried out in accordance with the terms and conditions of the relevant documents.

Agreement/Deed	**Period of waiver**
Sale and Purchase Agreement	Listing Date to December 31, 2009
Lease Agreements	Listing Date to December 31, 2015 or date of termination, whichever is earlier
Lease Guarantees	Listing Date to the last date of subsistence
Hotel Management Agreements	20 years from the Listing Date or date of early termination, whichever is earlier
Deed of Trade Mark Licence	Listing Date to date of expiry or termination, whichever is earlier
AEP Agency Deed	Listing Date to December 31, 2009

(ii) No material change

There shall be no material change to, or waiver or release by or on behalf of Regal REIT any of its rights and any obligations of the Connected Persons under the terms and conditions of the documents, without the approval of Unitholders, other than those who have a material interest in the relevant transactions, within the meaning of paragraph 8.11 of the Code ("**Independent Unitholders**") by way of an ordinary resolution passed at a general meeting of Unitholders.

(iii) Annual Limits

The aggregate transaction value of all the AEP Contracts subject to the AEP Agency Deed shall not exceed the following annual caps set for the relevant period:

2007: HK$380 million
2008: HK$40 million

The sum of the amounts above is equal to HK$420 million which is approximately 30% more than the aggregate estimated cost of the Asset Enhancement Program as it takes account of cost overruns and assumes all of the AEP Contracts will be extended into with Regal entities. However, as the AEP Contracts may not be entered into in the anticipated calendar year, any unused portion of the annual limit in any year above, shall be rolled over to the following year.

(iv) Disclosure in reports and results announcements

Details of the relevant connected party transactions will be disclosed in Regal REIT's semi-annual and annual reports and results announcements, as required under paragraph 8.14 of the Code.

(v) Chapter 10 of the REIT Code

The REIT Manager shall ensure compliance with any applicable disclosure requirements under Chapter 10 of the REIT Code. The REIT Manager shall inform Unitholders by way of an announcement as soon as practicable of any information which is necessary to enable holders to appraise the position of Regal REIT, including, without limitation, if there is (i) any extension of the target completion dates (as specified in the Sale and Purchase Agreement) or Long-Stop Dates or delay in delivery of the Asset Enhancement Program and/or payment of liquidated damages/cash compensation, (ii) any payments under Lease Guarantees, (iii) any payment of hotel management fees (where paid by Regal REIT to the Hotel Manager), (iv) annual rent reviews under the Lease Agreements and details of the Market Rental Packages determined by the jointly appointed independent professional property valuer and (v) any breach of terms of any of the above documents covered by this waiver.

(vi) Auditors' review procedures

The REIT Manager shall engage and agree with the auditors of Regal REIT to perform certain review procedures on all of the connected party transactions in respect of each relevant financial period. The auditors will then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report will be provided to the SFC), confirming whether all such connected party transactions:

(a) have received the approval of the board of directors of the REIT Manager (including the approval of all of the independent non-executive directors of the REIT Manager ("**INEDs**"));

(b) have been entered into in accordance with the terms of the agreements/deeds and the REIT Manager's internal procedures governing the transactions; and

(c) the total value in respect of the transaction of all the AEP Contracts entered pursuant to the AEP Agency Deed has not exceeded the relevant annual limit as set out above.

(vii) Review by the INEDs

The INEDs shall review the relevant connected party transactions annually and confirm in Regal REIT's annual report for the relevant financial period that such 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 there are comparable transactions) or, where there are insufficient comparable transactions to assess whether they are on normal commercial terms, on terms no less favorable to Regal REIT than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreements/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.

(viii) Access to books and records

The REIT Manager shall allow, and shall procure the counterparty to the relevant connected party transaction to allow, the auditors of Regal REIT sufficient access to their respective records for the purpose of reporting on the transactions.

(ix) Notification to the SFC

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the INEDs will not be able to confirm the matters set out in (vi) and/or (vii) above.

(x) Paragraph 8.14 of the REIT Code

The REIT Manager shall comply in full with the requirements of paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant connected party transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders' approvals.

Opinion of the Board

The Board (with the approval of all of the INEDs) confirms that:

(i) the terms of the above agreements/deed (including tenure of the Lease Agreements together with the Hotel Management Agreements) are in line with normal business practice for contracts of the relevant type;

(ii) each of the connected party transactions which will be subsisting at the Listing Date has been entered into in the ordinary and usual course of business of the relevant member of Regal REIT Group, and on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole;

(iii) for transactions which are to be entered into after the Listing Date, each such transaction shall be entered into in the ordinary and usual course of business of Regal REIT Group, and on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole; and

(iv) the annual limits of AEP Contracts stated above, and the basis for such annual limits, are fair and reasonable having regard to the interests of Unitholders as a whole.

Opinion of the Sole Listing Agent

Merrill Lynch Far East Limited in its capacity as the sole listing agent of Regal REIT for the purposes of the authorization of Regal REIT under Part IV of the SFO and the listing of the Units on the Hong Kong Stock Exchange, has confirmed that, in its opinion, the connected party transactions subsisting as at the Listing Date are in the ordinary and usual course of business of Regal REIT, on normal commercial terms, consistent with normal business practice for contracts of the relevant type and are fair and reasonable and in the interests of the Unitholders as a whole. In particular, it has confirmed, in its opinion, that the Lease Agreements together with the Hotel Management Agreements, including without limitation, the duration of their respective terms and the requirements regarding rental deposits, are consistent with normal business practice for contracts of the relevant type and are fair and reasonable and in the interests of the Unitholders as a whole.

Opinion of the Independent Property Valuer

CB Richard Ellis Limited, the independent property valuer of Regal REIT, has confirmed that, in its opinion, the Lease Agreements together with the Hotel Management Agreements, including without limitation, the duration of their respective terms and the requirements regarding rental deposits and termination, are on normal commercial terms and consistent with normal business practice for contracts of the relevant type.

Waivers for Certain Connected Party Transactions between Trustee Connected Persons and Regal REIT Group

The REIT Manager has also applied for waivers from strict compliance with Chapter 8 of the REIT Code in respect of certain transactions between Trustee Connected Persons and Regal REIT Group.

For the purposes of this section:

(i) “**DB Group**” means Deutsche Bank AG and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Regal REIT);

(ii) “**Trustee Connected Persons**” include (a) a director, a senior executive or an officer of the Trustee and (b) a controlling entity, holding company, subsidiary or associated company of the Trustee;

(iii) "**Regal REIT**" means Regal Real Estate Investment Trust, a unit trust established under the laws of Hong Kong (and, where the context so requires, shall include entities controlled by it); and

(iv) "**Regal REIT Group**" means Regal REIT and entities controlled by it.

In support of the application for the waiver request, the REIT Manager has undertaken with the SFC to meet certain conditions, including the following general conditions ("**General Conditions**") on an on-going basis:

(i) the connected party transactions are carried out at arm's length on normal commercial terms and in the interests of Unitholders of Regal REIT as a whole;

(ii) the REIT Manager must implement internal controls and compliance procedures to ensure that the connected party transactions are monitored and undertaken on terms in compliance with the REIT Code;

(iii) the REIT Manager is satisfied with the Trustee's internal controls and compliance procedures, such as Chinese walls, to ensure that the operation of the Trustee is independent of other banking, financial services and other business functions and operations of the DB Group; and

(iv) the REIT Manager incorporates provisions in the Trust Deed that require the Trustee to take actions or commence proceedings on behalf of Regal REIT, as the REIT Manager deems necessary to protect the interest of Unitholders, including against the Trustee Connected Persons in relation to any transaction or agreement entered into by the Trustee for and on behalf of Regal REIT with such Trustee Connected Persons.

Separately, and for the purpose of this waiver, each of the Trustee and Deutsche Bank AG (on behalf of itself and its subsidiaries) has given an undertaking to the SFC that it will act independently of one another in its dealings with Regal REIT. The Trustee undertakes to the SFC that it will not be involved in the making of any decisions on behalf of Regal REIT to enter into any transactions with the Trustee Connected Persons, subject only to the Trustee's duties of oversight under the REIT Code and the Trust Deed.

The waivers are given on the premise that they only apply to connected party transactions involving the Trustee Connected Persons solely as a result of and for so long as the Trustee is in office as the trustee for Regal REIT. If connected party transactions arise as a result of other circumstances, these will be governed by Chapter 8 of the REIT Code.

Notwithstanding the foregoing, the SFC reserves the right to review or revise any of the terms and conditions of any of the waivers if there is any subsequent change of circumstances that affect any of them. In the event of future amendments to the REIT Code imposing more stringent requirements than those applicable at the date of the waivers granted by the SFC on transactions of the kind to which the transactions belong (including, but not limited to, a requirement that such transaction be made conditional on approval by the independent Unitholders), the REIT Manager shall take immediate steps to ensure compliance with such requirements within a reasonable period of time.

Ordinary Banking and Financial Services with Trustee Connected Persons

As a general rule, the REIT Manager must demonstrate to the Audit Committee that such transactions satisfy the General Conditions set out above, which may entail (where practicable) obtaining quotations from parties unrelated to the Trustee. For example, for non-daily "corporate finance transactions", there should be procedures to ensure (a) competitive "best pricing" (having regard to the nature of the services being sought and market conditions) and (b) the Trustee should not be involved in the selection of the parties to the transactions. All connected party transactions are to be approved by the INEDs of the REIT Manager to ensure that they are conducted in the best interests of Unitholders of Regal REIT as a whole.

Based on the controls summarized above, the REIT Manager intends to adopt and observe certain policies with respect to transactions between Regal REIT Group and the DB Group. Further, the REIT Manager may engage DB Group to provide "ordinary banking and financial services" to Regal REIT Group from time to time and will not be subject to any requirements for announcement, or Unitholders' approvals under Chapter 8 of the REIT Code. In addition, the disclosure and reporting requirements under Chapter 8 of the REIT Code with respect to such transactions shall be modified as described below. For this purpose, "ordinary banking and financial services" means:

(i) deposits and other "banking business" (as defined in the Banking Ordinance) with a DB Group member which is a "licensed corporation" or "registered institution" (as defined in the Securities and Futures Ordinance) or overseas equivalent and conducted on arm's length commercial terms;

(ii) loans extended by a DB Group intermediary being a transaction in the ordinary course of business of Regal REIT Group and provided to, or arranged for, Regal REIT Group on arm's length commercial terms; and

(iii) related financial services constituting regulated activities (as defined in the Securities and Futures Ordinance) and other banking or financial services required in the ordinary and usual course of business by Regal REIT Group (including insurance, Occupational Retirement Schemes Ordinance retirement benefit schemes, Mandatory Provident Fund Schemes, credit cards, asset management and other such services).

For the avoidance of doubt, "ordinary banking and financial services" as described herein does not include "corporate finance transactions" which are defined in the "Corporate Finance Transactions" waiver set out below.

Notwithstanding the above, a summary disclosure of "ordinary banking and financial services" related transactions provided by the DB Group to Regal REIT Group in each financial year has to be disclosed in the annual report of Regal REIT. Such information shall include the nature of the transactions, types of transactions or services and identities of the connected persons of the same transactions. The INEDs of the REIT Manager shall confirm in the annual report that they have reviewed the terms of any such transactions and are satisfied that these transactions have been entered into:

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

(b) on normal commercial terms (to extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Regal REIT than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of Unitholders of Regal REIT as a whole.

In addition, the auditors of Regal REIT shall be engaged to perform certain agreed upon review procedures on and report ("**Auditors' Report**") to the REIT Manager (and a copy of such report shall be provided to the SFC) confirming that all such transactions (a) have followed the REIT Manager's internal procedures for such transactions and are in accordance with the terms disclosed in offering document; (b) have received the approval of the board of directors of the REIT Manager (including all the INEDs); (c) are in accordance with the pricing policies of Regal REIT; (d) have been entered into in accordance with the terms of the agreements governing the transactions; and (e) the total value in respect of which has not exceeded the respective cap amount (where applicable).

Excluded Transactions

The following transactions will not be deemed connected party transactions of Regal REIT for the purposes of Chapter 8 of the REIT Code:

(i) where the DB Group acts for a third party as nominee, custodian, agent or trustee and conducts "agency transactions" with Regal REIT Group;

(ii) where a collective investment scheme (including another REIT) transacts with Regal REIT Group, and a company within the DB Group acts as the manager or trustee of such collective investment scheme but the transaction is not a proprietary transaction of the DB Group; and

(iii) where a member of the DB Group (other than the Trustee except where the Trustee is the trustee of another collective investment scheme and is acting in that capacity) acquires, purchases, subscribes, sells or disposes of Units of Regal REIT on terms which are the same as available to the public or other Unitholders as a whole, and where applicable, are subject to the application and allocation rules set out in the Listing Rules of the Hong Kong Stock Exchange. For the avoidance of doubt, any dealing by the DB Group in Units of Regal REIT on the Stock Exchange of Hong Kong will not be a connected party transaction.

Waiver for Corporate Finance Transactions with the DB Group

The SFC has granted a waiver from strict compliance with the requirement in Rules 8.9 and 8.11 of the REIT Code to seek Unitholders' prior approval and to make announcements and circulars (in accordance with Chapter 10 of the REIT Code) in respect of certain "corporate finance transactions" between Regal REIT Group and the DB Group. In addition, the disclosure and reporting requirements under Chapter 8 of the REIT Code with respect to such transactions shall be modified as described in conditions (A) to (F) below. For the purpose of this waiver, "corporate finance transactions" means:

(i) underwriting, securitization, issue of debt instruments or other securities, or other related arrangements where the DB Group is involved in an underwriting or arranging capacity or acts as listing agent and/or financial adviser and/or bookrunner and/or global co-ordinator to Regal REIT, provided that these transactions are carried out at arm's length on normal commercial terms, the primary objective of which is the offering or distribution of securities to parties outside of the DB Group;

(ii) lending and borrowing of funds or other related arrangements (including interest rate swap arrangements in relation to such borrowings) in connection with any financing agreement by which Regal REIT Group will finance the acquisition of real estate; and

(iii) "corporate advisory transactions", namely the provision of corporate finance advice to Regal REIT Group and excludes transactions set out in (i) and (ii) above, provided that the aggregate fees that the DB Group derived from all "corporate advisory transactions" conducted for Regal REIT Group during a financial year shall be capped at 1% of the latest published NAV of Regal REIT.

For the avoidance of doubt, "corporate finance advice" means advice concerning:

(1) compliance with or in respect of The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong, The Rules Governing the Listing of the Growth Enterprise Market of the Stock Exchange of Hong Kong, The Hong Kong Code on Share Repurchases or The Hong Kong Code on Takeovers and Mergers;

(2) (a) any offer to dispose of securities to the public, (b) any offer to acquire securities from the public, or (c) acceptance of any offer referred to in (a) or (b), but only in so far as the advice is generally given to holders of securities or a class or securities; or

(3) corporate restructuring in respect of securities (including the issue, cancellation or variation of any rights attaching to any securities).

The above waiver is granted on condition that:

(A) the offering document and any circular for Regal REIT includes upfront disclosure of this waiver and, with respect to those corporate finance transactions under (i) and (ii) of this waiver, full disclosure of the material terms of the relevant agreements;

(B) the annual report includes disclosure of the aggregate fees paid to the DB Group in respect of the corporate finance transactions conducted for Regal REIT Group in the financial year;

(C) the annual report includes disclosure in respect of any corporate finance transaction whose fees exceed HK$1 million: (a) the occurrence and nature of the transaction; (b) the parties to the transaction and (c) the date of the transaction;

(D) the annual report discloses a statement made by each of the REIT Manager and the Trustee to confirm that the corporate finance transactions described in (i), (ii) and (iii) have complied with the General Conditions of the waiver and that the Trustee has not been involved in the making of any decision to enter into any corporate finance transaction on behalf of Regal REIT (subject to the Trustee's duties of oversight under the REIT Code and the Trust Deed) including the selection of the financial adviser of the transaction;

(E) the annual report includes a statement by the INEDs that they have reviewed the terms of such transactions and are satisfied that they have been entered into:

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

(b) on normal commercial terms (to extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Regal REIT than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of Unitholders of Regal REIT as a whole; and

(F) the Auditors' Report shall cover all the relevant corporate finance transactions.

Notwithstanding the above waiver, in the case where the aggregate fees that the DB Group generates from all "corporate advisory transactions" conducted for Regal REIT Group during the financial year exceed 1% of the latest NAV of Regal REIT as disclosed in the latest published audited accounts of Regal REIT, the requirements in respect of connected party transactions as set out in Chapter 8 of the REIT Code shall apply. Further, for the avoidance of doubt, where by virtue of the nature of the transaction, other than the involvement of the DB Group in its capacity as described above under "corporate finance transactions", an announcement has to be made pursuant to the REIT Code (and is not exempted by any waivers from announcements under the REIT Code granted by the SFC) such announcement shall disclose the role of DB Group and the relevant terms of engagement in accordance with the relevant provisions of the REIT Code.

Based on the above, the board of directors of the REIT Manager (including all of the INEDs) is of the view that:

(1) the waivers are in the interests of Unitholders of Regal REIT as a whole;

(2) it is satisfied with the internal control procedures of the Trustee with respect to the independence of the Trustee's operation vis-à-vis the other banking function/operation of the DB Group;

(3) the cap amount and the basis of the cap amount, in relation to the aggregate fees of the DB Group generated from all "corporate advisory transactions" between the DB Group and Regal REIT conducted during the relevant financial year, is fair and reasonable having regard to the interests of Unitholders of Regal REIT as a whole; and

(4) each connected party transaction shall be entered into in the ordinary course of business of Regal REIT, on normal commercial terms and in the interests of Unitholders of Regal REIT as a whole.

Unitholders' Mandate

The REIT Manager may at any time in the future seek a general annual mandate from Unitholders in relation to other waivers from, or confirmations in relation to, the connected party rules for which the REIT Manager may apply to the SFC. In order to apply to the SFC for that purpose, the general mandates must be made subject to any applicable requirements of the SFC or applicable provisions of the REIT Code. Such mandates may include continuation or extension of existing waivers (including those set out under the sub-section headed "Structure and Management — Connected Party Transactions — Waivers for Certain Connected Party Transactions between Trustee Connected Persons and Regal REIT Group" above).

In seeking any such general mandate, the INEDs will render an opinion as to whether the methods or procedures for determining the transaction prices or other relevant terms of the transaction contemplated under the general mandate are sufficient to ensure that such transactions will be carried out on an arm's length basis and on normal commercial terms, will not be prejudicial to the interests of Regal REIT and Unitholders and that the terms and conditions of such transactions will be fair and reasonable.

Role of the Audit Committee for Connected Party Transactions

The Audit Committee will periodically review (and the executive Directors or the management team of the REIT Manager will on a semi-annual basis produce reports to the Audit Committee for review of) all connected party transactions to ensure compliance with the REIT Manager's internal control system and with the relevant provisions of the REIT Code and of any waivers granted thereunder. The review will include the examination of the nature of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee.

If a member of the Audit Committee has an interest in a transaction, he or she is to abstain from participating in the review and approval process in relation to that transaction.

Announcements and Reporting

Connected party transactions within any of the categories referred to above will be reviewed by Regal REIT's auditors and will be subject to disclosure in Regal REIT's semi-annual and annual report and accounts.

Connected Party Transactions in connection with the setting up of Regal REIT and the Global Offering

The Trustee, on behalf of Regal REIT, has entered into a number of transactions with the REIT Manager and certain connected persons of the REIT Manager or Regal in connection with the setting up of Regal REIT and the Global Offering. These connected party transactions are as follows:

Trust Deed

Regal REIT is constituted by the Trust Deed between the REIT Manager and the Trustee. For further details, see the section headed "Material Agreements — Trust Deed" in this Offering Circular.

Sale and Purchase Agreement

Regal, as guarantor, and the Vendor, have entered into the Sale and Purchase Agreement with the REIT Manager and the Trustee in respect of the acquisition of the Holding SPV Shares and the Promissory Notes and the completion of the Asset Enhancement Program. For further details, see the section headed "Material Agreements" in this Offering Circular.

Deed of Tax Indemnity

Regal, as guarantor, and the Vendor have entered into the Deed of Tax Indemnity in favor of the Trustee (on behalf of Regal REIT) and Holding SPV (for itself and as agent and trustee for and on behalf of a wholly-owned subsidiary of Regal REIT). For further details, see the section headed "Material Agreements" in this Offering Circular.

Lease Agreements

The Lessors have entered into the Lease Agreements with the Lessee in relation to the lease of the Initial Hotel Properties after Completion. For further details, see the section headed "Material Agreements" in this Offering Circular.

Lease Guarantees

Regal has entered into the Lease Guarantees with each of the Lessors and the Trustee in respect of the payment obligations of the Lessee under each of the Lease Agreements. For further details, see the section headed "Material Agreements" in this Offering Circular.

Save as disclosed in this Offering Circular, the Trustee has not entered into any other transactions with the REIT Manager or any connected persons of the REIT Manager or Regal in connection with the setting up of Regal REIT and the Global Offering.

Hotel Management Agreements

The Lessors have entered into the Hotel Management Agreements with Holding SPV, the Lessee, the Hotel Manager and Regal, in relation to the management of the Initial Hotel Properties after Completion.

Other Continuing Transactions

Save as disclosed above and those material agreements as disclosed in the section headed "Material Agreements", there are no connected transactions of which the Directors are aware of which may continue after the completion of the Global Offering.

In connection with the authorization of Regal REIT by the SFC, the REIT Manager has applied to, and has received approval from, the SFC in relation to the modifications of, and waivers from, strict compliance with certain requirements of the REIT Code. A summary of such modifications and waivers is set out below.

Connected Party Transactions — Chapter 8 of the REIT Code

Regal REIT has applied to the SFC for, and has received, a waiver from strict compliance with certain provisions of Chapter 8 of the REIT Code in relation to certain continuing connected party transactions of Regal REIT within the meaning of the REIT Code. Details of the waivers received for: (i) certain connected party transactions between Regal REIT Group, the Regal Connected Persons Group and/or the REIT Manager Group; and (ii) certain connected party transactions between Trustee Connected Persons and Regal REIT Group, are set out in the section headed "Structure and Management — Connected Party Transactions" in this Offering Circular.

Waiver in respect of Payment of Manager's Fees by Way of Units

Under the terms of the Trust Deed, the REIT Manager will be remunerated in the form of a Base Fee, a Variable Fee, an acquisition fee and a divestment fee. Pursuant to Rule 12.2 of the Code, approval of Unitholders by way of Ordinary Resolution at a general meeting shall be required for new Units that are to be issued to a Connected Person and are not offered to Unitholders on a pro-rata basis. The REIT Manager has applied to the SFC for, and has received, a waiver from strict compliance with the requirements under Chapter 12 of the REIT Code in respect of the issuance of Units to the REIT Manager as payment of all or part of the Base Fee and Variable Fee subject to the following conditions:

(i) the number of Units issued to the REIT Manager by way of payment of all or part of the Base Fee and/or Variable Fee for each financial year of Regal REIT will be counted as part of the 20% (or such other percentage as permitted by the REIT Code from time to time) of outstanding Units that the REIT Manager may issue in each financial year without Unitholders' approvals pursuant to Paragraph 12.2 of the REIT Code;

(ii) in respect of each financial year, the maximum number of Units that may be issued to the REIT Manager as payment of all or part of the Base Fee and/or Variable Fee for that financial year shall be limited to such number of Units as represents 3% of the total number of Units outstanding as at the last day of the immediately preceding financial year plus the number of Units (if any) issued in the relevant financial year for the purposes of financing any acquisition of real estate by Regal REIT;

(iii) any issuance of Units to the REIT Manager as payment of all or part of its Base Fee and/or Variable Fee shall be made strictly in accordance with the requirements of the Trust Deed; and

(iv) in the event that any payment of all or part of the Base Fee and/or Variable Fee in the form of Units exceeds the relevant thresholds set out in Paragraph 12.2 of the REIT Code and paragraph (ii) above, and Unitholders' approvals is not obtained for the issue of Units for such purpose, then payment of that excess part of the Base Fee and/or Variable Fee will be made by Regal REIT to the REIT Manager in cash.

Waiver in respect of paragraph 7.6 of the REIT Code

Under paragraph 7.6 of the REIT Code, where a scheme acquires real estate through the acquisition of a special purpose vehicle, the offering circular must include an accountants' report including the profit and loss statement of the special purpose vehicle in respect of each of the three financial years (or such other period as appropriate) immediately preceding the acquisition.

Regal REIT has applied to the SFC for, and has received, a waiver from strict compliance with requirements of paragraph 7.6 of the REIT Code in respect of the inclusion of the profit and loss statements for the Predecessor Group for the year ended December 31, 2006, subject to the condition that Regal REIT will be listed on or before March 31, 2007. The consolidated results of the Predecessor Group for the three years ended December 31, 2005 and the nine months ended September 30, 2006 has been prepared and is set out in Appendix I to this Offering Circular.

The application for a waiver from strict compliance with paragraph 7.6 of the REIT Code was made by the REIT Manager on the basis that strict compliance with paragraph 7.6 of the REIT Code would be unduly burdensome as there would not be sufficient time for audited financial statements to be prepared for the year ended December 31, 2006 prior to the Global Offering. The REIT Manager confirms that, having performed sufficient due diligence on the Predecessor Group up to the date of this Offering Circular, there has been no material adverse change in the financial and trading position of the Predecessor Group since September 30, 2006, being the last day of the periods to which the Accountants' Report relates, the text of which is set out in Appendix 1 to this Offering Circular and there is no event which would materially affect the information shown in the Accountants' Report.

Three layer structure of Regal REIT

For the purposes of acquiring the Initial Hotel Properties, for facilitating the acquisition of additional properties and disposals, for enabling Holding SPV to apply the FF&E Reserve towards FF&E items at any one or more of the Initial Hotel Properties in accordance with their approved FF&E budgets, and for facilitating reorganizations and non-recourse financings in the future, submission has been made to the SFC for the use of three layers of Special Purpose Vehicles by Regal REIT and this has been allowed by the SFC, subject to the condition that there will be no change to the maximum number of three layers of Special Purpose Vehicles used by Regal REIT, without further approval from the SFC.

Licensing Conditions on the REIT Manager

The SFC has imposed the following licensing conditions upon the REIT Manager:

(1) The REIT Manager's license shall lapse and cease to have effect as and when:

  (i) Regal REIT is de-authorized; or

  (ii) the REIT Manager ceases to act as the management company of Regal REIT; and

(2) For type 9 regulated activity, the REIT Manager shall only engage in managing Regal REIT.

MATERIAL AGREEMENTS

The Trust Deed is a complex document and the following is a summary only. Investors should refer to the Trust Deed itself to confirm specific information or for a detailed understanding of Regal REIT. The Trust Deed is available for inspection at the registered office of the REIT Manager at Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

Trust Deed

Regal REIT is a real estate investment trust constituted by the Trust Deed between Regal Portfolio Management Limited as the manager of Regal REIT and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT, and regulated by the SFO, the REIT Code, Chapter 20 of the Listing Rules and the Listing Agreement.

The REIT Manager must manage Regal REIT so that the principal investments of Regal REIT are real estate. For details of the investment strategy of the REIT Manager, see the section headed "Business and Strategy — Strategy" in this Offering Circular. The assets of Regal REIT will be held by the Trustee on trust for the benefit of Unitholders. The investment policy of Regal REIT is to invest in real estate that wholly or primarily comprises hotel or other hospitality-related properties. Any change in the investment policy of Regal REIT or investment in real estate outside Hong Kong will require the approval of Unitholders by Special Resolution.

The terms and conditions of the Trust Deed shall be binding on each Unitholder (and persons claiming through or under such Unitholder) as if such Unitholder had been a party to the Trust Deed and as if the Trust Deed contained covenants by such Unitholder to observe and be bound by all the provisions of the Trust Deed and an authorization by each Unitholder to do all such acts and things as the Trust Deed may permit or require the REIT Manager and/or the Trustee to do.

The provisions of the REIT Code prescribe certain terms of the Trust Deed and certain rights, duties and obligations of the REIT Manager, the Trustee and Unitholders under the Trust Deed.

The rights and interests of Unitholders are set out in the Trust Deed. Under the Trust Deed, the Trustee must exercise all due diligence and vigilance in protecting the rights and interests of Unitholders.

The REIT Manager and the Trustee, by the terms of the Trust Deed, may give representations, warranties and undertakings, and grant guarantees and/or indemnities, on behalf of Regal REIT (and so as to bind and to be payable from the Deposited Property).

The beneficial interest in Regal REIT is divided into Units. However, a Unitholder is not entitled to have transferred to him the Deposited Property or any part of the Deposited Property (or of any estate or interest in the Deposited Property or in any part of the Deposited Property).

Unless otherwise expressly provided in the Trust Deed, a Unitholder may not interfere or seek to interfere with or question the rights, powers, obligations, authority or discretion of the Trustee or the REIT Manager to the extent those rights, powers, obligations, authority or discretion are properly exercised or performed, claim or exercise any right in respect of the assets of Regal REIT or any part thereof or lodge any caveat or other notice affecting the real estate assets and real estate-related assets of Regal REIT or any part thereof, or require that any part of the Deposited Property (or of any estate or interest in any part of the Deposited Property) be transferred to the Unitholder.

The Trust Deed obliges the REIT Manager to make two distributions in respect of each financial year ending on or before December 31, 2010.

Issue of Units

The following is a summary of the provisions of the Trust Deed relating to the issue of Units in Regal REIT.

The REIT Manager has the exclusive right to effect for the account of Regal REIT, the creation and issue of Units, including for the purposes of the Global Offering (including, without limitation, an initial issue of Units), a rights issue, a capitalization issue, an issue of new Units otherwise than by a rights issue, or any issue pursuant to a re-investment of distribution arrangement, or an issue of Units (which, for the avoidance of doubt, may include AEP Units) in consideration of the contribution of real estate or real estate related assets to the Trust or a Special Purpose Vehicle, or an issue of Units to the REIT Manager in full or partial satisfaction of its remuneration, in each case, in accordance with the Trust Deed and subject to the provisions of the REIT Code and any other applicable laws and regulations.

The offer of Units for the purpose of the Global Offering shall be at the Offer Price initially stated to be in the range of HK$2.68 to HK$3.38 per Unit, with the actual Offer Price to be determined by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), Regal and the REIT Manager on the Price Determination Date.

After the Listing Date, new Units may be offered on a *pro rata* basis to all existing Unitholders without the prior approval of Unitholders other than where any such issue increases the market capitalization of Regal REIT by more than 50%, in which case such issue shall require the prior approval of Unitholders by Ordinary Resolution at a meeting to be convened by the REIT Manager in accordance with the provisions of the Trust Deed.

Units may be issued, or agreed (conditionally or unconditionally) to be issued in any financial year (whether directly or pursuant to Convertible Instruments), otherwise than on a *pro rata* basis to all existing Unitholders, without the approval of Unitholders if the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that financial year, without taking account of certain Units as expressly provided for in the Trust Deed, does not increase the total number of Units from 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 on the Listing Date) by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC) (the "**Percentage Threshold**"), provided that such threshold in terms of number of Units shall in the event of any consolidation or sub-division or re-designation of Units during that financial year be proportionally adjusted to give effect to such consolidation, sub-division or re-designation of Units. Any issue of, or any agreement (whether conditional or unconditional) to issue, new Units exceeding the Percentage Threshold will require specific prior approval of Unitholders by Ordinary Resolution at a meeting to be convened by the REIT Manager in accordance with the provisions of the Trust Deed.

"**Convertible Instruments**" means any securities convertible or exchangeable into Units, or any options or warrants or similar rights for the subscription or issue of Units (or securities convertible or exchangeable into Units), issued by the REIT Manager on behalf of Regal REIT or any Special Purpose Vehicle.

Subject to the Trust Deed and after the Listing Date, and for so long as the Units are admitted for trading on the Hong Kong Stock Exchange, the REIT Manager may effect or agree to effect the issue of Units on behalf of Regal REIT on any Business Day at an Issue Price per Unit that is equal to the Market Price or, in its discretion, at a discount of no more than 20% to the Market Price or at a premium to the Market Price. An issue of new Units at an Issue Price that is at a discount of more than 20% to the Market Price will require specific prior approval of Unitholders by Ordinary Resolution at a meeting to be convened by the REIT Manager.

Market Price shall mean the price as determined by the REIT Manager, being the higher of:

(a) the closing price of the Units on the Hong Kong Stock Exchange on the date of the relevant agreement or other instrument for (i) the proposed issue of Units, or (ii) the proposed issue of any Convertible Instruments; and

(b) the average closing price of the Units in the ten trading days immediately prior to the earlier of:

  (i) the date of announcement of (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments;

  (ii) the date of the relevant agreement or other instrument for (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments; and

  (iii) the date on which the Issue Price of the Units is fixed.

The REIT Manager may, in its absolute discretion, elect not to extend an offer of Units under a rights issue or open offer to those Unitholders whose addresses are outside Hong Kong provided that it has first made necessary enquiry regarding overseas legal or other regulatory requirements which Regal REIT may be required to comply with in respect of such issues and/or offers to the overseas Unitholders, and, having done so, considers that it is not necessary or expedient to extend such offer to such Unitholders. The REIT Manager shall form such view after taking into account the necessity, practicality and/or costs of complying or ensuring compliance with the relevant overseas legal or other regulatory requirements, in the absence of which such issue(s) and/or offers to the overseas Unitholders may be unlawful or impractical. In the case of a rights issue, the rights or entitlement to the Units of such overseas Unitholders will be offered for sale by the REIT Manager as the nominee and authorized agent of each such relevant Unitholder and at such price as the REIT Manager may determine. The Trustee shall have the discretion to impose such other terms and conditions deemed reasonable in connection with such sale as necessary. The net proceeds of any such sale, if any, will be paid to the relevant Unitholders.

No Repurchase or Redemption of Units

Unitholders have no right to demand for the repurchase or redemption of their Units. The REIT Manager must not repurchase or redeem any Units unless permitted to do so by the relevant codes and guidelines issued by the SFC from time to time. If such codes or guidelines are issued by the SFC, any repurchase or redemption of Units by the REIT Manager must be effected in accordance with such codes and guidelines.

Public Float Requirement

The REIT Manager shall use best efforts to ensure that a minimum of 25% (or any other percentage specified or permitted by the SFC from time to time) (the "**Public Float Percentage**") of the outstanding Units are held in public hands. In the event that the REIT Manager becomes aware that the percentage of the outstanding Units in the public hands has fallen below the Public Float Percentage, the REIT Manager shall use best efforts to restore the percentage of Units held in public hands to at least the Public Float Percentage of the outstanding Units. The REIT Manager shall adopt proper internal procedures for monitoring the public float and shall notify the Trustee and the SFC promptly if such percentage falls below the Public Float Percentage of the outstanding Units and issue an announcement regarding the same.

Rights and Liabilities of Unitholders

The key rights of Unitholders include rights to:

(1) receive income and other distributions attributable to the Units (subject to provisions concerning AEP Units) held;

(2) receive audited accounts and the annual reports of Regal REIT; and

(3) participate in the termination of Regal REIT by receiving a share of all net cash proceeds derived from the realization of the assets of Regal REIT less any liabilities, in accordance with their proportionate interests in Regal REIT at the date of termination of Regal REIT.

No Unitholder has a right to require that any asset of Regal REIT be transferred to him.

Further, Unitholders cannot give any directions to the Trustee or the REIT Manager (whether at a meeting of Unitholders or otherwise) if it would require the Trustee or the REIT Manager to do or omit doing anything which may result in:

(1) Regal REIT ceasing to comply with the REIT Code or the Listing Rules or the Trust Deed; or

(2) the exercise of any discretion expressly conferred on the Trustee or the REIT Manager by the Trust Deed or the determination of any matter which, under the Trust Deed, requires the agreement of either or both of the Trustee and the REIT Manager.

The Trust Deed contains provisions that are designed to limit the liability of a Unitholder to the amount paid or payable for any Unit. The provisions seek to ensure that if the Issue Price of the Units held by a Unitholder has been fully paid, no such Unitholder, by reason alone of being a Unitholder, will be personally liable to indemnify the Trustee or any creditor of Regal REIT in the event that the liabilities of Regal REIT exceed its assets.

Amendment

Save where an amendment to the Trust Deed has been approved by a Special Resolution passed at a meeting of Unitholders duly convened and held in accordance with the provisions of the Trust Deed, no amendment may be made to the provisions of the Trust Deed unless the Trustee certifies in writing, in its opinion, that such amendment:

(1) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the REIT Manager from any responsibility to Unitholders under the Trust Deed and does not increase the costs and charges payable from the Deposited Property (other than the costs, charges, fees and expenses incurred in connection with the supplemental deed);

(2) is necessary in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law); or

(3) is necessary to correct a manifest error.

No such amendment shall impose upon any Unitholder any obligation to make any further payments in respect of his Units or to accept any liability in respect thereof.

Meetings of Unitholders

An annual general meeting of Unitholders shall be convened by the REIT Manager at least once in every calendar year (except in 2007) in addition to any other meetings in that year and the REIT Manager shall specify the meeting as such in the notice calling it. The time and place of the annual general meeting shall be appointed by the REIT Manager.

A meeting of Unitholders may be convened at any time by the Trustee or the REIT Manager respectively (and the REIT Manager shall convene such a meeting 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). The party convening the meeting may convene a meeting of Unitholders at such time or place in Hong Kong (subject to the provisions of the Trust Deed) as the party convening the meeting may think fit and propose resolutions for consideration at such meeting.

The REIT Manager or a person nominated by the REIT Manager (if present) shall be the Chairman of any meeting of Unitholders.

Except as otherwise provided for in the Trust Deed, at least 21 days' notice (exclusive of the day on which the notice is served or deemed to be served and of the day on which the meeting is held) of the meeting shall be given to Unitholders where a Special Resolution is proposed for consideration at such meeting. Each notice shall specify the place, day and hour of the meeting and the terms of any resolution to be proposed. A copy of the notice shall be sent by post to the Trustee, unless the meeting is convened by the Trustee in which case a copy of the notice shall be sent by post to the REIT Manager. No proceedings at any meeting shall be invalidated by the accidental omission to give notice to or the non-receipt of notice by any of the Unitholders.

Save for the purpose of passing a Special Resolution, the quorum for any meeting of Unitholders for the transaction of business shall be two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding. The quorum for passing a Special Resolution shall be 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. No business shall be transacted at any meeting unless the requisite quorum is present at the commencement of business. Split proxies shall, for the avoidance of doubt, be permitted.

For a meeting at which Unitholders have a material interest in the business to be conducted and where that interest is different from the interests of other Unitholders (as determined by the REIT Manager (where the Unitholder(s) concerned is (are) not connected persons related to the REIT Manager) or the Trustee (where the Unitholder(s) concerned is (are) not connected persons related to the Trustee), if appropriate, in its absolute opinion) including an issue of new Units where a Unitholder may increase his holdings of Units by more than his *pro rata* share, such Unitholders shall be prohibited from voting their own Units at such meeting or being counted in the quorum for such meeting.

At any meeting, a resolution put to the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder provided such Units are fully paid up. Votes cast by a Unitholder in contravention of the REIT Code or Listing Rules shall not be counted. On a poll, votes may be given either personally or by proxy. The form of the instrument of proxy used shall be in accordance with the form illustrated in the Trust Deed or in any other form which the Trustee shall approve.

Any Unitholder being a corporation may by resolution of its directors (or other governing body) authorize any person to act as its representative at any meeting of Unitholders. A person so authorized shall at such meeting be entitled to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual Unitholder.

More than one proxy or corporate representative may be appointed by HKSCC Nominees Limited to attend and vote at Unitholders' meeting and no documents of title or notarized authorization in respect of such appointment shall be required to be produced by such representatives. Where a Unitholder is a recognized clearing house (within the meaning of the SFO) or its nominee(s), it may authorize such person(s) as it thinks fit to act as its representative(s) or proxy(ies) at any Unitholders' meeting or any class of Unitholders provided that, if more than one person is so authorized, the authorization or proxy form must specify the number and class of Units in respect of which each such person is so authorized.

In accordance with the Trust Deed, a meeting of Unitholders will be convened to pass a Special Resolution when decisions with respect to certain matters require prior approval of Unitholders by way of Special Resolution. Such matters include without limitation: (i) change in the investment policy for Regal REIT or investment in real estate outside Hong Kong; (ii) disposal of any land or an interest, option or right over any of the land forming part of the assets of Regal REIT or shares in any Property Company holding such land, option or right over any of the land for Regal REIT within two years of acquisition of such land; (iii) any increase in the rate above the permitted limit or change in structure of the REIT Manager's management fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed other than those prescribed by the Trust Deed; (vi) termination of Regal REIT; and (vii) merger of Regal REIT. Unitholders may also, by way of Special Resolution (i) remove Regal REIT's auditors and appoint other auditors or (ii) remove the Trustee or the REIT Manager.

Any decisions to be made by resolution of Unitholders other than the above shall be made by Ordinary Resolution, unless a Special Resolution is required by the REIT Code. Matters subject to approval by an Ordinary Resolution include, without limitation, (i) the subdivision or consolidation of Units; (ii) any issue of Units after the Listing Date which would increase the market capitalization of Regal REIT by more than 50%; (iii) any issue of Units during any financial year that would increase the total number of Units from the number of Units that were outstanding at the end of the previous financial year by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC); (iv) (except pursuant to the IPO or a rights issue or an open offer) an issue of new Units to a connected person (other than as part of an offer made to all Unitholders on a *pro rata* basis); (v) the election by the REIT Manager of the acquisition fee or the divestment fee which is to be paid to the REIT Manager in the form of cash or in the form of Units or partly in cash and partly in the form of Units; and (vi) the dismissal of any approved valuer appointed by the Trustee on behalf of Regal REIT in accordance with the Trust Deed.

Powers, Duties and Obligations of the Trustee

The Trustee's powers, duties and obligations are set out in the Trust Deed. The powers and duties of the Trustee include (but are not limited to):

(1) acting as trustee of Regal REIT and, therefore, in the interests of Unitholders;

(2) holding the assets of Regal REIT on trust for the benefit of Unitholders;

(3) overseeing the activities of the REIT Manager for compliance with the Trust Deed, other relevant constitutive documents and the regulatory requirements applicable to Regal REIT; and

(4) taking all reasonable care to ensure that the assets of Regal REIT are properly segregated and held for the benefit of Unitholders in accordance with the provisions of the Trust Deed.

The Trustee shall exercise all due diligence and vigilance in carrying out its functions and duties, and in protecting the rights and interests of Unitholders.

In the exercise of its powers, the Trustee shall (on the instructions of the REIT Manager in writing) and subject to the provisions of the Trust Deed, acquire or dispose of any real or personal property, borrow and encumber any asset of Regal REIT.

Although the Trustee shall, upon the request of the REIT Manager, borrow money and obtain other financial accommodation for the purpose of Regal REIT, both on a secured and an unsecured basis, the Trustee shall take all reasonable care to ensure that the investment and borrowing provisions set out in the provisions of the Trust Deed and the conditions under which Regal REIT was authorized by the SFC are complied with. The REIT Manager must not direct the Trustee to incur any borrowing if to do so would mean that the aggregate borrowings of Regal REIT exceed 45% (or such other higher or lower percentage as may be permitted by the REIT Code or as may be specifically permitted by the relevant authorities) of the total gross asset value of the Deposited Property as set out in Regal REIT's latest published audited accounts immediately prior to such borrowing being effected as adjusted by (i) deducting the amount of any distribution proposed by the REIT Manager in such audited accounts and any distribution declared by the REIT Manager since the publication of such accounts and (ii) where appropriate, the latest published valuation of the assets of Regal REIT if such valuation is published after the publication of such accounts.

The Trustee is not personally liable to a Unitholder in connection with the office of the Trustee except in respect of its own fraud, negligence, willful default, breach of the Trust Deed or other constitutive documents to which it is a party, breach of the REIT Code or any applicable law and regulation or breach of trust. Any liability incurred and any indemnity to be given by the Trustee shall be limited to the assets of Regal REIT over which the Trustee has recourse, provided that the Trustee has acted without fraud, negligence, willful default, breach of trust or other constitutive documents to which it is a party. The Trust Deed contains certain indemnities in favor of the Trustee under which it will be indemnified out of the assets of Regal REIT for liability arising in connection with certain acts or omissions.

Resignation and Replacement of the Trustee

The Trustee shall not be entitled to resign voluntarily except upon the appointment (with, for so long as Regal REIT is authorized by the SFC, the prior written consent of the SFC) of a new Trustee.

The Trustee may be removed by prior notice in writing to the Trustee by the REIT Manager:

(i) if the Trustee goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the REIT Manager) or if a receiver is appointed over any of its assets or if a judicial manager is appointed in respect of the Trustee (or any analogous process occurs or any analogous person is appointed in respect of the Trustee);

(ii) if the Trustee ceases to carry on business; or

(iii) if Unitholders require it by a Special Resolution duly passed at a meeting of Unitholders held in accordance with the provisions of the Trust Deed, and of which at least 21 days' notice has been given to the Trustee.

Trustee's Fee

In each financial year, Regal REIT will pay the Trustee an on-going fee, the rate of which will be determined in accordance with the thresholds set out below:

	Value of Deposited Property	Fee Rate of Value of Deposited Property	
(a)	where the value of the Deposited Property is less than HK$5 billion	0.0250% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)
(b)	where the value of the Deposited Property is, or is greater than, HK$5 billion but less than HK$10 billion	0.0200% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)
(c)	where the value of the Deposited Property is, or is greater than, HK$10 billion but not exceeding HK$15 billion	0.0175% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)
(d)	where the value of the Deposited Property is greater than HK$15 billion but not exceeding HK$20 billion	0.0165% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)
(e)	where the value of the Deposited Property is greater than HK$20 billion but not exceeding HK$25 billion	0.0155% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)
(f)	where the value of the Deposited Property is greater than HK$25 billion	0.0150% per annum	(which may be increased from time to time to a maximum percentage of 0.06%)

The above on-going fee is subject to (1) a minimum amount of HK$66,000 per month; and (2) an adjustment as described below. Such on-going fee is only payable to the Trustee from the date Regal REIT acquires the Initial Hotel Properties.

Where there is an increase in the percentage rate applicable to any of (a), (b), (c), (d), (e) or (f), the other percentage rates may also be increased. Where the value of the Deposited Property exceeds one of the thresholds described in (a), (b), (c), (d), (e) or (f), the fee rate at the next level shall be applied to the entire value of the Deposited Property and not just to the amount by which such threshold is exceeded.

The Trustee shall give at least one month's prior written notice to the REIT Manager and the Unitholders of any increase in the rate of the remuneration of the Trustee up to and including the permitted limit of 0.06% per annum of the value of the Deposited Property that the Trustee proposes to charge with the agreement of the REIT Manager, from time to time. Any such increase must be approved by the REIT Manager. Any increase in the maximum rate of the ongoing fee prescribed, or any change to the structure of the Trustee's remuneration, shall be subject to the passing of a Special Resolution at general meeting of the Holders duly convened and held in accordance with the provisions of the Trust Deed.

The ongoing fee of the Trustee described above shall be payable out of the Deposited Property quarterly in arrears (within 30 days of the end of each calendar quarter) and will be calculated by reference to the unaudited quarterly management accounts of the Trust prepared by the REIT Manager for the relevant quarter and is subject to adjustment following publication of the audited accounts of the Trust for the relevant financial year as follows:

Adjustment = (RPF% x DP) − SQF

Where:

RPF = the relevant percentage figure determined for the calculation of the above on-going fee

DP = the value of the Deposited Property as published in the audited accounts of Regal REIT for the relevant financial year; and

SQF = the sum of the quarterly ongoing fees received by the Trustee in respect of the relevant financial year.

Where the above adjustment is positive, the Trust shall pay the difference to the Trustee within 30 days after the publication of the audited accounts of Regal REIT. Where the adjustment is negative, the Trustee shall pay the difference to the Trust within 30 days after publication of the audited accounts of the Trust for the relevant year. For the avoidance of doubt, the above adjustment shall not affect the minimum fee of HK$66,000 per month.

If the Trustee finds it expedient or necessary or is requested by the REIT Manager to undertake duties which are of exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary course of normal day-to-day business operations of the Trust including the acquisition of or divestment or disposal of any Authorized Investment by the Trust after the Global Offering, the Trustee is entitled to charge and be paid, out of the Deposited Property, such fees and expenses("**Trustee Additional Fees**") on a time cost basis at a rate to be agreed with the REIT Manager from time to time, provided that, unless otherwise approved by Unitholders by way of an Ordinary Resolution:

(i) the aggregate amount of the Trustee's Additional Fees that may be charged by the Trustee in relation to each transaction to be entered into by Regal REIT shall not exceed 0.05% of (a) the acquisition price (in the case of an acquisition of any real estate whether directly or indirectly by Regal REIT); or (b) the sale price (in the case of a sale or disposal of real estate whether directly or indirectly held by Regal REIT); and

(ii) the aggregate amount of the Trustee's Additional Fees that are not related to any acquisition or sale or disposal of real estate as referred to in (i) above that may be charged by the Trustee for each financial year shall not exceed an amount equal to 30% of the ongoing fee to which the Trustee is entitled to for that financial year.

Where the Additional Trustee Fee is estimated to be lower than the maximum percentage set out in (i) or (ii) above but the Trustee and the REIT Manager fail to agree on the rate of the Trustee's Additional Fees, the rate shall be determined by an independent investment bank (acting as an expert) selected by the Trustee and approved by the REIT Manager. The expenses involved in such investment bank's fee will be paid out of the Deposited Property. The determination of such investment bank will be conclusive and binding on the REIT Manager, the Trustee and the Trust.

The amount of remuneration payable to the Trustee shall be before deduction of any applicable sales tax, government impositions, duties and levies whatsoever imposed thereon by the relevant authorities in Hong Kong.

The trustee fee shall be paid in full, free of any restriction or condition, without set-off or counterclaim and free and clear of any deduction or withholding for or on account of any Tax, local or otherwise. If any payments of the trustee fee due under the Trust Deed are subject to any deductions or withholdings for any present or future taxes, duties, fees, liabilities or other charges imposed by any competent governmental authority, then an additional amount shall be paid or reimbursed to the Trustee as is necessary so that the amount actually received by the Trustee equals the full amount of trustee fee payable or reimbursable under the Trust Deed.

Termination

The Trust Deed provides that Regal REIT shall terminate in the event that (a) the Units are not listed on the Hong Kong Stock Exchange by April 30, 2007 or such later date as may be agreed by the REIT Manager and the Trustee or (b) for any reason, there is no REIT Manager of Regal REIT for a period of more than 60 calendar days or such other longer period as the Trustee considers appropriate.

Unless terminated as described in this section, Regal REIT shall continue until the expiration of eighty years less one day from the date of commencement of Regal REIT as provided in the Trust Deed or until it is terminated in accordance with the termination provision of the Trust Deed.

Unless Regal REIT is wound up by a court order or is otherwise terminated in the circumstances described above or by the operation of law, the termination of Regal REIT shall require specific prior approval from Unitholders by Special Resolution of Unitholders at a meeting to be convened by the REIT Manager or the Trustee in a manner in accordance with the provisions of the Trust Deed. Where the proposal to terminate Regal REIT is recommended by the REIT Manager, the REIT Manager and its connected persons shall abstain from voting if they hold interests in the Units and if their interest (at the sole determination of the Trustee) in terminating Regal REIT is different from that of all other Unitholders (save for the fact that the REIT Manager is the manager of Regal REIT). The Trustee shall not be liable for any consequences arising out of such termination recommended by the REIT Manager and approved by Special Resolution in the absence of fraud, negligence or willful default, breach of any constitutive documents to which the Trustee is a party, breach of the REIT Code or other applicable laws and regulations or a breach of trust.

An announcement on the termination of Regal REIT shall be made by the REIT Manager to Unitholders as soon as reasonably practicable in accordance with the provisions of the Trust Deed.

The REIT Manager shall serve on Unitholders, within 21 Business Days of the announcement on the termination of Regal REIT, a circular convening an extraordinary general meeting containing the following information:

(i) the rationale for the termination of Regal REIT;

(ii) the effective date of the termination;

(iii) the manner in which the assets of Regal REIT are to be dealt with;

(iv) the procedures and timing for the distribution of the proceeds of the termination;

(v) a valuation report of Regal REIT prepared by an approved valuer which is dated not more than three months before the date of the circular;

(vi) the estimated costs of the termination and who is expected to bear such costs; and

(vii) such other material information that the REIT Manager determines that Unitholders should be informed of.

Upon approval of a proposal to terminate Regal REIT, the Trustee shall:

(i) oversee the realization of the Investments (as defined below) by the REIT Manager (which the REIT Manager shall effect as soon as practicable);

(ii) use its reasonable endeavors to ensure that the REIT Manager shall repay any outstanding borrowings effected by or for the account of Regal REIT (together with any interest accrued thereon but remaining unpaid); and

(iii) ensure the proper discharge of all other obligations and liabilities of Regal REIT.

All Investments shall be disposed of through public auction or any form of open tender or in such other manner as the SFC may permit. The disposal shall be conducted at arm's length and conducted in the best interests of Unitholders. The disposal price shall be the best available price obtained through public auction or open tender. Save as is provided in the REIT Code, the REIT Manager shall have absolute discretion in carrying out the selling and repayment in such manner and period of time as the REIT Manager deems advisable provided that such period may not exceed twenty four months and where it exceeds twelve months, it must be in the interests of Unitholders and Unitholders shall be informed by way of announcement. Subject to the provision of the Trust Deed, any net cash proceeds derived from the sale or realization of such Investments shall (at such time or times as the Trustee shall deem appropriate) be distributed to Unitholders *pro rata* to the number of Units held or deemed to be held by them respectively as at the date of the termination of Regal REIT.

Upon the completion of the liquidation of the assets of Regal REIT, the following shall be prepared:

(i) a REIT Manager's review and comment on the performance of Regal REIT and an explanation as to how the Investments have been disposed of and the transaction prices and major terms of disposal;

(ii) a Trustee's report that the REIT Manager has managed and liquidated the assets of Regal REIT in accordance with the REIT Code and the provisions of the Trust Deed;

(iii) financial statements of Regal REIT which shall be distributed to Unitholders by the REIT Manager within three months of completion of the liquidation of the assets of Regal REIT and a copy filed with the SFC; and

(iv) an auditors' report.

For the purposes of this section, "Investment" shall mean any one of the assets forming for the time being a part of the Deposited Property or, where appropriate, being considered for acquisition to form part of the Deposited Property.

In addition to the Trustee's ongoing fees as described above, Regal REIT will pay to the Trustee a one-time inception fee of HK$200,000.

Merger of Regal REIT

The merger of Regal REIT shall require specific prior approval from Unitholders by Special Resolution at a meeting to be convened by the REIT Manager in accordance with the provisions of the Trust Deed. Where the proposal to merge is recommended by the REIT Manager, the REIT Manager and connected persons related to it who hold interests in the Units shall abstain from voting in circumstances where their interest (at the sole determination of the Trustee) in merging Regal REIT is different from that of all other Unitholders. Where upon any such merger the Trustee resigns, any deed effecting the merger shall include indemnification of the Trustee to its satisfaction. In case the merger is recommended by the REIT Manager and approved by Special Resolution, other than any liability arising from fraud, negligence or willful default, breach of any constitutive documents to which the Trustee is a party, breach of the REIT Code or other applicable laws and regulations or a breach of trust by the Trustee, the Trustee shall cease to be liable for obligations and liabilities of Regal REIT subsisting at the time of merger to the extent such obligations and liabilities are subsequently discharged from and out of the merged entity, and shall have no other liability for the consequences arising out of such merger of Regal REIT.

The intention to merge Regal REIT shall be notified by the REIT Manager to Unitholders as soon as reasonably practicable by way of announcement. A circular convening an extraordinary general meeting shall be sent to Unitholders by the REIT Manager within 21 Business Days of such announcement. The following information shall be included in the circular:

(1) the rationale for the merger of Regal REIT;

(2) the effective date of the merger;

(3) the manner in which the assets of Regal REIT are to be dealt with;

(4) the procedures and timing for the issuance or exchange of new Units arising from the merger;

(5) a valuation report of Regal REIT prepared by an approved valuer which is dated not more than three months before the date of the circular;

(6) the estimated costs of the merger and the bearer of such costs; and

(7) such other material information that the REIT Manager determines that Unitholders should be informed of.

No further Units shall be created, issued, cancelled or sold upon Unitholders' approvals of the merger of Regal REIT. No transfer of Units may be registered and no other change to the register may be made following the announcement.

Upon the completion of the merger of Regal REIT, the following shall be prepared:

(i) a REIT Manager's review and comment on the performance of Regal REIT and an explanation as to how the Investments have been accounted for in the merged scheme;

(ii) a Trustee's report that the REIT Manager has managed and merged Regal REIT in accordance with the REIT Code and the provisions of the Trust Deed;

(iii) financial statements of Regal REIT which shall be distributed to Unitholders by the REIT Manager within three months of the completion of the merger and a copy filed with the SFC; and

(iv) an auditors' report.

Deemed Application of Part XV of the Securities and Futures Ordinance

With certain exceptions, the provisions of Part XV of the SFO, which requires shareholders of Hong Kong listed corporations to notify the Hong Kong Stock Exchange and the listed corporation if their shareholding interests reach or exceed a certain percentage (which is 5% as of the date of this Offering Circular), have been incorporated into the Trust Deed, mutatis mutandis, and have been made binding on the directors and chief executive of the REIT Manager, the REIT Manager and on each Unitholder and all persons claiming through or under him as if:

(a) Regal REIT is a "listed corporation" for the purposes of Part XV of the SFO;

(b) the "relevant share capital" of such listed corporation are references to: (i) the Units which are issued and outstanding from time to time; and (ii) the Units which the REIT Manager has agreed to issue, either conditionally or unconditionally, from time to time;

(c) a Unit is a share comprised in the relevant share capital of such listed corporation;

(d) a person who is interested in a Unit is interested in a share in the relevant share capital of such listed corporation;

(e) the REIT Manager itself is a director of such listed corporation;

(f) the directors and chief executive of the REIT Manager are the directors and chief executive respectively of such listed corporation;

(g) "percentage level", in relation to a notifiable interest, means the percentage figure found by expressing the aggregate number of Units in which the person is interested immediately before or (as the case may be) immediately after the relevant time as a percentage of all the Units in issue at the relevant time as published by the REIT Manager and rounding that figure down (if it is not a whole number) to the next whole number; and

(h) "percentage level", in relation to a short position, means the percentage figure found by expressing the aggregate number of Units in which the person has a short position immediately before or (as the case may be) immediately after the relevant time as a percentage of all the Units in issue at the relevant time as published by the REIT Manager and rounding that figure down (if it is not a whole number) to the next whole number.

Specifically, the Trust Deed provides that, subject to certain modifications set out in the Trust Deed:

(a) the duty of disclosure under Divisions 2 to 4 of Part XV of the SFO (other than section 328) shall apply to a person who (i) is interested in Units, or who acquires an interest in or who ceases to be interested in Units; or (ii) has a short position in Units, or who comes to have or ceases to have a short position in Units; and

(b) the duty of disclosure under Divisions 7 to 9 of Part XV of the SFO (other than section 351) shall apply to each of the REIT Manager and each director and chief executive of the REIT Manager who (i) is interested in Units, or who acquires an interest in or who ceases to be interested in Units, or (ii) has a short position in Units, or who comes to have or ceases to have a short position in Units.

Where a duty of disclosure arises by virtue of the deemed application of Part XV of the SFO, the relevant person shall give notice to the REIT Manager and the Hong Kong Stock Exchange and the REIT Manager shall promptly send a copy of the notification received by it to the Trustee.

The powers and duties of a "listed corporation" under Division 5 of Part XV of the SFO to investigate ownership of interests in Units shall be exercisable or performed by the Trustee and the REIT Manager, provided that the power shall be exercised or performed solely by the REIT Manager, save where the interest or short position (or deemed interest or deemed short position) relates to Units held by the REIT Manager or to Units in which the REIT Manager is interested or has a short position, in which case the power shall be exercised by or the duty shall be performed solely by the Trustee.

If a person who has a duty of disclosure under the Trust Deed fails to make notification in accordance with the provisions of the Trust Deed, irrespective of whether that person is a Unitholder or not, the Units in which that person is (or is deemed to be) interested (the "**Affected Units**") shall be subject to any or all of the following actions which (i) if the person interested in the Affected Units is a person other than the REIT Manager, the REIT Manager; or (ii) if the person interested in the Affected Units is the REIT Manager, the Trustee, may, in its absolute discretion, take any or all of the following actions in respect of any or all of the Affected Units:

(i) declare the voting rights attached to any or all of the Affected Units to be suspended (and, upon such declaration, such voting rights shall be suspended for all purposes in connection with Regal REIT);

(ii) suspend the payment of any distributions in respect of any or all of the Affected Units (and, upon such suspension, any such distributions shall be retained in a trust account in the name of Regal REIT pending the application of such distributions);

(iii) impose an administrative fee of up to HK$0.10 per Affected Unit for each day of non-compliance from the date on which disclosure is due to be made by the person;

(iv) suspend registration and/or decline to register any transfer of part or all of the Affected Units,

until the relevant provisions of the Trust Deed are fully complied with to the satisfaction of the REIT Manager or the Trustee, as the case may be.

Each Unitholder and all persons claiming through or under him expressly acknowledge and agree to the grant of the rights and powers set forth in the Trust Deed and agree to be bound by any action taken by the REIT Manager or the Trustee, as the case may be, pursuant to the Trust Deed in good faith.

Sale and Purchase Agreement, AEP Agency Deed and Deed of Tax Indemnity

The Trustee, as trustee for Regal REIT, and the REIT Manager have entered into the Sale and Purchase Agreement with the Vendor and Regal pursuant to which the Trustee has conditionally agreed to acquire the entire issued share capital of Holding SPV and the Promissory Notes issued to the Vendor pursuant to the Restructuring which are non-interest bearing and which will become intercompany loans on the Listing Date. After the acquisition of Holding SPV, Regal REIT will own the Initial Hotel Properties through the Holding Companies, which as at the Listing Date will be wholly-owned subsidiaries of Holding SPV.

The consideration for the sale and purchase of the Holding SPV Shares shall be the aggregate of the sum of (i) HK$3,042 which is the Initial Consideration for the Holding SPV Shares, and (ii) the Adjustment Sum (as defined below), if the Adjustment Sum is a positive figure. The "Initial Consideration" for the Holding SPV Shares is calculated as the sum of (i) the gross proceeds from the Global Offering and from the subscription by the Regal Group based on the Minimum Offer Price and (ii) the amount drawn down from the Facility, minus the costs and expenses of the Global Offering and debt related costs (as described in the section headed "Key Investment Information and Highlights — Use of Proceeds" in this Offering Circular), minus HK$12,499,999,999. The consideration for the assignment of the Promissory Notes shall be the aggregate of the sum of (i) HK$12,499,999,999 and (ii) the Adjustment Sum, if the Adjustment Sum is a negative figure.

"**Adjustment Sum**" means the amount calculated as (Offer Price minus Minimum Offer Price) multiplied by 3,104,605,748 Units, minus the additional amount of the commission payable (including without limitation any incentive or additional commission payable pursuant to the International Purchase Agreement and/or the Public Offer Underwriting Agreement) to the Underwriters as a result of the Offer Price being higher than the Minimum Offer Price or plus an amount equal to the reduction in the commission payable to the Underwriters as a result of the Offer Price being lower than the Minimum Offer Price.

The Finance Companies will be used as financing vehicles for Regal REIT. It is envisaged that the primary functions of the Finance Companies will include (i) entering into external borrowing arrangements with third party financial institutions, which funds are then on-lent to the individual Property Companies in the form of related-party loans, and (ii) engaging in interest rate hedging arrangements with third-party counterparties for the external borrowing arrangements.

Completion is to take place on the Listing Date, and will be subject to the satisfaction of a number of conditions including, but not limited to:

(a) Regal obtaining its directors' and shareholders' approval of the transactions contemplated by the Sale and Purchase Agreement and the Deed of Tax Indemnity;

(b) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (except any such condition relating to the Sale and Purchase Agreement, the Financing Agreement, the Facility becoming unconditional or the inter-conditionality between the Underwriting Agreements) and not being terminated in accordance with their respective terms;

(c) concurrent signing and delivery of the Lease Agreements, the Hotel Management Agreements and the Lease Guarantees and the unconditional and irrevocable guarantee issued by Deutsche Bank AG, Hong Kong Branch in favor of the Lessors and the Trustee (as required under the Lease Guarantees) being signed in escrow pending the satisfaction of the conditions contained thereto;

(d) there being no damage to the Initial Hotel Properties and no breach of warranties under the Sale and Purchase Agreement which, in the opinion of the REIT Manager, will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of Regal REIT or on the Initial Hotel Properties;

(e) the Facility being in place at Completion and being available to be drawn down by the Finance Companies at Completion; and

(f) all the transactions contemplated in the Restructuring being completed to the reasonable satisfaction of the Trustee, acting on the recommendation of the REIT Manager.

The major steps of the Restructuring include (i) incorporation of Holding SPV and Finance Company 1, (ii) disposal of shareholdings in Best Time Enterprise Limited and Fortune Nice Investment Limited held by Gala Hotels Limited and Yield Rich Limited, respectively, to the Vendor, (iii) transfer of all assets (other than the Initial Hotel Properties, including the FF&E as at the date of Completion, and the deferred tax assets) to, and assumption of all liabilities (other than the Existing Borrowings which will be released on Completion and the inter-company loans owed by the Property Companies to Fortune Nice Investment Limited and Long Profits Investments Limited respectively (together, the "**Inter-company Loans**") and the deferred tax liabilities) by, the Lessee from the Property Companies, (iv) transfer of employment or secondment of relevant employees of the Property Companies to the Hotel Manager, (v) repayment of the Existing Borrowings, (vi) assignment of the Inter-company Loans to Holding SPV and Finance Company 1 and (vii) transfer of the entire issued share capital of each of the Holding Companies to Holding SPV. As part of the above steps, the Promissory Notes will be issued by Holding SPV to the Vendor. At Completion, the only assets held by Regal REIT shall be the Initial Hotel Properties (including the FF&E as at the date of Completion) and the deferred tax assets and the only liabilities of Regal REIT shall be the inter-company loan liabilities among the Trustee (on behalf of Regal REIT) and Holding SPV and its subsidiaries, the deferred tax liabilities and the liabilities under the Facility.

In the event the Units are not listed, and the trading of such Units does not commence on the Hong Kong Stock Exchange on the date of Completion, the Trustee is entitled to terminate the sale and purchase of the Holding SPV Shares and the Promissory Notes. Regal has guaranteed the Vendor's obligations under the Sale and Purchase Agreement.

The Sale and Purchase Agreement contains certain representations and warranties made by the Vendor and Regal in respect of, among others, Holding SPV (and its subsidiaries) and the Initial Hotel Properties. These representations and warranties include, among others, that, (i) immediately before Completion, the Vendor is the sole legal and beneficial owner of Holding SPV, which in turn at Completion will be the sole legal and beneficial owner of the entire issued share capital of the Holding Companies, which in turn will be the legal and beneficial owners of each of the Property Companies; and (ii) at Completion, the only assets of Holding SPV and its subsidiaries will be the Initial Hotel Properties (including the FF&E as at the date of Completion) and the deferred tax assets and the only liabilities of Holding SPV and its subsidiaries will be the liabilities under the Facility, the deferred tax liabilities, and the inter-company loan liabilities among the Trustee (on behalf of Regal REIT) and

Holding SPV and its subsidiaries, and the financial positions of Holding SPV and its subsidiaries will be as disclosed in the section headed "Appendix II — Unaudited pro forma balance sheet of Regal REIT" in this Offering Circular. Regal and the Vendor have also granted certain indemnities to the Trustee and Holding SPV and its subsidiaries. In addition, under certain of the Restructuring agreements, Regal has agreed to indemnify each Property Company against any loss it may incur as a result of various short-term service and operational contracts not being novated by Completion, although the benefit and liabilities in them will be transferred to the Regal Group at Completion. These contracts are generally renewable on an annual basis and primarily relate to the provision of certain miscellaneous services, including equipment maintenance, shuttle bus rental, newspaper subscriptions, staff mobile phone services and cleaning and pest control services. Given the number of such contracts and their generally short-term nature, it is intended that when these contracts end, new contracts will be entered into by the Regal Group.

The Sale and Purchase Agreement also sets out limitations on the liability of the Vendor in respect of any breach of warranties, including provisions for aggregate maximum liability of an amount equal to the aggregate consideration for the sale and purchase of the entire issued share capital of Holding SPV and the assignment of the Promissory Notes, a minimum threshold for an individual claim in excess of HK$1 million and a limitation period of three years from the date of Completion for all claims (other than claims relating to taxation where the limitation period is seven years from the date of Completion).

The Vendor has undertaken to complete, and to procure the completion of, the Asset Enhancement Program at its own cost. When a payment under a relevant AEP Contract becomes due and payable, the Vendor has undertaken to provide the necessary funding to the relevant Property Company or discharge and settle (in accordance with the terms of payment contained in the relevant AEP Contract) all or any payments on behalf of such Property Company which are due and payable by such Property Company under the relevant AEP Contract. The Vendor has also undertaken to procure the project managers, project consultants and/or other professional advisers appointed or to be appointed under the AEP Contracts to duly discharge their obligations, responsibilities and duties related to the AEP Contracts and to ensure the due performance and completion of the AEP Contracts in accordance with their respective terms. The Sale and Purchase Agreement confers various rights on the REIT Manager and the Trustee in the event that the Asset Enhancement Program is not completed in accordance with terms set out therein. The Sale and Purchase Agreement specifies target completion dates in 2007 and 2008, as applicable, by which the portions of the Asset Enhancement Program must be completed. If a target completion date is not met, the liquidated damages per day as specified in the Sale and Purchase Agreement become payable during the period from the relevant target completion date up to the date of completion or until a specified Long-Stop Date. If a Long-Stop Date is not met, the Trustee (at the direction of the REIT Manager) shall have the right to accept the completed part of the Asset Enhancement Program, enter the uncompleted part and demand from the Vendor cash compensation in an amount equal to (1) the full appraised value of the relevant Asset Enhancement Program of the Initial Hotel Property (as determined by reference to the Valuation Report) in the case of Regal Airport Hotel and Regal Hongkong Hotel or (2) the full appraised value of the relevant integral project of the Asset Enhancement Program of the Initial Hotel Property to which the uncompleted part relates (as determined by reference to the Valuation Report) in the case of Regal Oriental Hotel and Regal Riverside Hotel. The amount of the relevant cash compensation is set out in a schedule to the Sale and Purchase Agreement.

The Vendor has also undertaken to make payment of all the costs and expenses in relation to the demolition and removal of the footbridge connecting the Regal Oriental Hotel with the former Hong Kong International Airport and to indemnify the REIT Manager, the Trustee and Gala Hotels Limited against any loss, damage, costs, expenses and other liabilities arising from the demolition and removal of the footbridge. In addition, the Vendor shall be responsible for all the costs, expenses, losses and liabilities incurred or suffered by Regal REIT in complying with the outstanding Building Order No. DR03344/K/03/TCW/TE dated April 16, 2004 issued by the Hong Kong Building Authority against the Incorporated Owners of Po Sing Court.

To facilitate the carrying out of the Asset Enhancement Program, the relevant Property Companies, Regal Contracting Agency Limited, a wholly owned subsidiary of Regal (the "**AEP Agent**") and Regal have entered into the AEP Agency Deed, whereby each of the Property Companies appoints the AEP Agent to enter into the AEP Contracts on its behalf. Unless the relevant Property Company has given its prior written consent, which consent (in the case of (i) below) shall not be unreasonably withheld, the AEP Agent shall not have any power to commit any Property Company to (i) assume any liability whatsoever, other than liability to pay contract sums which, in aggregate, do not amount to more than the estimated cost of the Asset Enhancement Program for its Initial Hotel Property, as set out in this Offering Circular, together with cost overruns limited to 30% of such estimated costs, in respect of AEP Contracts; or (ii) encumber any of its assets or discharge any other obligation. The AEP Agent is required to coordinate and ensure the carrying out and completion of the Asset Enhancement Program by the main contractors, sub-contractors, project managers and advisers. The AEP Agent has undertaken to indemnify the Property Companies from and against, among others, all costs, losses and liabilities arising from the AEP Contracts and to settle all payments on behalf of the Property Companies when due or payable. Regal has guaranteed the AEP Agent's obligations under the AEP Agency Deed.

The Vendor and Regal have entered into the Deed of Tax Indemnity in favor of the Trustee and Holding SPV, covenanting to indemnify on demand the Trustee and Holding SPV (for itself or on behalf of its subsidiaries) in respect of, among other things, (i) any liability for taxation resulting from or by reference to any event occurring on or before Completion or in respect of any gross receipts, income, profits or gains earned, accrued or received by Holding SPV (and its subsidiaries, where applicable) on or before Completion, (ii) any and all payment of taxation which would not have been made but for a certain tax relief not being available to a Property Company, or being lost, reduced or cancelled, and (iii) any and all taxation in respect of any clawback of commercial building allowances granted up to and including the date of Completion resulting from the sale of any Initial Hotel Property or any part thereof by the relevant Property Company. A claim can be made on or prior to the seventh anniversary of the Deed of Tax Indemnity.

General

Each of the Lessors (being subsidiaries of Regal REIT and registered owners of the Initial Hotel Properties) has entered into a separate Lease Agreement with Favour Link International Limited for each of Regal Airport Hotel, Regal Hongkong Hotel (which shall include the RHK Supporting Premises and the subject matter of the RHK Licence Agreements), Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Term

Each of the Lease Agreements is for a term commencing from the Listing Date and expiring on December 31, 2015.

Although each of the Initial Hotel Properties is leased under a separate Lease Agreement, all the Lease Agreements contain a cross-default provision giving a right to the relevant Lessor to terminate the Lease Agreement if (a) a termination notice has been served under any one or more of the other Lease Agreements resulting in a termination of any such other Lease Agreement, and (b) the Lessee of any of the Initial Hotel Properties defaults as "owner" under the related Hotel Management Agreement resulting in the termination of the same in respect of such Initial Hotel Property. Save in the case of severe destruction of the Initial Hotel Properties and occurrence of events of force majeure, only the Lessor has the right to early terminate the Lease Agreement upon specified terms.

Rent

For the years from 2007 to 2010, the Lessee is required to pay (monthly in advance on the first day of each month) an annual aggregate Base Rent of HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007) and HK$700 million, HK$750 million and HK$780 million for the second, third and fourth fiscal years respectively. In addition, during each of the first to fourth fiscal years, the Lessee shall pay semi-annually in arrears, Variable Rent for each such year, a sum which represents 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010, respectively. Only those Lessors ("**Relevant Lessors**") whose Initial Hotel Property generates an NPI Excess shall be entitled to receive Variable Rent. Each Relevant Lessor shall be entitled to receive a fraction of the aggregate Variable Rent equal to the fraction that its NPI Excess represents of the aggregate NPI Excess of all Relevant Lessors.

In the event the aggregate of the Variable Rent paid by the Lessee under the Lease Agreements for the full period of the four fiscal years from the Listing Date to December 31, 2010 shall be less than HK$220 million, the Lessee shall pay the shortfall within 95 days after the end of the fourth fiscal year. There shall however, first be deducted from the amount of HK$220 million for the purpose of calculating such shortfall, the total liquidated damages actually paid under the Sale and Purchase Agreement for delay in completing the Asset Enhancement Program and the amount payable under the Distributable Income Guarantee Deed (but excluding the amount of any non-payment representing Base Rent during the relevant period) (for more information, see the section headed "Material Agreements — Lease Agreements — Asset Enhancement Program" in this Offering Circular). In addition, if any Lease Agreement is terminated prior to December 31, 2010, the amount of HK$220 million will be reduced by deducting the amount of guaranteed variable rent allocated to the relevant Initial Hotel Property pursuant to the Lease Agreements.

A rent review by a jointly appointed independent professional property valuer will take place no later than September 30 of each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (including base rent, variable rent and the Lessee's contribution to the FF&E Reserve) for each of the Initial Hotel Properties for the relevant subsequent year from 2011 to 2015 and the amount of the security deposit ("**Market Rental Package**"). The Lessee is required to pay the higher of the Floor Rent and the monthly base rent comprised within the Market Rental Package, in such manner that the monthly lease income of the Lessors will be not less than one-twelfth of the Floor Rent.

In the case of Regal Hongkong Hotel, there is an additional rent (currently HK$182,000 per calendar month) payable by the Lessee (together with certain outgoings) for the use of the RHK Supporting Premises which shall be equivalent to the amount from time to time payable by Cityability Limited (as tenant) to the landlord under the RHK Supporting Premises Agreements. There is also an additional amount (currently totaling approximately HK$79,600 per calendar month) payable by the Lessee for the use of subject matter of the RHK Licence Agreements which shall be equivalent to the amount from time to time payable by Cityability Limited under the RHK Licence Agreements.

Right and Obligation to Operate

The Lessee is required under each Lease Agreement to manage and operate, or to procure the Hotel Manager to do so under the terms of the related Hotel Management Agreement, the Initial Hotel Property to no less a standard than the standard of the Initial Hotel Property as generally recognized by the hotel industry as at the Listing Date and to the standard designated from time to time by the Hong Kong Tourism Board to hotels of applicable tariff, and to provide all services lawfully or properly provided by a hotel of comparable standard as the Initial Hotel Property.

The Lessee is entitled to delegate its obligation to operate and manage by entering into the Hotel Management Agreement at the same time as the entering into of the Lease Agreement, under which the Hotel Manager is appointed by both the Lessor and the Lessee for a period of 20 years from the Listing Date. If for any reason the Hotel Manager ceases to be the hotel manager under the Hotel Management Agreement, the Lessee may, subject to the prior approval of the Lessor (and the approval of the Hong Kong Airport Authority in the case of Regal Airport Hotel), appoint a substitute hotel manager upon terms no less favorable to the "owner" as the Hotel Management Agreement. During the term of the Lease Agreement, the Lessee is required to assume all obligations as "owner" under the Hotel Management Agreement and to take steps to enforce performance by the Hotel Manager. The Lessee is not permitted to amend, modify or waive the Hotel Manager's obligations under the Hotel Management Agreement, or terminate the Hotel Management Agreement, without the Lessor's prior written consent. The entering into of the Hotel Management Agreement does not affect or diminish or absolve the Lessee from its obligations under the Lease Agreement.

In the case of Regal Hong Kong Hotel, the Lessee shall comply with the terms and restrictions in relation to the use of the RHK Supporting Premises, and shall keep the Lessor indemnified in respect of breach of such obligation. The Lessor undertakes to observe the terms and restrictions under the RHK Supporting Premises Tenancy Agreement, and shall not exercise any right to early termination or waive any of its rights against the landlord thereunder and shall exercise the option to renew and shall pay the determined rent for the renewed term. It shall further consult the Lessee prior to agreeing with the landlord of the RHK Supporting Premises of the appointment of the surveyor to determine the new rental upon a rent review.

Routine Maintenance and Repair

The Lessee is primarily responsible for the repair and maintenance of the interior and exterior of the Initial Hotel Properties, including without limitation, electrical and mechanical equipment, elevators, lifts, floor coverings, furniture, grounds and landscaping, plumbing, refrigeration, air-conditioning and ventilation, TV/radio, telephone equipment, and minor replacements of FF&E where such costs or expenses amount to less than HK$1,000 (or such higher amount as the Lessor may agree) per item or occasion.

Structural Repairs and Replacement

In addition, the Lessee is required to maintain and repair all structural parts of the Initial Hotel Properties, including but not limited to, foundations, roof, external walls, external and internal structural walls, columns, beams and supports, external pipes, sewages, and drains.

Notwithstanding the Lessee's obligations to conduct structural repairs as described above, in order to maintain structural safety of the Initial Hotel Properties, the Lessor is required, if necessary, to replace structural parts of the Initial Hotel Properties, including but not limited to, foundations, roof, external walls, external and internal structural walls, columns, beams and supports, external pipes, sewages, and drains.

FF&E

The Lessee is required from the Listing Date until December 31, 2010 to contribute monthly 2% of the Total Hotel Revenue towards the FF&E Reserve maintained by Holding SPV and thereafter, as may be determined by a jointly-appointed independent professional property valuer upon the annual rent reviews under the Lease Agreements. The FF&E Reserve shall be disbursed by the Hotel Manager under the Hotel Management Agreement in respect of additions to and replacement of furniture, fixtures and equipment for each Initial Hotel Property.

Capital Additions

With the exception of an investment falling within the definition of furniture, fixture and equipment, the Lessee shall not make any investment the cost of which constitutes a capital expenditure in nature (as determined in accordance with generally accepted accounting principles adopted in Hong Kong) unless it has agreed with the Lessor beforehand the design, construction standard, burden of costs and expense and other material aspects of any proposed Capital Addition (except that all costs and expenses relating to Capital Additions, required to conform with legal or regulatory requirements, shall be borne solely by the Lessor). This restriction shall apply but is not limited to (a) all investments in increased capacity of productive assets at the Initial Hotel Properties (or any part thereof), such as hotel rooms, restaurants, meeting and banquet spaces and other additions and extensions to the structure of the Initial Hotel Properties (but such restriction shall not apply to the Asset Enhancement Program); (b) all investments in all-embracing projects to reposition and to develop new concepts for existing productive assets; and (c) all investments in major replacements of plant and machinery (including major replacements of entire lift system, air-conditioning system and boiler) at the Initial Hotel Properties ("**Capital Additions**"). Once agreed, the Lessee shall (or shall procure the Hotel Manager to do so) carry out and complete the Capital Additions strictly in accordance with the terms of the Hotel Management Agreement or the written agreement of the Lessor.

Once completed, such Capital Additions shall belong to the Lessor. Where the Lessor agrees to fund any part of the Capital Additions which has a residual value for the Lessor, the Lessor and the Lessee may agree on an adjustment to the Base Rent one month before the commencement of the Capital Additions.

Hotel Lettable Areas

There are certain lettable areas at the Initial Hotel Properties (which do not include the hotel rooms, but include certain retail space, car parking spaces and other spaces and areas for hotel and retail related use and for installation of telecommunication equipment and antennae), in respect of which the Lessee is authorized by the Lessor (and it may delegate to the Hotel Manager to do so under the Hotel Management Agreement) to manage, formulate and implement leasing strategies, plan the tenant mix and identify potential under-lessees, enforce tenancy conditions, carry out tenancy/license administration work, conduct rent assessment and formulate underlease terms. Parts of such hotel lettable areas at each of the Initial Hotel Properties are already let out by the Lessor prior to the Listing Date (the "**Existing Tenancies**"). All rental deposits, rental and other income received from the tenants and licensees of the Existing Tenancies by the Lessor are to be paid to the Lessee during the terms of the Lease Agreements. The Lessee is required to pay the Lessor promptly from time to time as required by the Lessor the amount of such rental deposits so as to enable the Lessor to refund such rental deposits to tenants and licensees when required under and in accordance with the terms of the Existing Tenancies, and to keep the Lessor indemnified from failure in renewal. All cost relating to compliance by the Lessor and enforcement of tenants' obligations under the Existing Tenancies, are reimbursed by the Lessee. In respect of other parts of such hotel lettable areas and upon expiry of the Existing Tenancies, the Lessee is permitted to underlet or license such areas directly to third parties under underleases or licenses to be created by the Lessee upon the terms and within certain criteria as set out in each Lease Agreement.

Restrictions against Alienation

The Lessee is not permitted, unless with the prior written consent of the Lessor, to assign, transfer, mortgage, charge, sub-lease or create any pledges or liens, or assign any rights or obligations under the Lease Agreement, except that prior written consent is not required for assignment or transfer to a subsidiary of Regal on condition that a substitute lease agreement, hotel management agreement and lease guarantee are entered into, and a third party guarantee (upon the same terms and amount as the unconditional and irrevocable guarantee issued pursuant to the Lease Guarantees) is issued and delivered to the Lessor. Certain acts by or events in relation to the Lessee, including takeovers, mergers, voluntary liquidation, granting of power of attorney, holding on trust, change in the shareholding control (both direct or indirect) of the Lessee (unless as a result or reorganization of the Regal Group, a member of the Regal Group becomes listed on The Stock Exchange of Hong Kong Limited and the Lessee becomes a member of a group controlled by such listed company and Regal Hotels International Holdings Limited retains not less than 30% of such listed company), assignment of or sharing of revenues, are (unless with the prior written consent of the Lessor) deemed to be breaches of the restriction on alienation on the Lessee.

Each Lessor is permitted, without the consent of the Lessee, to sell, assign, transfer or dispose of the Leased Premises provided that any such sale or disposal is subject to the Lease Agreement and the Hotel Management Agreement. The Lessor may also assign the benefit or create encumbrances over the relevant Initial Hotel Property by way of security for borrowings, and may also assign, transfer and novate all its obligations under the Lease Agreement to affiliates subject to the Lessor guaranteeing the performance by such affiliates.

Lessor's Obligation to Maintain Hotel Licence and Other Licences

The Lessor is required to maintain and renew a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences (which include general restaurant licences) to enable the Lessee or the Hotel Manager to operate a hotel business at the Initial Hotel Properties. However, the Lessor shall not be liable for any failure to renew such licences unless the failure is caused by the default of the Lessor. All costs and expenses in relation to the maintenance and renewal for such licences shall be treated as Hotel Operating Expenses save and except any such costs and expenses which constitute Capital Additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them (save and except that any such costs and expenses required to conform with the legal requirements shall be borne by the Lessor). The Lessee shall, or shall procure the Hotel Manager to, comply with all licence conditions as may be imposed by the relevant licensing authority from time to time and shall keep the Lessor indemnified in respect of any breach of the conditions and associated liabilities caused by the default of the Lessee.

Suspension of Rental

Where there is a damage to any Initial Hotel Property so as to make it unfit or unsuitable for the operation of such Initial Hotel Property, then, pending the repair by either the Lessee or the relevant Lessor (as may be required under the relevant documentation), the rent (or a fair proportion of such rent) depending on the nature and extent of such damage shall be suspended until the relevant Initial Hotel Property is repaired.

If however, the damage is such that the cost of repair or rebuilding as estimated by the Lessor would exceed one-third of the cost required, as determined by a quantity surveyor, to replace the whole of the Initial Hotel Property and the FF&E and the Operating Equipment therein so as to restore the Initial Hotel Property to its condition prior to the damage (the "**Restoration Threshold**"), then the Lessee may terminate the Lease Agreement by giving 60 days' notice, provided that the Hotel Manager has also exercised its rights to terminate under the terms of the relevant Hotel Management Agreement, but not otherwise. In addition, the relevant Lessor may also decide not to repair or rebuild the Initial Hotel Property, in which case it shall give 60 days notice to the Lessee to terminate the Lease Agreement.

In the case of condemnation or demolition order in respect of any Initial Hotel Property, where the cost of repair or rebuilding would exceed the Restoration Threshold and the Lessor decides not to repair or rebuild the Initial Hotel Property, the relevant Lease Agreement shall terminate as at the date the quantity surveyor determined the Restoration Threshold. However, where only a part of an Initial Hotel Property is subject to a condemnation or demolition order, but does not make it unreasonable to operate the remainder of the relevant Initial Hotel Property as a hotel, and the cost of repair and rebuilding would not exceed the Restoration Threshold, then there shall be no termination of the relevant Lease Agreement, but the rent (or fair proportion of the rent) shall be suspended until the relevant Initial Hotel Property is again rendered accessible or fit or suitable for use or the condemnation or demolition order is lifted.

Termination

Each Lessor has the right to serve a notice of termination on the Lessee to terminate the relevant Lease Agreement:

(i) immediately upon the date of the termination notice where (a) Regal or the Lessee suspends or threatens to suspend its business; (b) there is insolvency of either the Lessee or Regal; (c) there is failure to maintain and/or top up the unconditional and irrevocable guarantee under the Lease Guarantee or there shall be material or persistent breach of the relevant Lease Agreement; and (d) if the Lessee's shareholding (whether direct or indirect) shall change resulting in the Lessee ceasing to be a member of the Regal Group (unless as a result of reorganization of the Regal Group, a member of the Regal Group becomes listed on the Hong Kong Stock Exchange and the Lessee becomes a member of a group controlled by such listed company and Regal retains not less than 30% of such listed company); and

(ii) on a date not earlier than three months after the date of the termination notice where (a) there is a failure to make payment of Base Rent or Variable Rent or other sums payable under the Lease Agreement, and such failure shall continue for a period of fourteen days after written notice has been given by the relevant Lessor; (b) if the Lessee (or the Hotel Manager) fails to operate and manage the relevant Initial Hotel Property in accordance with the required standards under the relevant Hotel Management Agreement and the Lessor forms a reasonable opinion that, in the circumstances, there has been a material adverse change in the business of the relevant Initial Hotel Property; (c) the Lessee (or the Hotel Manager) fails to maintain the required insurances; (d) there are other defaults leading to serving of termination notices under any of the other Lease Agreements in respect of the other Initial Hotel Properties; (e) where the Lessee defaults in its obligations (as "**owner**") under the Hotel Management Agreement resulting in the termination of such Hotel Management Agreement; or (f) if Regal shall be in breach of the Lease Guarantee.

Asset Enhancement Program

The costs of the Asset Enhancement Program (including the costs of interior design, decoration, furniture, fixtures and equipment) are to be borne by the Vendor. The Lessor is required to deliver vacant possession of the relevant part of the Initial Hotel Properties to the Lessee as the Asset Enhancement Program in respect of that part is completed, whereupon the same shall form part of the leased premises under the Lease Agreement. The rent shall not be adjusted (upwards or downwards) whether or not the Asset Enhancement Program is completed.

Force Majeure

The parties to the Lease Agreement have agreed that neither the Lessor nor the Lessee shall be liable for failure to perform its obligations under the Lease Agreement to the extent that, and for so long as, observance or performance of such obligations is prevented by an event of force majeure, provided the affected party gives to the other party immediate written notice of the occurrence of such event. For the purpose of the Lease Agreements, an event of force majeure is an event beyond the reasonable control of the party giving the notice and which causes the whole or substantial part of the Initial Hotel Property being unsuitable for operation as a hotel or which prevents observance or performance of such obligation which could not reasonably have been avoided, and which shall mean boycotts, embargoes, governmental restrictions, terrorist attacks, wars, war-like actions, civil commotion, riots, uprising, revolutions, earthquakes, other natural occurrence or any other event beyond the control of such affected party (which shall exclude epidemics, pandemics and other infectious diseases). Immediately, upon the cessation of the event of force majeure, the affected party shall give further notice to the other party and forthwith thereafter the affected party shall observe and perform the relevant obligation. However, if within six months of the written notice, further notice that the force majeure has ceased has not been given, either party may at any time thereafter give to the other party not less than three months' written notice to terminate the Lease Agreement, unless during the notice period the force majeure event ceases. Notwithstanding termination of one Lease Agreement under such circumstances, the Lease Agreement relating to the other Initial Hotel Properties shall remain in full force and effect.

Modification to the Lease Agreement

Any modification to the Lease Agreement shall only be valid if signed by both the relevant Lessor and the Lessee, and is subject to the approval of the unitholders of Regal REIT if such approval is required pursuant to applicable regulatory requirements or the Trust Deed.

Under separate guarantees Regal has guaranteed to pay to the Lessor and the Trustee on demand by the Lessor and/or the Trustee all amounts (including, without limitation, all rental which shall include any shortfalls in Variable Rent payable by the Lessee under the Lease Agreements, other charges and outgoings, interest, fees and costs) from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements.

Regal has undertaken that, from the Listing Date and for so long as any part of the guaranteed liabilities remains outstanding, it will ensure and will procure that at all times that its Consolidated Tangible Net Worth shall not be less than HK$4 billion.

In addition, pursuant to each Lease Guarantee, Regal has guaranteed the Lessee's obligations to pay rents to the Lessors under the Lease Agreements. Regal has also procured, an unconditional and irrevocable guarantee in the amount of HK$1 billion to be issued on or before the Listing Date by Deutsche Bank AG, Hong Kong Branch, a bank with a current credit rating of Aa3 (issuer rating) by Moody's Investors Services and rated AA- (senior unsecured) by Standard and Poor's Ratings Services, in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011, and has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement shall, at the sole cost and expense of Regal, remain in place and effective until the end of the term of the Lease Agreements upon the same terms and at an amount equal to the highest of (a) the amount of security deposit as determined by a jointly appointed independent professional property valuer upon each annual rent review, (b) 50% of the annual base rent as determined by such valuer upon each annual rent review and (c) 50% of the Floor Rent. Regal is required, within 60 days after the determination of an annual rent review, to arrange for such bank guarantee to be topped up or adjusted or replaced to an amount equal to such resulting highest amount.

Any one of the Lessors or the Trustee may, from time to time, call on the guarantee by the bank in the event of a payment or other default under the Lease Agreements and/or the Lease Guarantees. In the event the guarantee by the bank is called upon, Regal will be required to arrange for the guarantee by the bank to be topped up or replaced up to the amount of the guarantee within 60 days.

In addition, Regal has also undertaken to maintain a minimum tangible net worth of not less than HK$4 billion pursuant to the Lease Guarantees.

For the purposes of the Lease Guarantees:

"Consolidated Tangible Net Worth" means the total assets of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited), or, as the case may be, as at December 31 (audited) minus

(a) total liabilities (excluding any deferred tax liabilities) of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited) or, as the case may be, as at December 31 (audited);

(b) any declared dividend or other distributions to Regal's shareholders, to the extent that such dividend or other distribution is not provided for in such balance sheet;

(c) amounts attributable to minority interests in Regal's subsidiaries; and

(d) any intangible assets of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited), or, as the case may be, as at December 31 (audited);

and after restating Regal's interest in Regal REIT to its market value based on the last traded price of the units of Regal REIT as at the relevant balance sheet date.

In determining the "total assets of Regal" as shown in the most recent consolidated balance sheet, where the book carrying values of the hotel properties and other real estate properties which may be held by the Regal Group as shown in Regal's then most recent consolidated balance sheet are adversely affected due to a change in Hong Kong Financial Reporting Standards and/or adoption of other relevant accounting policy, an adjustment shall be required to state such carrying values at their open market values by reference to an independent professional valuation to be carried out on December 31 of each year, such adjustment to be certified by the external auditors and added to such total asset value.

General

The Lessee has entered into a separate Hotel Management Agreement with, inter alia, the Hotel Manager in respect of the management of the business of each Initial Hotel Property. The Hotel Manager will be engaged to act as the exclusive operator and manager of each Initial Hotel Property to supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties. The Lessor of the relevant Initial Hotel Property is also a party to the Hotel Management Agreements since the term of each Hotel Management Agreement is for a period longer than the term of the relevant Lease Agreement. In addition, Holding SPV is a party to each Hotel Management Agreement for the purpose of covenanting in respect of the maintenance of the FF&E Reserve covering all the Initial Hotel Properties. Regal is also a party to each Hotel Management Agreement.

During the term of the Lease Agreement for each Initial Hotel Property, the Lessee will assume the obligations of the "Owner" under the Hotel Management Agreement. For the purpose of this section, the "Owner" shall, during the term of the Lease Agreements, mean the Lessee and thereafter the applicable Lessor.

Upon the expiration or earlier termination of a Lease Agreement, the Hotel Manager continues with its obligations under the relevant Hotel Management Agreement and the Lessor becomes the "Owner" unless a substitute lessee is found.

Operating Term

The term of the appointment of the Hotel Manager is 20 years from the Listing Date.

Operation of the Initial Hotel Properties

The Hotel Manager is required under each Hotel Management Agreement to operate each Initial Hotel Property solely under the "Regal" brand name and to act in good faith, to exercise due care and diligence and with full control and discretion, to operate, manage, and promote the business of each Initial Hotel Property, to provide all services lawfully or properly provided by a hotel of comparable standard as each Initial Hotel Property and to act in the best interests of the Owner with a view to optimizing profit of the Initial Hotel Property.

All hotel employees are to be employees of the Hotel Manager, and it has sole discretion and authority in the selection and employment of all hotel employees necessary for the proper operation of each Initial Hotel Property. However, the Hotel Manager shall obtain the Owner's approval (which shall not be unreasonably withheld) prior to selecting and employing the general manager and the financial controller of each Initial Hotel Property. All costs and expenses shall form part of the Hotel Operating Expenses.

The Hotel Manager is also required to maintain all licenses (other than the hotel licence and some other licences mentioned in "Material Agreements — Hotel Management Agreements — Lessor's Obligation to maintain hotel licence and other licences" below) in respect of the operation and management of each Initial Hotel Property.

The Hotel Manager is required to submit to the Owner an annual operating budget for the Owner's approval. If any part of the operating budget cannot be agreed by the Owner and the Hotel Manager, the items in dispute shall be referred to an independent expert for resolution and such resolution shall be final and binding upon the Owner and the Hotel Manager. The Hotel Manager shall operate the Initial Hotel Properties in accordance with the approved operating budget and shall not deviate materially from the approved operating budget without the Owner's prior written consent.

Hotel Management Fee

The Hotel Manager is entitled to payment by the Owner of a hotel management fee comprising of:

(a) a hotel management base fee which is equal to:

   (i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and

   (ii) in any other cases during the term of the Hotel Management Agreement, an amount equal to 2% of Gross Revenues; and

(b) a hotel management incentive fee which is equal to:

   (i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) the Fixed Charges; and

   (ii) in any other cases during the term of the Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) the Fixed Charges.

For so long as the Lease Agreement is in subsistence, the hotel management fee is to be paid annually in arrears from the Owner's own funds and is subordinated to all rent due under the relevant Lease Agreement. After the expiration or earlier termination of the relevant Lease Agreement, the hotel management fee is to be paid monthly in arrears.

Marketing Fee and Reimbursable Marketing Expenses

The Hotel Manager is entitled to charge a marketing fee at no more than 1% of the Total Hotel Revenue for the current fiscal year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved by the Owner in the operating budget. The Hotel Manager is also entitled to produce promotions and participate in trade shows and other sales activities for all hotels operated under the "Regal" brand name and all such costs (which are budgeted for and approved) shall be reimbursed to the Hotel Manager.

Routine Repairs and Maintenance

Routine repairs and maintenance are to be carried out by the Hotel Manager in accordance with an annual repairs and maintenance estimate to be approved by the Owner. The structural maintenance and repair of each Initial Hotel Property shall be the responsibility of the Hotel Manager and the costs shall form part of the Hotel Operating Expenses for that Initial Hotel Property.

Furniture, Fixtures and Equipment Reserve

The Lessor is required to procure that Holding SPV maintains the FF&E Reserve which is the equivalent to 2% of the Total Hotel Revenue for each fiscal year. The Lessee is required from the Listing Date until December 31, 2010 to fund the FF&E Reserve maintained by Holding SPV. Thereafter, the contribution to FF&E Reserve will be determined as part of the annual rent review between the Lessee and the relevant Lessor. The Hotel Manager may, in accordance with an FF&E budget approved by the Lessor and (during the term of the Lease Agreement) the Lessee, withdraw money from the FF&E Reserve to pay for additions to, and replacement of the FF&E. The FF&E Reserve held by Holding SPV for all of the Initial Hotel Properties will be pooled. The final decision as to whether or not to approve the FF&E budget shall be made by the Lessor. However, in the event that the aggregate budgets proposed and approved in respect of all of the Initial Hotel Properties exceed the aggregate balance in the FF&E Reserve, the final decision shall be made by Holding SPV. In both cases, failure of the Lessor or the Lessee or Holding SPV (as the case may be) to disapprove shall be deemed to constitute its approval. Any amount standing to the credit of the FF&E Reserve for any fiscal year and unused at any of the Initial Hotel Properties during the same fiscal year may, at the discretion of Holding SPV, be applied towards payment of additions to and replacement of the FF&E of any of one or more of the other Initial Hotel Properties in accordance with their approved FF&E budgets. Any amount remaining in the FF&E Reserve at the close of each fiscal year shall be carried forward and be retained in the FF&E Reserve for the subsequent fiscal year(s), but shall not be taken into account when calculating the contribution to the FF&E Reserve for the subsequent fiscal year(s).

Capital Additions

The Hotel Manager is required to submit a budget in respect of planned capital expenditure for the Lessor's and (during the term of the Lease Agreement) the Lessee's approval. The final decision as to whether or not to approve the capital budget or any changes thereto shall be made by the Lessor. Once approved, the Hotel Manager shall carry out Capital Additions in accordance with the approval of the Lessor and (during the term of the Lease Agreement) the Lessee as to the design, construction standard, and other material aspects of the proposed capital alterations or additions. All costs relating to capital additions required to conform with legal requirements shall be borne by the Lessor. All other costs of capital additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them and shall not be paid from the Hotel Operating Expenses or the FF&E Reserve.

Hotel Lettable Areas

There are certain lettable areas in the Initial Hotel Properties (which do not include the hotel rooms, but include certain retail space, car parking spaces and other spaces and areas for hotel and retail related use and for installation of telecommunication equipment and antennae), in respect of which the Hotel Manager is authorized by the Owner to manage, formulate and implement leasing strategies, plan the tenant mix and identify potential under-lessees, enforce tenancy conditions, carry out tenancy/license administration work, conduct rent assessment and formulate underlease terms. Parts of such hotel lettable areas at each of the Initial Hotel Properties are already let out by the Lessor prior to the Listing Date (the "**Existing Tenancies**"). In respect of other parts of such hotel lettable areas and upon expiry of the Existing Tenancies, the Hotel Manager is permitted to underlet or license such areas directly to third parties under underleases or licenses to be created by the Hotel Manager upon the terms and within certain criteria as set out in each Hotel Management Agreement.

Insurances

Each Lessor is required to maintain (a) property insurance on the relevant Initial Hotel Property including all FF&E and the operating equipment at not less than 100% of replacement costs; and (b) loss of rental insurance covering loss of rental income under the Lease Agreement for the Lessor for a minimum period of three years resulting from interruption or cessation with the operation of the Initial Hotel Property. The insurance premiums will be reimbursed to the Lessor by the Lessee and will be treated as the Fixed Charges. The Lessee and the Hotel Manager will be included as an additional insured.

The Owner is required to maintain business interruption insurances covering loss of profit for the Owner for a minimum period of two years and other insurances as the Hotel Manager shall deem necessary. The insurance premiums are treated as the Hotel Operating Expenses. The Lessor and the Hotel Manager will be included as an additional insured.

The Hotel Manager is required to maintain third party liability insurance and other insurances against items like theft or damage to guests' properties with a combined single limit for each occurrence of not less than HK$100,000,000 as well as workman compensation insurance, employers' liability insurance, insurances required by law and other insurances as the Hotel Manager shall deem necessary. The insurance premiums are treated as Hotel Operating Expenses. The Lessor and (during the term of the Lease Agreement) the Lessee will be included as an additional insured.

If the Hotel Manager or the Owner hires an outside contractor for any repair or maintenance work for an Initial Hotel Property, the Hotel Manager or the Owner shall provide comprehensive general liability insurance insuring the contractor for the work being done. The Hotel Manager, the Lessor and (during the term of the Lease Agreement) the Lessee will be included as an additional insured.

All insurance proceeds in respect of property damage shall be deposited into a bank account of the Lessor, operated by the joint signatories designated by the Lessor and the Hotel Manager. All monies withdrawn from such accounts shall be applied for repairs or replacement of the relevant Initial Hotel Property, together with replacing any FF&E and operating equipment.

The Owner assumes all risks in connection with the adequacy of all insurance policies and all loss and damages in excess of the insurance coverage. The Hotel Manager shall be released from all claims and liabilities arising out of any damages or destruction of the Initial Hotel Property save for loss or damages caused by willful misconduct, fraud, or gross negligence of the Hotel Manager or its associated companies.

Brand Name

The Hotel Manager is required to maintain and to operate all of the Initial Hotel Properties under the existing "Regal" brand name.

Damage/Condemnation

Where any Initial Hotel Property is damaged or destroyed during the term of the Hotel Management Agreements by an insured risk, the Owner or the Lessor is required to repair and to replace the damage and if it fails to do so within three months, the Hotel Manager either may do so using the funds available in the bank accounts holding the insurance proceeds, or terminate the Hotel Management Agreement by giving 60 days' notice to the Owner. In such circumstances, no compensation shall be payable to the Hotel Manager except where the cost of repair or replacement as estimated by an independent licensed quantity surveyor is less than the Restoration Threshold (see "Suspension of Rental" under the section headed "Material Agreements — Lease Agreements" in this Offering Circular), in which case the Owner shall pay the Hotel Manager, as liquidated damages, a sum equal to the hotel management base fee and the hotel management incentive fee paid for the past three fiscal years or the remaining term of the Hotel Management Agreement, whichever is the shorter.

Where the cost of repair or replacement of the damaged Initial Hotel Property exceeds the Restoration Threshold, (i) the Hotel Manager may terminate the Hotel Management Agreement without any compensation by giving 60 days' written notice to the Owner or (ii) the Lessor may decide not to repair or to replace the Initial Hotel Property and terminate the Hotel Management Agreement by giving not less than 60 days' written notice to the Hotel Manager without compensation to the Hotel Manager or the Lessee.

Where the cost for carrying out any repair to damages is estimated by the Owner to be less than HK$50,000,000, the Owner shall carry out the repairs using the funds in the bank account into which the insurance proceeds are placed and any shortfall shall be borne by the Lessor. Where the costs for carrying such repair is estimated by the Owner to be equal to or more than HK$50,000,000, the Lessor shall carry out such repair and replacement from the funds available in the bank account into which insurance proceeds are placed and shall pay for any shortfall out of its own funds.

Assignment and Encumbrances

The Hotel Manager is not permitted to assign or transfer any of its management obligations nor to delegate a substantial part of its management obligations without the prior written consent of the Owner, although it may, without such consent, assign its rights and interests (but not obligations) to any subsidiary of Regal or successor company as a result of merger, consolidation or reorganization provided that the Hotel Manager gives the Owner at least 60 days' prior written notice.

The Lessee is not permitted to assign, charge, encumber or deal with the rights in respect of each Initial Hotel Property or its rights and obligations under the Hotel Management Agreements.

Default and Termination

Upon the occurrence of any of the following events, the non-defaulting party may terminate the Hotel Management Agreement by giving three months' notice. Such events include (i) failure of the Hotel Manager to operate the Initial Hotel Property in accordance with the prescribed operating standards and the relevant Lessor elects to terminate the relevant Lease Agreement on this ground; and (ii) failure to perform any other covenant which has a material adverse impact on the operation of the Initial Hotel Property or the rights or duties of the parties under the Hotel Management Agreement and not cured within 30 days after a written notice giving particulars of the breach is received by the defaulting party.

Upon the occurrence of any of the following events, the non-defaulting party may terminate the Hotel Management Agreement immediately by serving a written notice of termination. Such events include (i) failure by the Owner or the Hotel Manager to pay sums due for over 30 days; (ii) bankruptcy, insolvency, a petition for reorganization, appointment of a receiver or entering into of a judgment for bankruptcy against either the Owner or the Hotel Manager; (iii) any party to the Hotel Management Agreement ceasing to carry on business; (iv) any change in the shareholding of the Hotel

Manager which would result in the Hotel Manager ceasing to be a member of the Regal Group (unless as a result or reorganization of the Regal Group, a member of the Regal Group becomes listed on the Hong Kong Stock Exchange and the Hotel Manager becomes a member of a group controlled by such listed company and Regal retains not less than 30% of such listed company). In addition, the Lessor is entitled to terminate the Hotel Management Agreement if notice to terminate the related Lease Agreement is served by the Lessor as a result of default by the Lessee thereunder, subject to liquidated damages being payable to the Hotel Manager in such circumstances. The amount of liquidated damages shall be the hotel management base fee and hotel management incentive fee payable for three fiscal years or the remainder of the operating term, whichever is shorter.

Under each of the Hotel Management Agreements, if the Hotel Manager fails to achieve at least 80% of the Gross Operating Profit approved by the Owner for two consecutive fiscal years (the "**Performance Test**"), the Owner and any other non-defaulting party shall have the right to terminate such Hotel Management Agreement by giving at least three months' written notice. A fiscal year may not be taken into account for the purposes of the Performance Test if the demand for hotel rooms in Hong Kong in such fiscal year is adversely affected by an economic downturn to the extent that there is a decrease of at least 25% of the RevPAR jointly published by the Hong Kong Tourism Board and the Hong Kong Hotels Association compared to the preceding fiscal year. In addition, in assessing whether the Performance Test is achieved in a fiscal year, the threshold of 80% of the approved Gross Operating Profit shall be reduced proportionately by reference to the number of day(s) on which certain events occurred, and these include epidemics, pandemics or other infectious diseases, force majeure, non-budgeted major renovations (which shall exclude the Asset Enhancement Program) and the Owner itself being in default of material obligations. The Hotel Manager however has one chance to cure the non-performance by paying to the Owner an amount equal to the difference between (a) the actual Gross Operating Profit of each of the two fiscal years; and (b) 80% of the Gross Operating Profit in the approved operating budgets for each of the corresponding fiscal years.

Lessor's Obligation to Maintain Hotel Licence and Other Licences

The Lessor is required to maintain and renew a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences (including a general restaurant licence) to enable the Lessee or the Hotel Manager to operate a hotel business at the relevant Initial Hotel Property. However, the Lessor shall not be liable for any failure to renew such licences unless the failure is caused by the default of the Lessor. All costs and expenses in relation to the maintenance and renewal for such licences shall be treated as Hotel Operating Expenses save and except any such costs and expenses which constitute Capital Additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them (save and except that any such costs and expenses required to conform with the legal requirements shall be borne by the Lessor). The Hotel Manager shall comply with all the conditions under the licence as may be imposed by the relevant licensing authority from time to time and shall keep the Lessor indemnified in respect of any breach of the conditions and associated liabilities caused by the default of the Hotel Manager.

Force Majeure

The parties have agreed that neither the Owner nor the Hotel Manager shall be liable for any failure to observe or perform its obligations under the Hotel Management Agreement to the extent that, and for so long as, observance or performance is prevented by an event of force majeure, provided that the affected party gives to the other party immediate written notice of such occurrence. For the purpose of the Hotel Management Agreement, an event of force majeure is an event beyond the reasonable control of the party giving the notice and which causes the whole or a substantial part of the Initial Hotel Property being unsuitable for operation as a hotel or which prevents observance or performance of such obligation which could not reasonably have been avoided, and which shall mean boycotts, embargoes, governmental restrictions, terrorist attacks, wars, war-like actions, civil commotion, riots, uprising, revolutions, earthquakes, other natural occurrence or any other event beyond the control of such affected party (which shall exclude epidemics, pandemics and other infectious diseases). Upon the cessation of the event of force majeure, the relevant party shall give further notice to the other party and forthwith thereafter the affected party shall observe and perform the relevant obligation. However, if within six months of the written notice, further notice that the force majeure has ceased has not been given, either party may at any time thereafter give to the other party not less than three months' written notice to terminate the Hotel Management Agreement, unless during the notice period the force majeure event ceases.

Regal Indemnity

Regal is required to indemnify each Lessor against all damages, losses, costs and expenses, claims and demands made by any third party by reason of any failure by the Hotel Manager to perform its obligations under the relevant Hotel Management Agreement.

Modification to the Hotel Management Agreements

Any modification to the Hotel Management Agreements shall only be valid if signed by the relevant Lessor, the Lessee, the Hotel Manager, Holding SPV and Regal, and is subject to the approval of the unitholders of Regal REIT if such approval is required pursuant to applicable regulatory requirements or the Trust Deed.

General

Regal International Limited, a wholly-owned subsidiary of Regal, has entered into the Deed of Trade Mark Licence with the REIT Manager, the Lessors, Holding SPV, the Holding Companies and Finance Company 1.

Licence

Regal International Limited has agreed to grant, free of any royalty or other payments, to the REIT Manager, each Lessor, Holding SPV, each Holding Company and Finance Company 1 a non-exclusive and non-transferable right and licence to use its trade marks or service marks registered as at the date of the Deed of Trade Mark Licence for the purpose of describing the ownership of any Initial Hotel Property and/or use in connection with the business of each Initial Hotel Property.

In addition, Regal International Limited shall not object to the use by the REIT Manager or any Lessor or Holding SPV or any Holding Company or Finance Company 1 in any jurisdiction of (a) such trade marks or service marks for the purpose of describing the ownership of each Initial Hotel Property and/or in connection with the business of each Initial Hotel Property; (b) such trade marks or service marks as part of its corporate, business and domain names(s); and (c) any intellectual property right that Regal International Limited may have in relation to any other marks, logos or styles used in connection with the Initial Hotel Properties.

The REIT Manager, the Lessors, Holding SPV, the Holding Companies and Finance Company 1 are not permitted to assign, transfer, sub-contract or sub-licence any of its benefits and/or burdens of the Deed of Trade Mark Licence without Regal International Limited's prior written approval.

Regal International Limited has retained the right to grant licences to other persons to use such trade marks or service marks provided that such grants of licence shall not contravene the terms and conditions of the Deed of Non-Competition.

If Regal International Limited obtains any trade mark registration for any mark in connection with the business of the Initial Hotel Properties after the date of the Deed of Trade Mark Licence, Regal International Limited shall promptly enter into a deed in substantially the same form of the Deed of Trade Mark Licence for the purpose of granting a licence to the REIT Manager, the Lessors, Holding SPV, each Holding Company and Finance Company 1 in respect of the newly registered trade mark.

Duration

Each licence shall commence on the Listing Date and will continue in full force until termination of, in respect of the licence granted to each Lessor, the relevant Hotel Management Agreement and, in respect of the licence granted to the REIT Manager, Holding SPV, the Holding Companies and Finance Company 1, all the Hotel Management Agreements. Notwithstanding the earlier termination of the licence granted to the REIT Manager, Holding SPV, the Holding Companies and Finance Company 1, Regal International Limited shall not object to (a) the REIT Manager's use of the trade marks or service marks as part of the corporate, business or domain name(s) of Regal REIT or (b) use by Holding SPV, the Holding Companies and Finance Company 1 of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager determine to change such name(s).

Use of the marks

The REIT Manager, the Lessors, Holding SPV, the Holding Companies and Finance Company 1 shall at all times keep the distinctiveness and reputation of the marks under licence except that the contrary is caused by compliance with legal requirements.

Ownership of the marks

Regal International Limited shall renew registration of the trade marks or services marks under licence at its own costs. Neither the REIT Manager, the Lessors, Holding SPV, the Holding Companies nor Finance Company 1 shall dispute the validity or ownership of such marks.

Indemnity

Regal International Limited shall indemnify the REIT Manager, each Lessor, Holding SPV, each Holding Company and Finance Company 1 in full for any claim, demand, liability, loss and damage suffered due to a claim by any third party that its use of the marks under licence infringes such third party's rights.

The REIT Manager, each Lessor, Holding SPV, each Holding Company and Finance Company 1 shall indemnify Regal International Limited in full for any claim, demand, liability, loss and damage suffered due to their breach of any terms of the Deed of Trade Mark Licence.

Infringements

If Regal International Limited fails to bring or defend any proceedings in relation to infringement or any other claim or counterclaim in respect of or use of the marks under licence within three months after it becomes aware of the availability of the such causes of action or existence of such proceedings, the REIT Manager or any Lessor or Holding SPV or any Holding Company or Finance Company 1 may bring or defend such proceedings at its own costs (but without prejudice to the right to seek indemnity from Regal International Limited as stipulated in the preceding paragraph headed "Indemnity"). All costs and damages receivable as a result of such proceedings shall belong to the REIT Manager or the relevant Lessor or Holding SPV or the relevant Holding Company or Finance Company 1.

General

Regal, the REIT Manager and the Trustee as the trustee of Regal REIT have entered into the Deed of Non-Competition under which, conditional on the commencement of the listing and dealing of the Units on the Hong Kong Stock Exchange, Regal and the REIT Manager, on behalf of Regal REIT, have given various undertakings to each other as described below.

The Deed of Non-Competition will commence on the Listing Date for a term of at least ten years and thereafter shall remain in full force until the earlier of the Units ceasing to be listed on the Hong Kong Stock Exchange and the Regal Group ceasing to beneficially own and control 30% or more of the outstanding Units of Regal REIT.

Undertakings from Regal Regarding the Acquisition of a New Hotel Interest

(a) If Regal or any of its subsidiaries becomes aware of any opportunity to acquire any majority ownership and control (or such level of interest as Regal REIT is permitted to acquire from time to time) of any hotel in operation, completed or substantially completed, in Greater China, it shall notify the REIT Manager on behalf of Regal REIT in writing within seven Business Days after such acquisition opportunity is identified, use its best endeavors to direct such opportunity to the REIT Manager on behalf of Regal REIT, and, subject to such confidentiality restrictions or requirements as may be applicable or reasonably necessary, provide and use reasonable endeavors to liaise with the proposed seller to provide, to the REIT Manager on behalf of Regal REIT, information and documents for the REIT Manager on behalf of Regal REIT to evaluate such opportunity.

(b) If the REIT Manager on behalf of Regal REIT notifies Regal in writing that it will not pursue such opportunity, or fails to notify Regal in writing within two months after receiving all the relevant information (or such shorter period for making or accepting an offer as may be specified by the proposed seller), or notifies Regal in writing that it will pursue such opportunity within the said two-month period but has subsequently notified Regal that it will cease or has ceased to actively negotiate with the proposed seller or pursue the opportunity, the Regal Group shall be free to pursue such opportunity without further reference to Regal REIT.

Undertakings from Regal Regarding the Sale of an Existing Interest

(a) If Regal or any of its subsidiaries wishes to sell any majority ownership and control (or such level as Regal REIT is permitted to acquire from time to time) interest in any hotel in operation, completed or substantially completed, in Greater China (the "**Regal Existing Interest**") pursuant to an offer or genuine indication of an offer from a third party prospective purchaser, it shall notify the REIT Manager on behalf of Regal REIT in writing within seven Business Days after receiving such offer, and offer or procure an offer is made to the REIT Manager on behalf of Regal REIT on the same or better terms than those proposed to Regal, and subject to such confidentiality restrictions or requirements as may be applicable or reasonably necessary, provide to the REIT Manager on behalf of Regal REIT the information and documents necessary for the REIT Manager on behalf of Regal REIT to evaluate such offer.

(b) If the REIT Manager on behalf of Regal REIT notifies Regal in writing that it will not accept the offer, or fails to provide any written acceptance within two months after receiving all the relevant information, the Regal Group shall in the following 120 Business Days (the "**Regal Existing Interest Offer Period**") be free to dispose of the Regal Existing Interest to any purchaser on the same terms as (or on terms no more favorable than) those offered to the REIT Manager on behalf of Regal REIT.

(c) Notwithstanding the foregoing, (i) the Regal Group cannot dispose of the Regal Existing Interest to any purchaser on terms more favorable than those offered to the REIT Manager on behalf of Regal REIT, unless a first right to acquire such an interest has been offered to Regal REIT in accordance with the procedures in (a) and (b) above; and (ii) the terms of any new offer made by a potential purchaser upon the expiry of the Regal Existing Interest Offer Period must be first offered to Regal REIT in accordance with the procedures in (a) and (b) above.

(d) Regal shall use its reasonable endeavors to obtain any consent required if the relevant Regal Existing Interest is held by Regal or its subsidiaries through or subject to any partnership, joint venture or other shareholding or contractual arrangements.

Non-competition Undertakings from Regal in respect of the "Regal" and Other Brand Names

(a) Regal shall not, and shall procure that each of its subsidiaries shall not, manage, grant a licence to or authorize any other person or company to manage, any hotel not owned or controlled by Regal REIT:

  (i) under the "Regal" brand within the Designated Areas (except any hotel owned or managed by the Regal Group under the "Regal" brand prior to Regal REIT acquiring and owning any hotel within the Designated Areas); and

  (ii) under any other brand(s) within the Designated Areas unless:

    (1) the hotel management functions (including hotel reservation systems) for hotels owned and controlled by Regal REIT under the "Regal" brand and those under the other brand(s) are effectively segregated to the REIT Manager's reasonable satisfaction; and

    (2) Regal has notified the REIT Manager in writing before entering into any hotel management agreement for the hotels under such other brand(s).

(b) "Designated Areas" means at any time where (i) any member of the Regal Group; or (ii) in the event that any member of the Regal Group becomes listed on the Hong Kong Stock Exchange and Regal retains not less than 30% equity interest in such listed company, any member of such listed group:

  (1) is a hotel manager of any hotel owned and controlled by Regal REIT under the "Regal" brand in Hong Kong, anywhere in Hong Kong; and

  (2) is a hotel manager of any hotel owned and controlled by Regal REIT under the "Regal" brand in other parts of Greater China (that is, excluding Hong Kong), in an area within a radius of eight kilometers from such hotel.

Other Undertakings

(a) For so long as any member of the Regal Group (or in the event that any member of the Regal Group becomes listed on the Hong Kong Stock Exchange and Regal retains not less than 30% equity interest in such listed company, any member of such listed group) is a hotel manager of any hotel owned and controlled by Regal REIT under the "Regal" brand:

(i) Regal and its relevant subsidiaries shall use its reasonable endeavors to promote the "Regal" brand, and Regal shall ensure that all hotels operated under the "Regal" brand shall be managed to a standard not lower than that maintained by the Regal Group in hotels of the same class prior to the Listing Date; and

(ii) the REIT Manager shall not take any action that may invalidate, prejudice or impair any of the Regal Group's intellectual property rights in the "Regal" brand.

(b) The REIT Manager shall not use the "Regal" name or the "R" logo unless as otherwise permitted under the Hotel Management Agreements or the Deed of Trademark Licence.

If the REIT Manager sees it fit and proper to acquire any property (on behalf of Regal REIT) under the Deed of Non-Competition as described above, it will give directions to the Trustee (subject to the Trustee's overriding duties to Unitholders under applicable laws, rules, regulations and codes) to enter into any such agreement and/or take any action necessary to effect the abovementioned on behalf of Regal REIT.

Subscription Agreement, Distribution Deed and Underwriting Agreements

Subscription Agreement

Regal together with Complete Success Investments Limited and Great Prestige Investments Limited, both of which are wholly-owned subsidiaries of Regal, have entered into the Subscription Agreement with the REIT Manager pursuant to which Complete Success Investments Limited and Great Prestige Investments Limited (failing whom, Regal) have agreed to subscribe for a total of 2,235,316,748 Units, such number of Units as will account for approximately 72.0% of the Units following the completion of the Global Offering (or approximately 67.8% if the Over-allotment Option is exercised in full).

The consideration for 2,235,316,748 Units to be subscribed for by Complete Success Investments Limited and Great Prestige Investments Limited (failing whom, Regal) will be satisfied by the issuance of a promissory note in the amount of HK$5,990.6 million (based on the Minimum Offer Price) or HK$7,555.4 million (based on the Maximum Offer Price) by the Vendor in favor of the Trustee, and such promissory note will then be applied by Regal REIT to satisfy part of the consideration payable by the Trustee, on behalf of Regal REIT, to the Vendor for the Acquisition.

The number of AEP Units applicable to the Asset Enhancement Program at the Initial Hotel Properties shall be equal to the Appraised Value of its Asset Enhancement Program as set out below, divided by the Offer Price rounded downwards to the nearest whole Unit:

Initial Hotel Property	Appraised Value of the Asset Enhancement Program
Regal Airport Hotel	HK$130 million
Regal Hongkong Hotel	HK$280 million
Regal Oriental Hotel	HK$130 million
Regal Riverside Hotel	HK$460 million

Pursuant to the Subscription Agreement, the rights and obligations of the REIT Manager, Regal, Complete Success Investments Limited and Great Prestige Investments Limited are conditional upon:

- the Public Offer Underwriting Agreement and the International Purchase Agreement between, *inter alia*, the REIT Manager and the Underwriters in connection with the Global Offering being entered into and having become effective; and
- the Public Offer Underwriting Agreement and the International Purchase Agreement having become unconditional (other than for any condition relating to the Subscription Agreement) and not having been terminated pursuant to their respective terms.

Each of Regal, Complete Success Investments Limited and Great Prestige Investments Limited has undertaken to the Joint Global Coordinators and the Hong Kong Underwriters that it shall not for a period of six months from the Listing Date, without the prior written consent of the Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters), and shall procure that none of its subsidiaries shall, whether conditionally or unconditionally, *inter alia*; (i) dispose of (A) any Regal Subscription Units or any direct or indirect interest therein (including, without limitation, by granting or creating any option, mortgage, pledge, charge or other security interest) or (B) any securities exchangeable or convertible into any Regal Subscription Units; (ii) enter into any swap or other derivative transaction or other arrangement that transfers, in whole or in part, any economic consequence of ownership of any Regal Subscription Units or any securities exchangeable or convertible into any Regal Subscription Units; (iii) dispose of any direct or indirect interest in any company or entity holding any Regal Subscription Units or any securities exchangeable or convertible into any Regal Subscription Units; or (iv) offer or agree to do any of the foregoing or announce any intention to do so, provided that these restrictions do not apply to: (a) any disposal pursuant to the Unit Borrowing Agreement; (b) any disposal by Complete Success Investments Limited pursuant to the exercise of the Over-allotment Option; and (c) any transfer of any of the Regal Subscription Units (except AEP Units) to any wholly-owned subsidiary of Regal provided that each transferee under such transfer has given to the Joint Global Coordinators, the Hong Kong Underwriters and Regal REIT an undertaking to the effect of the foregoing restrictions.

Distribution Deed

Regal and Great Prestige Investments Limited have entered into a Distribution Deed in favor of the Trustee and the REIT Manager pursuant to which Regal and Great Prestige Investments Limited, have jointly and severally agreed, pending completion of the Asset Enhancement Program, to irrevocably waive any distribution entitlement for the relevant AEP Units as determined by the Subscription Agreement, in respect of the period from the Listing Date up to and including the following dates (each a "**Relevant Date**"):

(1) if the relevant delivery date in respect of the Asset Enhancement Program at the relevant Initial Hotel Property occurs on or before the target completion date (as specified in the Sale and Purchase Agreement), and the target completion date:

  (a) is within the period from 1 January to 30 June of a given year, 30 June of such year;

  (b) is within the period from 1 July to 31 December of a given year, 31 December of such year.

(2) if the relevant delivery date in respect of the Asset Enhancement Program at the relevant Initial Hotel Property (or, in the case of Regal Riverside Hotel, the first project, or the second project, as the case may be) occurs after the target completion date and:

  (a) occurs within the period from 1 January to 30 June in any given year and a distribution is made in respect of Units for such period, 30 June of such year; or

  (b) occurs within the period from 1 July to 31 December in any given year, 31 December of such year.

For the avoidance of doubt, the above waiver of distribution entitlement, and the restriction on disposal described below, shall, subject to the provision below, continue to apply in respect of the AEP Units corresponding to the Asset Enhancement Program at the relevant Initial Hotel Property (or, in the case of Regal Riverside Hotel, corresponding to the first project, or the second project, as the case may be) if it is not completed by the relevant Long-Stop Date (as defined in the Sale and Purchase Agreement) provided that such waiver, and the restriction on disposal, shall cease to apply on the date on which the REIT Manager receives the applicable cash compensation under the Sale and Purchase Agreement.

In addition, each of Regal and Great Prestige Investments Limited has undertaken that it shall not, and shall procure that its subsidiaries shall not, without the prior written consent of the REIT Manager and the Trustee (the Trustee acting at the direction of the REIT Manager), whether conditionally or unconditionally: (i) dispose of (A) any AEP Units or any direct or indirect interest therein (including, without limitation, by granting or creating any option, mortgage, pledge, charge or other security interest) or (B) any securities exchangeable or convertible into any AEP Units; or (ii) enter into any swap or other derivative transaction or other arrangement that transfers, in whole or in part, any economic consequence of ownership of any AEP Units or any securities exchangeable or convertible into any AEP Units; or (iii) dispose of any direct or indirect interest in any company or entity holding any AEP Units or any securities exchangeable or convertible into any AEP Units; or (iv) offer or agree to do any of the foregoing or announce any intention to do so. The restrictions shall apply in respect of the relevant AEP Units until and including the first Record Date occurring after the Relevant Date in respect of such AEP Units.

The Distribution Deed takes effect on the Listing Date.

Underwriting Agreements

The Public Offer Underwriting Agreement was entered into on March 16, 2007 and the International Purchase Agreement is expected to be entered into on or around the Price Determination Date. For a summary of the key terms and provisions of the Public Offer Underwriting Agreement, see the section headed “Other Information — Underwriting” in this Offering Circular.

Distributable Income Guarantee Deed

Regal has entered into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which Regal has guaranteed that it shall, in the event that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007), in aggregate, is less than HK$420.3 million, pay to the Trustee an amount which represents the shortfall (the "**Shortfall**").

The Shortfall shall be due and payable by Regal to the Trustee no later than the fourteenth Business Day prior to the distribution date for the Distribution Period ending December 31, 2007 and shall be effected by Regal either (a) by crediting for same day value, the bank account specified by the Trustee or (b) by delivering to the Trustee a cashier's order or banker's draft drawn on a licensed bank in Hong Kong, provided that such payment shall only be considered to have been received by the Trustee when such cashier's order or banker's draft is honored or cleared funds are actually received.

The REIT Manager has undertaken to Regal that, it shall, in the event of the occurrence of a Shortfall:

(i) notify the external auditors in writing of its calculation of the Shortfall as soon as practicable after the release of the 2007 annual report in respect of Regal REIT;

(ii) arrange for the external auditors to conduct a review of the REIT Manager's calculation of the Shortfall;

(iii) procure that the auditors issue and deliver a letter (the "**Auditors' Letter**") certifying their review of the calculation of the Shortfall no later than seven Business Days after receiving the REIT Manager's calculation; and

(iv) notify Regal in writing, by no later than the second Business Day after receiving the Auditors' Letter, of the amount of the Shortfall and the due date for Regal's payment of the Shortfall and provide Regal with a copy of the Auditors' Letter.

The external auditors shall act as experts and not as arbitrators and their determination (or confirmation, as the case may be) of the Shortfall, as stated in the Auditors' Letter, shall be final and binding on the parties, save in the case of fraud or manifest error.

Subject to the provisions of the Trust Deed, the REIT Manager has undertaken to Regal that it shall not effect any sale or disposal of any of the Initial Hotel Properties, during the period from the Listing Date until December 31, 2007, without Regal's prior written consent.

The Distributable Income Guarantee Deed takes effect on the Listing Date and will terminate if certain provisions of the Trust Deed relating to the calculation of distributions by Regal REIT are amended provided Regal can reasonably demonstrate to the REIT Manager and the Trustee that the amendment has, or will have, a material adverse effect on its interests as a guarantor.

General

The Finance Companies and ABN AMRO Bank N.V., Singapore Branch as facility agent and security trustee, together with the lenders named therein, have entered into the Financing Agreement which comprises a term loan facility of HK$4.35 billion to be drawn down on or immediately before the Listing Date and a revolving credit facility of HK$150 million which is available for drawdown during the first 24 months after the Listing Date. The Facility is required to be repaid on the date which is five years from the Listing Date.

The proceeds from the drawdown of the term loan facility will be used to partially finance the Acquisition as well as fees and expenses associated with the Financing Agreement.

The Facility will bear interest being the aggregate of:

(i) interest margin of 60 basis points per annum; and

(ii) three month HIBOR.

An upfront fee of 75 basis points will be payable on the Listing Date for the term loan facility and the revolving credit facility and a commitment fee of 25 basis points per annum will be payable on: (i) the term loan facility (provided that such commitment fee is capped at HK$1.1 million from the date of the Financing Agreement until the March 31, 2007); and (ii) the revolving credit facility, (in each case, only for the undrawn portion), from the date of the Financing Agreement.

The availability of the Facility on or immediately before the Listing Date is conditional on certain conditions precedent being satisfied or waived. Such conditions include, without limitation, the Trust Deed, the Lease Agreements, the Lease Guarantees, the Hotel Management Agreements, the Sale and Purchase Agreement and other material contracts being entered into by each of Regal REIT, the Property Companies and the Finance Companies where they are parties.

The Finance Companies are permitted under the Facility to draw down the term loan portion of the Facility only once and will not be permitted to reborrow under the term loan facility whereas the revolving credit facility of HK$150 million shall be available for multiple drawings during the first 24 months after the Listing Date and then the outstanding balance thereof shall be converted into, and shall become, a term loan under the Financing Agreement. The Facility is mandatorily prepayable upon disposal of the Initial Hotel Properties or voluntarily prepayable at any time at the Finance Companies' option (upon notice to the facility agent) under the Financing Agreement. The Facility may also become repayable in the event it is or becomes illegal in any applicable jurisdiction or in the case of an event of default.

Each term loan facility and revolving credit facility will bear interest at a variable rate. In order to hedge against the floating interest rate of the term loans, Finance Company 1 has entered into interest rate hedging agreements with Deutsche Bank AG and ABN AMRO Bank N.V., London Branch, for a notional principal amount equivalent to HK$4.35 billion. With effect from the Listing Date, Finance Company 2 will assume the rights and obligations of Finance Company 1 with respect to a notional principal amount of HK$1.4 billion in relation to such arrangements. Under the terms of the interest rate hedging agreements, the interest rate of the term loans has been fixed, based on the prevailing market interest rates, at an average rate of 4.54%, until January 17, 2008 and will be subject to a cap of 7.15% and a floor of 3.80% for the period from January 18, 2008 to January 18, 2012.

Events of Default

The Financing Agreement contains customary events of default, the occurrence of which would allow the facility agent, by itself, or upon the instructions of the majority lenders, to demand immediate repayment of the outstanding advances made under the Facility, together with accrued interest, fees, and other sums, and cancel the lenders' commitments under the Facility. Such events include, among others:

- the failure to pay any sum payable under the Financing Agreement when due or otherwise payable in accordance with the provisions thereof;
- the failure of any of Regal REIT, Holding SPV, the Property Companies, the Finance Companies, or the Holding Companies to duly and punctually perform or comply with any of its obligations or undertakings under the Finance Documents (as defined in the Financing Agreement) and, in the case of non-monetary failure which in the opinion of the facility agent is capable of remedy, being unable to remedy such failure to the facility agent's satisfaction within 20 Business Days after receipt of written notice from the facility agent requiring it to do so;
- any of the representations or warranties made in or in connection with the Financing Agreement which is incorrect or misleading in any material respect when made or deemed to be made;
- a default or acceleration in any other indebtedness owed by any of Holding SPV, the Property Companies, the Finance Companies or the Holding Companies, if the aggregate of such indebtedness exceeds HK$5 million;
- the enforcement of any encumbrance or other security created by Regal REIT, Holding SPV, the Property Companies, the Finance Companies, the Holding Companies, or the enforcement of any guarantee created by them having an aggregate value of HK$5 million or more;
- the failure to be granted any of the authorizations required under any law or regulation in the jurisdiction of incorporation of the Finance Companies, Holding SPV, the Property Companies and the Holding Companies for and in connection with the Finance Documents (as defined in the Financing Agreement) or such authorizations ceasing to be in full force and effect in a manner which could materially and adversely affect the ability of any of them to perform its obligations under the Financing Agreement;
- a creditor taking possession of all or any part of the business or assets of any of Holding SPV, the Holding Companies, the Finance Companies or the Property Companies, or any execution or other legal process being enforced against the business or any of their assets for more than HK$5 million and not being discharged within ten days;
- the insolvency, winding-up, administration, reorganization, dissolution or bankruptcy of any of Regal REIT, Holding SPV, the Property Companies, the Finance Companies or the Holding Companies;

- any of Regal REIT, Holding SPV, the Property Companies, the Finance Companies or the Holding Companies ceasing or threatening to cease to carry on a material part of its business;

- any Finance Document (as defined in the Financing Agreement) or any provision thereof ceasing for any reason to be in full force and effect or being terminated or becoming invalid or unenforceable or there being any termination or repudiation of the same or it becoming unlawful for any of the Finance Companies, Regal REIT, Holding SPV, the Holding Companies, the Property Companies or any party thereto to perform any of its respective obligations thereunder;

- the Government or (in respect of Regal Airport Hotel) the Airport Authority re-entering all or any part of the Initial Hotel Properties or the terms on which the Initial Hotel Properties are held from the Government or (as the case may be) the Airport Authority being breached in any material respect or all or any material part of the Initial Hotel Properties being made subject to a compulsory purchase or similar order or all or a material part of the Initial Hotel Properties being destroyed which destruction could materially and adversely affect the ability of any of Holding SPV, the Property Companies, the Finance Companies or the Holding Companies to perform its obligations under the Financing Agreement and in such case, is not fully and adequately compensated or insured against;

- any situation occurring which causes the majority lenders to have reasonable grounds to believe that, *inter alia*, the ability of any of Regal REIT, Holding SPV, the Finance Companies, the Property Companies or the Holding Companies to perform its respective obligations under the Finance Documents (as defined in the Financing Agreement) has been or will be materially and adversely affected;

- Regal REIT failing to beneficially own 100% of the shares of Holding SPV, the Holding Companies, the Finance Companies or Properties Companies (except as a result of any permitted disposal); and

- the Units ceasing to be listed on the Hong Kong Stock Exchange or being suspended from trading for a period of 10 consecutive Business Days or such longer period as the facility agent may approve.

The Financing Agreement also prohibits the Property Companies, the Finance Companies, the Holding Companies and Holding SPV from paying dividends or making other distributions to Regal REIT if any event of default or potential event of default has occurred (and is continuing) under the Financing Agreement. In addition, Regal REIT is prohibited from paying dividends or making other distributions to its Unitholders if any event of default has occurred (and is continuing) under the Financing Agreement.

Covenants

The Financing Agreement contains certain customary covenants that restrict Holding SPV, the Holding Companies, the Finance Companies and the Property Companies (subject to certain agreed exceptions), from among other things, incurring additional debt and creating security on their respective properties, revenues or other assets. Affirmative covenants include covenants by the Finance Companies, Holding SPV, the Holding Companies and the Property Companies to, among other requirements:

- (in respect of the Property Companies) maintain, or procure to be maintained, property, all risk, terrorism, rental loss, and third party liability insurance policies with respect to the Initial Hotel Properties with reputable insurers;

- comply with all relevant laws and regulations, including the REIT Code, if failure so to comply could have a material adverse effect on the ability of the Trustee, the Property Companies, the Finance Companies and the Holding Companies to perform their respective obligations under the Finance Documents (as defined in the Financing Agreement);

- procure that there will be no change of the Lessee, the Hotel Manager and/or valuer of the Initial Hotel Properties without the prior consent of the facility agent;

- maintain in full force and effect the authorizations required under any law or regulation in the jurisdiction of incorporation of the Finance Companies, Regal REIT, Holding SPV, the Property Companies and the Holding Companies for and in connection with the Financing Agreement; and

- procure that neither the Finance Companies nor any Property Companies will borrow or raise money or credit or incur any other indebtedness or issue any guarantee/indemnity otherwise than as permitted under the Financing Agreement.

The Finance Companies must also comply with the following ratios:

Loan-to-value ("LTV")

The LTV ratio (being the aggregate amount of the outstanding loans under the Facility to the aggregate market value of the Initial Hotel Properties) is not to exceed 40%. If the LTV ratio exceeds 40% the Finance Companies shall have 90 days to cure such breach by prepaying loans in amounts sufficient to ensure that the LTV ratio does not exceed 40%. This test shall be conducted annually on the basis of a new valuation which shall be for the account of the Finance Companies.

Cashflow Breach

If at any time:

(a) collective net property income for the preceding three month period is less than 35% of the collective net property income for the corresponding three month period which occurred during the Reference Period (as defined below) (a "**Cashflow Breach**"); or

(b) on or after the date which is 60 days from the date on which any payment is made to any Property Company and/or the Trustee by the issuing bank under the Letter of Credit, the amount of the Letter of Credit is less than HK$1 billion (or, after June 30, 2011, such amount as is required under the Lease Guarantees),

the facility agent (acting on behalf of the majority lenders) may request the valuer promptly to prepare and deliver to the facility agent a valuation of the Properties (a "**Required Valuation**") and the cost of any such Required Valuation shall be borne by the Finance Companies.

If the Required Valuation demonstrates that the LTV ratio is in excess of 40 per cent, the Finance Companies shall immediately prepay the loans under the Facility in amounts sufficient to ensure that the LTV ratio does not exceed 40%.

"**Reference Period**" means the period of 12 months from 1 October 2005 to 30 September 2006.

Interest Cover ("ICR")

If at any time the ratio of the aggregate actual net rental income to actual finance costs (after taking into account all amounts payable or receivable on account of interest and/or premium (amortized over the term of the hedging under the relevant hedging document) by the Finance Companies in relation to that period under any hedging document (other than any fees and/premium (or its equivalent) payable under any hedging document which fees and/or premium (or its equivalent) is paid on or before the Listing Date)) is less than 225% for the preceding six month period, then all surplus rental income after the payment of finance costs will be paid into a blocked account. If the ICR is for two consecutive quarters above 225%, then any monies that have accrued on that blocked account will be released to the Finance Companies.

The negative covenants include, among other requirements, that each of Holding SPV, the Holding Companies, the Finance Companies and the Property Companies must not:

- purchase or redeem any of its issued shares or reduce its share capital;
- upon or after an event of default which is continuing, declare or pay any dividend to any of its shareholders or make any other income distribution or repayment of any shareholder loan;
- create or permit to subsist any security over the whole or any part of its assets (subject to permitted exceptions);
- incur or have outstanding any financial indebtedness to any person (subject to permitted exceptions);
- (in respect of each Property Company) sell, lease, transfer or otherwise dispose of all or any part of its interest in the relevant Initial Hotel Property, whether by a single transaction or by a number of transactions (whether related or not) unless otherwise permitted under the Financing Agreement, without the prior written consent of the facility agent (acting on the instructions of the Majority Lenders) (such consent not to be unreasonably withheld or delayed) (entry into the Lease Agreements is specifically permitted under the Financing Agreement);

- make or grant any loan, indemnity or guarantee or in any other manner be or become directly or indirectly or contingently liable for any indebtedness or other obligation of any other person (subject to permitted exceptions); or

- conduct any business other than the business of real estate investment and related activities.

Provision of Information

Under the Financing Agreement, each of the Finance Companies, the Property Companies, the Holding Companies and Holding SPV must submit to the facility agent:

- annual audited financial statements of the Finance Companies and the Property Companies within 180 days of the end of each fiscal year and unaudited interim financial statements of the Finance Companies and the Property Companies within 120 days after the end of the first six months of each fiscal year;

- on an annual basis, at its own expense, a valuation report on the Initial Hotel Properties prepared by an independent property valuer appointed by the REIT Manager with the prior written consent of the facility agent;

- annual audited financial statements of Regal REIT within 180 days of the end of each fiscal year and unaudited interim financial statements within 120 days after the end of the first six months of each fiscal year;

- unaudited monthly management profit and loss statement within 30 days following the end of each calendar month as well as key performance metrics;

- the operating budget for the Initial Hotel Properties promptly upon receipt thereof by the Property Companies; and

- material notices, reports, accounts, circulars, documents or other material information (in each case) sent to Unitholders at the same time as they are dispatched to the Unitholders.

Security

The Facility is required to be secured by, among others:

- a legal charge and debenture over the Initial Hotel Properties;

- an assignment of rental proceeds in respect of the Initial Hotel Properties received by the Property Companies under the Lease Agreements (but excluding all rentals which are account for the lessee, Favour Link International Limited);

- an assignment of all sales proceeds in respect of any disposal of the Initial Hotel Properties received by the Property Companies;

- a charge over each rental account, sales proceeds account and other control accounts;

- an assignment of certain policies of insurance relating to the Initial Hotel Properties taken out by the Property Companies and any hedging agreements entered into by the Finance Companies;

- an assignment of, amongst others, the Hotel Management Agreements, the Sale and Purchase Agreement, Deed of Tax Indemnity, the Lease Agreements, the sub-lease from the Airport Authority in respect of Regal Airport Hotel, the Lease Guarantees and the Letter of Credit;

- a guarantee by Regal REIT, and joint and several guarantees by the Finance Companies, Holding SPV, the Holding Companies and the Property Companies in respect of the obligations of the Finance Companies, Holding SPV, the Holding Companies and the Property Companies under the Finance Documents (as defined in the Financing Agreement);

- subordination and assignment of shareholder and/or intercompany loans between the Finance Companies, Holding SPV, the Holding Companies, the Property Companies and Regal REIT;

- a floating charge over all of the undertaking, property, assets and rights of each of Holding SPV, the Holding Companies, the Finance Companies and the Property Companies; and

- an equitable charge over the shares in Holding SPV, the Holding Companies, the Finance Companies and the Property Companies.

The counterparties to the interest rate hedging agreements described in this Offering Circular will share in the same security as described above.

OTHER INFORMATION

Information Regarding Title to the Initial Hotel Properties

Government Leases and Government Grants

Land tenure in Hong Kong is mainly leasehold. Title to property is usually derived from a lease (which prior to July 1, 1997 was referred to as a "Crown Lease" but is now referred to as a "**Government Lease**") or an agreement for lease granted by the Government of the Hong Kong Special Administrative Region (the "**HKSAR**"), and owners of property in Hong Kong are effectively long leaseholders.

The Basic Law, Hong Kong's "mini-constitution", provides that all leases of land granted, decided upon or renewed before the establishment of the HKSAR (which took place on July 1, 1997) extend beyond June 30, 1997, and all rights in relation to such leases shall continue to be recognized and protected under the laws of the HKSAR.

The Government of the HKSAR is empowered under the Sino-British Joint Declaration dated December 19, 1984 to make and execute grants and dispositions of any land in Hong Kong and to grant Government Leases for a term expiring not later than June 30, 2047. Regarding grants and dispositions of land in the HKSAR as from July 1, 1997, Section 32 of the Hong Kong Reunification Ordinance (Chapter 2601 of the Laws of Hong Kong) provides that the Chief Executive may, on behalf of the Government of the HKSAR, lease or grant land and natural resources within the HKSAR which are state property.

The major practice of the Government before the establishment of the HKSAR, which has continued to be adopted by the HKSAR, is to offer long leases at public auction to the highest bidder, subject to the purchaser paying a premium and the Government rent and accepting terms and conditions of sale. These are effectively agreements to lease and usually called Conditions of Sale or Conditions of Grant (the "**Government Grant**") upon which the purchaser will, subject to compliance with certain positive conditions in the Government Grant, be entitled to a lease of the land. The terms of a Government Grant are generally similar and usually contain provisions specifying the use of the land (often including a stipulation as to the time period within which the land must be developed), restrictions on alienation before compliance with the positive conditions in the Government Grant, and provisions for re-entry by the Government in cases where the purchaser is in breach of any of the conditions of the Government Grant. Once the purchaser has complied with the positive conditions in the Government Grant, its equitable interest in the land (by virtue of Section 14 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) becomes a legal estate in that land as if held under a Government Lease. Land designated for special low cost housing projects, public utilities, schools, clinics, welfare and certain charitable purposes is usually granted by the Government by way of private treaty and, in such cases, the premium charged ranges from a nominal amount, for non-profit making purposes, to full market value for public utilities.

The terms of a Government Lease or Government Grant vary. At various times in the past, Government Leases have been granted for periods of 75, 99 or 999 years with or without a right of renewal. Government Leases or Government Grants are now usually granted for a term which expires on June 30, 2047. In the New Territories, pursuant to the New Territories Leases (Extension) Ordinance (Chapter 150 of the Laws of Hong Kong), with the exception of short term tenancies and leases for special purposes, the terms of Government Leases have been automatically extended until June 30, 2047, without payment of further premium, although the annual Government rent payable to the Hong Kong Government from the date of extension will be adjusted to the equivalent of 3.0% of the rateable value of the land from time to time. The annual Government rent (3.0% of rateable value) also applies to a new Government Lease renewed pursuant to the right of renewal in an existing Government Lease over land in Hong Kong and Kowloon, although the rateable value to be used for calculation shall be that as at the day immediately following the day of expiration of the original term until redevelopment. For existing Government Leases which will expire before June 30, 2047, the Joint Declaration and the Basic Law provide that they will continue to be recognized and protected under the laws of the HKSAR. Where such leases do not contain a right of renewal, they will be dealt with under the laws and policies of the HKSAR. Under Article 123 of the Basic Law, laws and policies regarding renewal of such leases are to be formulated by the Government of the HKSAR.

Government Re-entry and Resumption of Land

Government Leases and Government Grants usually provide that the Government is entitled to re-enter and take possession of any land if the purchaser or its successors in title or assignees are in breach of any condition or covenant of the Government Lease or the Government Grant. Circumstances under which Government re-entry has been made include the purchaser's failure to pay the Government rent and violation of user restrictions imposed by the Government. This right is subject to the lessee's right to apply for relief against re-entry.

When privately-owned land is required for "public purposes" (in most cases, for the implementation of public works projects), the Government may use its statutory powers to resume the land from owners and other persons interested in the land. Property may be resumed under the Lands Resumption Ordinance (Chapter 124 of the Laws of Hong Kong), the Land Acquisition (Possessory Title) Ordinance (Chapter 130 of the Laws of Hong Kong), the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance (Chapter 276 of the Laws of Hong Kong) or the Roads (Works, Use and Compensation) Ordinance (Chapter 370 of the Laws of Hong Kong). These ordinances provide for payment of compensation to land owners and other interested parties. In all cases, if agreement cannot be reached on the amount payable, the matter can be referred to the Lands Tribunal for adjudication. Under the Lands Resumption Ordinance and the Land Acquisition (Possessory Title) Ordinance, compensation is determined by the Lands Tribunal on the value of the land and buildings, the value of any easement, any loss or damages caused by the severance and moving expenses and for business loss (where appropriate) at the date of acquisition.

Multi-story Buildings

In Hong Kong, multi-story buildings are extremely common and units in buildings are usually the subject of sale and purchase and mortgage. The Government does not issue a separate Government Lease for each unit in a multi-story building. Generally, a document called a "deed of mutual covenant" (the "**DMC**") notionally divides the building and land granted under the Government Lease or a Government Grant into a number of equal undivided shares. Each individual unit in a multi-story building is allocated a number of undivided shares, and, to these undivided shares, the right to exclusive use and possession of the unit is attached. The number of undivided shares allocated to each unit depends on a number of factors including, in particular, the size of that unit as compared to the other units in the same building or development.

The DMC governs the relationship between the manager of the development and all the owners of the units in the development. However, the principal legal document which transfers or conveys a party's interest in the undivided shares in the land and the building and the right to exclusive use and occupation of a unit from a developer or vendor to a purchaser is the "Assignment". The allocated undivided shares and the rights attached thereto under the DMC are assigned to a purchaser under the Assignment for the residue of the term of the Government Lease or Government Grant with, where applicable, the right of renewal of the term. Accordingly, all purchasers of units, as co-owners and tenants-in-common of undivided shares in the land and building have, by virtue of the Assignments and the DMC, the right to exclusive use and occupation of the units which they have purchased, and to share the use and the maintenance costs of the common parts of the development.

The DMC is usually executed by the developer, the manager of the development and the first purchaser of a unit in the development. Subsequent purchasers of other units in the development are made subject to and given the benefit of the DMC under their respective Assignments. Accordingly, a DMC is binding on all the owners of units, their successors and assigns. Apart from allocating undivided shares to units, a DMC contains detailed covenants in respect of the exclusive use and occupation of the respective units, the use and enjoyment and repair of the common parts of the development, covenants by the owners and their successors and assigns to observe and perform the Government Lease or the Government Grant and the House Rules, and to pay their respective shares of management charges according to the management shares allocated to their units. It also specifies how the common parts of the development are to be managed by the manager, the powers of the manager, meetings of owners and the use of management charges collected from the owners.

Registration

The Land Registration Ordinance (Chapter 128 of the Laws of Hong Kong) provides for registration of all instruments affecting land in the Land Registry. The records of transactions affecting land situated in Hong Kong, Kowloon and New Territories are now all kept at a centralized Land Registry and are available for public inspection upon payment of a fee.

The registration system for land transactions in Hong Kong is one of registration of documents or deeds. Documents which are registrable include deeds, conveyances and other instruments in writing, and judgments which affect land. Hong Kong does not have a title registration system and an owner's title is not guaranteed by the Government of the HKSAR or the Land Registry upon registration. Even though the Government may in a Government Grant require the registration of all assignments, mortgages and other alienation of property, there is no general legal requirement that documents relating to land be registered, however non-registration will affect the priority of the instrument concerned, and hence a person's interest or right under the unregistered instrument against claims by third parties will also be affected.

The Land Registration Ordinance provides that all instruments registered under it shall have priority according to their respective dates of registration, but if they are registered within one month of execution, priority of the instruments will be by reference to the date of execution. With regard to charging orders made by Hong Kong courts and pending court actions, priority runs from the day following the date of registration.

Non-registration of any instrument which is registrable will not make such instrument invalid between the parties executing the instrument but will (subject to one exception in respect of a lease at rack rent for less than three years) render it absolutely null and void to all intents and purposes against a subsequent bona fide purchaser or mortgagee for valuable consideration. Accordingly, registration is essential to the protection of title but does not guarantee good title to the property. It is normal practice in Hong Kong for title records to be inspected by prospective purchasers or mortgagees in relation to a period at least fifteen years prior to the relevant contract date.

The Land Registration Ordinance provides for an exemption to the priority made in respect of bona fide leases of land for terms of three years or less at market rentals which do not require registration to bind a successor in title to the original landlord.

Another important feature of the registration system is that Hong Kong courts have held that, in the absence of fraud, actual or constructive notice of any prior unregistered instrument will not affect the priority of a duly registered instrument (i.e. in order to be protected, the document must be registered).

Ownership of the Initial Hotel Properties

Each of the Initial Hotel Properties is held either under a Government Lease or a Government Grant, and, in the case of the Regal Oriental Hotel, subject to, and with the benefit of, a DMC.

The only exceptions are:

(a) in relation to the Regal Airport Hotel, Bauhinia Hotels Limited holds a sub-lease interest from the Airport Authority Hong Kong (which in turn holds the leasehold in respect of Chek Lap Kok Lot No.1 and the extension thereto under a Government Grant dated December 1, 1995 and a letter of extension dated March 16, 1998 both made between the Government of the HKSAR and the Airport Authority Hong Kong); and

(b) in relation to the operation of Regal Hongkong Hotel, Cityability Limited requires the use of the RHK Supporting Premises. The RHK Supporting Premises are premises leased to Cityability Limited under a Tenancy Agreement, a side agreement and a supplemental agreement described below, and which shall be made available by Cityability Limited as Lessor to the Lessee under Lease Agreement No. 2 (see section headed "Material Agreements — Lease Agreements" in this Offering Circular).

The title descriptions of the Initial Hotel Properties are set out below.

Regal Airport Hotel

This property is held pursuant to a Sub-Lease dated August 12, 2004 made between the Airport Authority Hong Kong and Bauhinia Hotels Limited and registered in the Land Registry by Memorial No.IS342341 (the "**Sub-Lease**"), having an area of 10,866.15 square meters approximately and the premises and other buildings and other structures now or hereafter to be constructed thereon including without limitation all fixed plant, fixed equipment and other fixtures thereto, whether to the land or to any other building or structure or to any other fixtures, but excluding (a) the subsoil below it except those parts of the subsoil now occupied by the premises and those other buildings and structures, and (b) the airspace over it above the level of the highest part of the buildings on it. The Sub-Lease will expire on December 30, 2028.

Regal Hongkong Hotel

This property comprises two different titles, one relating to the main hotel building and the other relating to the RHK Supporting Premises.

The main hotel building is held from the Government for the residue of the term of 999 years commencing from the December 25, 1884 under a Government Lease of Inland Lot No.1408 dated February 24, 1939 as varied and modified by a Modification Letter registered in the Land Registry by Memorial No.UB3064517 subject to and with the benefit of a Deed of Restrictive Covenant registered in the Land Registry by Memorial No.UB5287070 (the "**Deed of Covenant**") and a Deed of Covenant and Grant of Right of Way and Easements and Management Agreement registered in the Land Registry by Memorial No.UB5287071 (the "**Deed of Grant**") and together with all subsisting rights and rights of way subject to the payment of the due proportion of the yearly Government rents and other moneys (if any) and to the performance and observance of the covenants, terms and conditions contained in the said Government Lease and subject to all subsisting rights and rights of way and subject to all subsisting lettings and tenancies.

The RHK Supporting Premises will be provided by Cityability Limited to Favour Link International Limited for use with the Regal Hongkong Hotel pursuant to the Lease Agreement to be entered into between Cityability Limited as the owner of the main hotel building and Favour Link International Limited as lessee of the Regal Hongkong Hotel. Cityability Limited's right to use the RHK Supporting Premises is derived under (a) a Tenancy Agreement dated May 13, 1992 and made between Athlone Limited and Cityability Limited (in respect of which on September 29, 2000, Athlone Limited assigned its reversion to the tenancy to Treasure Spot Investments Limited which is not a company owned or controlled by Regal) for a term commencing on March 1, 1992 and expiring on March 1, 2010, (b) a side agreement dated August 1, 2002 entered into pursuant thereto and (c) a supplemental agreement dated April 28, 2006 entered into between Treasure Spot Investments Limited and Cityability Limited. Under the Tenancy Agreement, there is an option to renew this tenancy on the part of Cityability Limited for a further term of 12 years by giving the requisite notice six to nine months before the expiration of the term on March 1, 2010. The rent for the renewed term shall be market rent determined by an independent qualified surveyor. The market rent shall be redetermined in the same market at every three years during the renewed term.

Regal Kowloon Hotel

This property is held from the Government for the residue of the unexpired term of 75 years commencing from December 28, 1976 with a right of renewal for a further term of 75 years under a Government Lease of Kowloon Inland Lot No.10474 which is deemed to have been issued by virtue of Section 14 of the Conveyancing and Property Ordinance upon compliance with the conditions precedent contained in the Agreement and Conditions of Sale deposited and registered at the Land Registry as Conditions of Sale No.10983 (such compliance is evidenced by a Letter of Compliance dated July 6, 1982 and registered in the Land Registry by Memorial No.UB3990407) subject to the payment of the Government rent and the performance and observance of the terms, covenants and conditions in the said Government Lease and subject to all subsisting rights and rights of way and subject to all subsisting lettings and tenancies.

Regal Oriental Hotel

This property comprises two titles, one relating to the main hotel building and the other relating to certain back of house areas serving the main hotel building.

The main hotel building is held from the Government for the residue of the unexpired term of 99 years less the last three days thereof from July 1, 1898 extended until June 30, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance created by a Government Lease of New Kowloon Inland Lot No.5754 deemed to have been issued under Section 14 of the Conveyancing and Property Ordinance upon compliance with the conditions contained in certain Particulars and Conditions of Sale deposited and registered in the Land Registry as Conditions of Sale No.11240 as modified by a Modification Letter registered in the Land Registry by Memorial No.UB2144106 (such compliance is evidenced by a Letter of Compliance dated July 27, 1982 and registered in the Land Registry by Memorial No.UB3990406) together with the benefit of a Licence Agreement registered at the Land Registry by Memorial No.UB8373369 ("**the Licence**") subject to the payment of the Government rent and the performance and observance of the terms and conditions contained in the said Government Lease and subject to the Licence insofar as the same is subsisting and capable of taking effect and subject to all subsisting rights and rights of way and subject to all subsisting lettings and tenancies.

The back of house areas serving the main hotel building are held from the Government for the residue of the unexpired term of 99 years less the last three days thereof commencing from July 1, 1898 extended until June 30, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance created under a Government Lease of New Kowloon Inland Lot No.4917 deemed to have been issued under Section 14 of the Conveyancing and Property Ordinance upon deemed compliance with the conditions contained in the Agreement and Conditions of Sale deposited and registered in the Land Registry as Conditions of Sale No.8785 together with the benefit of a Deed of Mutual Covenant and a Management Agreement registered in the Land Registry by Memorial Nos.UB607737 and UB604982 respectively (collectively, the "**Po Sing DMC**") subject to the payment of the due proportion of the Government rent and the performance and observance of the terms and conditions contained in the said Government Lease and subject to the Po Sing DMC and subject to all subsisting rights and rights of way and subject to all subsisting lettings and tenancies.

Regal Riverside Hotel

This property is held from the Government for the residue of the unexpired term of 99 years less the last three days commencing from July 1, 1898 extended until June 30, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance under a Government Lease of Sha Tin Town Lot No.160 which is deemed to have been issued by virtue of Section 14 of the Conveyancing and Property Ordinance upon compliance with the conditions precedent contained in the Agreement and Conditions of Sale deposited and registered in the Land Registry as New Grant No.11571 as modified by two Modification Letters registered at the Land Registry by Memorial Nos.ST211142 and ST353344 respectively (such compliance being evidenced by a Letter of Compliance dated July 18, 1986 and registered in the Land Registry by Memorial No.ST430228) subject to the payment of the Government rent and the performance and observance of the terms, covenants and conditions in the said Government Lease and subject to all subsisting rights and rights of way and subject to all subsisting lettings and tenancies.

Certain Matters Relating to the Title to the Initial Hotel Properties

Regal Airport Hotel

This property is held under a sub-leasehold interest granted by the Airport Authority Hong Kong for a term of 25 years from December 31, 2003 under the Sub-Lease defined in the title description above.

Under the Sub-Lease, Bauhinia Hotels Limited has agreed:

(a) to pay to the Airport Authority Hong Kong in full as rent the Government rent payable on the Property;

(b) to operate the Property as a hotel on a continuous 24 hour per day seven-day per week basis, and to a specified standard. The property shall not be used otherwise than for the provision of the certain services (defined to mean all services (including the provision of retail and food and beverage outlets) lawfully and either usually or properly provided by hotels of a high quality serving other airports of comparable size and level of technology to the airport for civil aviation at and in the vicinity of Chek Lap Kok) (the "**Services**");

(c) not, without the prior written consent of the Airport Authority Hong Kong, to make, or allow to be made, any alteration or addition to the exterior or structure of the property;

(d) to apply for and use every reasonable endeavor to obtain the grant or renewal and the maintenance of all license, certificate, order or permit required under any legislation relating to the business carried on at the property (collectively, the "**Trade Licenses**");

(e) not to increase the number of Modules (meaning a single hotel room bay (including bathroom) of the hotel with area adequate for housing necessary furniture and fittings and for normal operation as a standard single hotel room) beyond 1200;

(f) to observe and comply with various environmental protection measures. These include (but are not to be limited to) obtaining the Airport Authority Hong Kong's approval regarding the arrangements for the storage, transportation and disposal of solid waste from the property;

(g) to take out insurances with such insurers and with such conditions, scope and amount of cover, exclusions and restrictions as the Airport Authority Hong Kong may approve in writing;

(h) not, without the prior written consent of the Airport Authority Hong Kong (which consent shall not be unreasonably withheld), to assign, transfer, deal with, subcontract, sublicense, mortgage, charge, sublet or otherwise grant rights in or over or part with or share the possession or occupation of the whole or any part of the property or all or any of Bauhinia Hotels Limited's rights or obligations or liabilities under the Sub-Lease;

(i) not, without the prior written consent of the Airport Authority Hong Kong, to cause or permit any person, firm or company (other than any applicable department of the Government) at any time to use the whole or any part of the property or exercise any of Bauhinia Hotels Limited's rights under the Sub-Lease, although this shall not be construed so as to prevent the proper occupation and/or use of the Property for the provision of Services in accordance with the Sub-Lease; and

(j) not to permit any third party to operate and/or manage the hotel without the prior written consent of the Airport Authority Hong Kong which consent shall not be unreasonably withheld.

Under the terms of the Sub-Lease, the Airport Authority Hong Kong has given certain non-competition covenants to Bauhinia Hotels Limited in respect of the grant of right or permission to construct and/or operate any second hotel or subsequent hotel within the area of the Government Grant and Letter of Extension in respect of Chek Lap Kok Lot No.1 and the Extension thereto. One such covenant is that Airport Authority Hong Kong will not (whether alone or jointly with others, and whether directly or indirectly) within 15 years of the date fixed by Government for the opening of the Hong Kong International Airport for scheduled commercial air traffic for passengers and cargo, grant or permit the construction or operation of a second hotel which has direct physical contact with the first passenger terminal building at the Hong Kong International Airport.

In obtaining consent from the Airport Authority Hong Kong as required under (h), (i) and (j) above to enable Bauhinia Hotels Limited to enter into the Lease Agreement No.1 and to enable the Hotel Manager to be appointed under the Hotel Management Agreement No.1, the Airport Authority Hong Kong and Bauhinia Hotels Limited have entered into a Supplemental Lease (supplemental to the Sub-Lease) whereby the parties have agreed that, notwithstanding the non-competition covenants under the Sub-Lease described above, the Airport Authority Hong Kong shall have the right (either itself or through its subsidiaries) to design, construct, use, occupy and operate the "**AA Premises**" (which has been defined to mean space or structures within the restricted areas of the main passenger terminal building of the Hong Kong International Airport not exceeding 1,700 square meters) comprising of not more than 30 bedrooms with area adequate for housing necessary furniture and fittings and for normal operation as bedrooms for use only by inbound passengers arriving at the Hong Kong International Airport by aircraft or by cross boundary surface mode from outside Hong Kong who do not pass through arrival immigration controls and subsequently depart from Hong Kong. Save as aforesaid, all other terms of the Sub-Lease remain in effect.

The consent from the Airport Authority Hong Kong is (inter alia) conditional on Bauhinia Hotels Limited ensuring (in respect of which it has confirmed in writing that it has done so) that none of the provisions of Lease Agreement No. 1 shall contravene the Government Grant (as the same may from time to time be extended, supplemented, modified or replaced) and/or the Sub-Lease.

Contemporaneously with the entering of the Supplemental Lease, the Airport Authority Hong Kong and the Hotel Manager have separately entered into an Agreement whereby the parties have agreed that if the Airport Authority Hong Kong constructs the AA Premises, the Hotel Manager will be appointed as manager for a term commencing from the date which the Airport Authority Hong Kong determines to commence to provide services at the AA Premises (but which shall not be earlier than June 30, 2008) up to July 5, 2013, and subject to certain other pre-agreed terms and conditions.

Also contemporaneously with the signing of the Agreement, RHIHL have executed a Deed of Indemnity in favor of the Airport Authority Hong Kong whereby RHIHL have agreed to indemnify the Airport Authority Hong Kong in respect of all costs, expenses, and liabilities arising out of:

(i) the application by Bauhinia Hotels Limited for consent to enter into the Lease Agreement No.1 and to allow the Lessee to manage and operate, and to delegate to the Hotel Manager to manage and operate, the Regal Airport Hotel under the terms of the Hotel Management Agreement No.1,

(ii) the giving of the consent by the Airport Authority Hong Kong to the aforesaid application by Bauhinia Hotels Limited,

(iii) any breach of the Government Grant between Government of the HKSAR and the Airport Authority Hong Kong as described above or objection from the Government of the HKSAR caused by the above application for consent and/or the giving of the consent and/or the entering into by Bauhinia Hotels Limited of the Lease Agreement No.1, and/or the management and operation by the Lessee (and its delegation of the operation and management to the Hotel Manager) of the Regal Airport Hotel, and

(iv) any indemnity or penalty or costs which the Airport Authority Hong Kong may have to give or may incur under the Government Grant in connection with (i), (ii) and (iii) above.

Regal Hongkong Hotel

The Government Lease for Regal Hongkong Hotel contains the usual and customary restrictions (for a Government Grant of its era) against offensive trades or businesses including (among other things) "Victualler, or Tavern-keeper except with the Government's written permission".

Under a License granted by the Government on September 30, 1987, Cityability Limited is permitted to carry on the trade or business of a Victualler or Tavern-keeper in this property notwithstanding the restrictive covenants in the Government Lease. Such license is granted subject to the requirement that the operation of the relevant businesses shall comply with all the provisions and conditions contained in the licenses and permits relating to the operations of such businesses which the operator(s) has/have to obtain separately, and with any applicable ordinances rules or regulations affecting the operations of such businesses.

Under the Modification Letter referred to in the title description above, which varies the Government Lease, Cityability Limited is required to permit all members of the public at all times and for all lawful purposes freely and without payment of any nature whatsoever to pass and repass on foot over and along portions of the ground floor and first floor of the hotel building on Sections K and H of Inland Lot No.1408, such portions being identified on the plan annexed to a Deed of Dedication registered in the Land Registry by Memorial No.UB3064516 (the "**Dedicated Areas**"), and shall at its expense throughout the period form surface and thereafter maintain, repair and cleanse the Dedicated Areas to the satisfaction of the Government and shall also at its expense throughout the period provide, install, maintain and repair the lighting system including the associated ductings and wirings therein within the Dedicated Areas and shall be responsible for payment of all charges for the consumption of electricity therefore to the satisfaction of the Government, and shall throughout the period keep and maintain the Dedicated Areas free of all obstructions of any nature whatsoever and shall if and when called upon to do so by the Government carry out works for the removal of any obstruction from the Dedicated Areas as the Government shall require.

Under the Deed of Covenant defined in the title description above, Cityability Limited agreed with Athlone Limited (the then owner of the adjacent Section K of Inland Lot No.1408 on which 68 Yee Wo Street is built (the "**Athlone Land**")) to jointly develop their respective lands. Upon completion of the joint development, the total gross floor area of the building erected on the Athlone Land is 7,462.904 square meters (the "**Deficit Portion**") less than the maximum floor area permitted for a non-domestic building with respect to the Athlone Land. The Deficit Portion has been utilized in the construction of the property on the lots owned by Cityability Limited (the "**Cityability Property**"). In the Deed of Covenant, Athlone Limited has covenanted with Cityability Limited (and others) that it shall not submit to the Building Authority or any other competent authority for the time being any application to obtain approval of plans or consent to the commencement of building works on the Athlone Land if such application will in any way include or utilize the Deficit Portion; and shall not develop or permit to be developed the Athlone Land in any way or in any manner which will or may include or utilize the Deficit Portion. Athlone Limited has further covenanted with Cityability Limited that Athlone Limited shall, if requested by Cityability Limited where it wishes to redevelop the Cityability Property, apply jointly with Cityability Limited to the Building Authority or any other competent authority for the time being for the redevelopment of the Cityability Property to the intent that the Deficit Portion shall be utilized by Cityability Limited solely for the construction of buildings on the Cityability Property in any redevelopment. Any assignment of the Athlone Land must contain a covenant from the assignee to observe the Deed of Covenant.

Under the Deed of Grant defined in the title description above, Athlone Limited (as owner of the Athlone Land) entered into covenants with Cityability Limited (as owner of the Cityability Property) to regulate their respective rights and obligations in respect of the joint development on their respective properties then known as Paliburg Plaza and now known as 68 Yee Wo Street (erected on the Athlone Land) and Regal Hongkong Hotel (erected on the Cityability Property). It also defines the owners' respective rights and obligations in respect of the use and the management of certain areas and facilities to be used in common by 68 Yee Wo Street and Regal Hongkong Hotel and provides for the apportionment of the expenses of the management, maintenance, repair, renovation, insurance and service thereof. In particular, the owner of the Athlone Land (as well as its successors and assigns) has the right to pass over certain blue hatched black areas on the ground floor, first floor (upon completion of the proposed footbridge shown on the first floor plan) and fourth floor (as identified on the floor plans annexed to the Deed of Grant) for the proper use and enjoyment of 68 Yee Wo Street (subject to the right of Cityability Limited to modify such passage), and Cityability Limited (and its successors and assigns) is required to maintain such passages as reasonably free and unobstructed access to and from the common areas.

Although the Modification Letter defined in the title description above refers to the right of the public to pass on foot over and along portions of the ground floor and first floor of the building constructed on Sections K and L of Inland Lot No.1408, according to the plan annexed to the Deed of Dedication referred to above, the Dedicated Areas are identified to be within the building constructed on Section K of Inland Lot No.1408 and which is under the Deed of Grant defined in the title description above identified to be the Athlone Land on which the building now known as 68 Yee Wo Street has been constructed.

Regal Kowloon Hotel

Under the terms of the Conditions of Sale referred to in the title description above, the property shall not be used for any purpose other than non-industrial purposes. In addition, the Property is not permitted to be partitioned, or assigned, mortgaged, charged, underlet or parted with possession or otherwise be disposed of except as a whole.

Regal Oriental Hotel

Under the terms of the Conditions of Sale referred to in the title description for the main hotel building above, the lot may not be used for any purpose other than non-industrial purposes. In addition, Gala Hotels Limited, as the owner of the Regal Oriental Hotel, is not permitted to partition nor assign the lot, or mortgage, underlet, part with the possession of or otherwise dispose of the lot except as a whole unless with the prior written consent of the Government provided that without such consent it may dispose of and deal in undivided shares in the lot as a whole or underlet a part or parts of the building or buildings erected on the lot.

Under the Licence as defined in the title description for the main hotel building above, the Government has granted Gala Hotels Limited permission to use and maintain the single-story pedestrian footbridge over a portion of the public roads and footways/pedestrian way known as Prince Edward Road East and Concorde Road adjoining the lot, so as to connect the third floor of the building with the second floor carpark of the east podium of the former Hong Kong International Airport Terminal on a quarterly basis commencing from July 6, 1998 at a license fee of HK$250 per quarter. The License was terminated on April 1, 2005 by a Notice of Cancellation issued by the Government dated August 9, 2004. As required by the Director of Lands, Gala Hotels Limited has removed the footbridge at its own expense. The estimated cost of removing the footbridge is approximately HK$7.8 million which will be borne by the Vendor.

Gala Hotels Limited is allocated 41 equal undivided shares out of the total 180 undivided shares in Po Sing Court for the back of house areas serving the main hotel building and is entitled to exclusive possession of the units described. As a co-owner of Po Sing Court, Gala Hotels Limited is bound by the terms of the Po Sing DMC defined in the title description above. Under the DMC, Gala Hotels Limited is entitled to one vote for each undivided shares vested in it, and any resolution passed at a duly convened meeting by a simple majority of the owners present in person voted by proxy and voting shall be binding on all the owners.

A Building Order No.DR03344/K/03/TCW/TE dated April 16, 2004 has been issued by the Buildings Department of Hong Kong against The Incorporated Owners of Po Sing Court, which requires certain work to be carried out at Po Sing Court. The Government has now appointed contractors to carry out such works and the costs incurred will be borne by all the co-owners of Po Sing Court. Gala Hotels Limited will bear its proportion of such costs which is approximately 23% of the total cost (based on its holding of 41 equal undivided shares in Po Sing Court) which amounts to approximately HK$300,000.

Regal Riverside Hotel

Under the terms of the Conditions of Sale referred to in the title description above, the property shall not be used for any purpose other than non-industrial purposes. In addition, Regal Riverside Limited is not permitted to partition nor assign the lot, or mortgage, underlet, part with possession of or otherwise dispose of the lot except as a whole, unless with the prior written consent of the Government, provided that with such consent, it may dispose of and deal in undivided shares in the lot (subject to the approval of the Government of the draft terms of a DMC) or underlet parts of the lot.

The following statements are by way of a general guide to investors only and do not constitute tax advice. Investors are therefore advised to consult their professional advisers concerning possible taxation or other consequences of purchase, holding, selling or otherwise disposing of the Units under the laws of their country of incorporation, establishment, citizenship, residence or domicile.

The following summary is based on Hong Kong taxation law, regulation and practice in force at the date of this Offering Circular and may be subject to subsequent change. The comments made in this summary relate only to Regal REIT and its subsidiaries as disclosed in the section headed "Structure and Management — Structure and Organization of Regal REIT" in this Offering Circular. **Investors subject to taxes in jurisdictions other than Hong Kong should consult their own tax advisors regarding their investment in Units. Investors should note that Regal REIT will be a passive foreign investment company for United States federal income tax purposes.**

Regal REIT

Profits Tax

Regal REIT, as a collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO, is exempt from Hong Kong profits tax.

The Property Companies will be subject to Hong Kong profits tax in respect of profits derived from leasing the Initial Hotel Properties pursuant to the Lease Agreements or from the letting of any real estate in Hong Kong, at the current rate of 17.5%. The Property Companies will not be subject to Hong Kong profits tax on any capital gains derived from the disposal of the Initial Hotel Properties, provided the Initial Hotel Properties are not held for trading purposes as Hong Kong does not impose tax on capital gains.

Finance Company 1 will be subject to Hong Kong profits tax at a current rate of 17.5% in respect of any profits arising in or derived from their financing activities in Hong Kong.

Holding SPV and the Holding Companies will not be subject to Hong Kong profits tax in respect of profits arising in or derived from Hong Kong, unless they are regarded as carrying on a trade, profession or business in Hong Kong. Dividend income derived by the Holding Companies from the Property Companies will be exempt from Hong Kong profits tax.

Withholding Tax

Distributions from the Property Companies to the Holding Companies, from the Holding Companies to Holding SPV and from Holding SPV to Regal REIT, will not be subject to any withholding tax in Hong Kong.

Distributions from Regal REIT to Unitholders will not be subject to any withholding tax in Hong Kong.

Stamp Duty

No Hong Kong stamp duty is payable by Regal REIT on the issue of new Units.

In the event that the REIT Manager decides to acquire a new property in Hong Kong or dispose of any property, such acquisition or disposal of property will attract Hong Kong stamp duty. Depending on the purchase price, Hong Kong stamp duty will be charged at up to 3.75% of the higher of the consideration or market value of the property.

In the case where the acquisition or disposal is effected by way of a transfer of shares, Hong Kong stamp duty is payable on any purchase and sale of shares, to the extent the shares to be transferred constitute Hong Kong stock as defined under the Hong Kong Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong). The applicable rate is 0.2% of the higher of the consideration or value of the shares.

Unitholders

Profits Tax

It is understood that, under the Inland Revenue Department's current practice, Hong Kong profits tax will not be payable by Unitholders on distributions made by Regal REIT. However, Unitholders should take advice from their own professional advisers as to their particular tax position.

Hong Kong profits tax will not be payable by Unitholders (other than Unitholders carrying on a trade, profession or business in Hong Kong and holding Units for trading purposes) on any capital gains made on the sale or other disposal of Units.

Stamp Duty

No Hong Kong stamp duty is payable by Unitholders in relation to the issue of Units to them by Regal REIT.

The sale and purchase of Units by a Unitholder will attract Hong Kong stamp duty at the current rate of 0.2% of the price of the Units being sold or purchased, whether or not the sale or purchase is on or off the Hong Kong Stock Exchange. The Unitholder selling the Units and the purchaser will each be liable for one-half of the amount of Hong Kong stamp duty payable upon such transfer. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of Units.

Estate Duty

Under existing law, Units will form part of the Hong Kong estate of a deceased Unitholder for the purposes of Hong Kong estate duty. The Abolition of Estate Duty legislation was passed on November 2, 2005 by the Hong Kong Legislative Council and became effective from February 11, 2006 ("**Commencement Date**"). Estates of persons who pass away on or after the Commencement Date will not be subject to estate duty.

Hong Kong Underwriters

Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.
BOCI Asia Limited
Celestial Capital Limited
DBS Asia Capital Limited
ICEA Capital Limited
Sun Hung Kai International Limited
Taifook Securities Company Limited

Underwriting Arrangements

Underwriting Agreements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering (including the Preferential Offering) is expected to be fully underwritten by the International Underwriters, in each case on a several basis and subject as stated below. The Public Offer Underwriting Agreement was entered into on March 16, 2007 and, subject to an agreement being reached on the Offer Price between Regal, the REIT Manager and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), the International Purchase Agreement is expected to be entered into on or around the Price Determination Date. The Public Offer Underwriting Agreement is conditional upon (among other things) the International Purchase Agreement being entered into and having become effective, and the respective Underwriting Agreements are expected to be inter-conditional. (See the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular).

Grounds for termination by the Hong Kong Underwriters

The Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters) may in their absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect upon giving written notice to Regal and the REIT Manager at any time at or prior to 8:00 a.m. on the Listing Date if:

(a) any of the following shall have come to the notice of any of the Joint Global Coordinators or the Hong Kong Underwriters after the date of the Public Offer Underwriting Agreement:

  (i) that any statement contained in this Offering Circular or the Application Forms (collectively, the "**Hong Kong Offering Documents**") and/or any amendments or supplements thereto was or has become untrue, incorrect or misleading in any material respect; or

  (ii) any matter which would, if the Hong Kong Offering Documents and/or any amendments or supplements thereto were issued at that time, constitute a material omission therefrom; or

(iii) that any of the representations and warranties given by Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the REIT Manager or Regal REIT in the Public Offer Underwriting Agreement is (or would if repeated at that time be) untrue or breached; or

(iv) any event, act or omission which gives or is likely to give rise to any liability of Regal REIT pursuant to the indemnities given by Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the REIT Manager and Regal REIT in the Public Offer Underwriting Agreement; or

(v) any material breach of any of the obligations of any party (other than the Joint Global Coordinators or the Hong Kong Underwriters) to the Public Offer Underwriting Agreement or any of the following documents: (1) the Trust Deed, (2) the International Purchase Agreement, (3) the receiving bankers' agreement, (4) the registrar's agreement, (5) the Deed of Tax Indemnity, (6) the listing agreement, (7) the pricing agreement, (8) the Financing Agreement, (9) the Subscription Agreement, (10) the Distribution Deed, (11) the Deed of Non-Competition, (12) the Hotel Management Agreements, (13) the Lease Agreements, (14) the Lease Guarantees, (15) the unconditional and irrevocable third party guarantee, (16) the Deed of Trademark Licence, (17) the Distributable Income Guarantee Deed, (18) the Sale and Purchase Agreement, (19) all the other agreements and other documents entered into in connection with the Restructuring as set out in or referred to in the Sale and Purchase Agreement, (20) the AEP Agency Deed, (21) the Unit Borrowing Agreement and (22) the interest rate hedging agreements; or

(vi) any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise) or in the earnings, business, operations or trading position or prospects of the Initial Hotel Properties, Regal REIT or the REIT Manager, or any change in capital stock or long term debt of Regal REIT or any of its subsidiaries, or any loss or interference with the Initial Hotel Properties from fire, explosion, flood or other calamity (whether or not covered by insurance) or from any labor dispute or court or governmental action, order or decree, which (in any such case) is not set forth or contemplated in this Offering Circular and the effect of which is, in the sole opinion of the Joint Global Coordinators to make it impracticable or inadvisable to proceed with the Hong Kong Public Offering and/or the Global Offering; or

(vii) that any profit forecast or forecast of DPU which appears in any of the Hong Kong Offering Documents is or becomes incapable of being met or, in the opinion of the Joint Global Coordinators, unlikely to be met; or

(viii) that (A) the Trustee or the REIT Manager seeks to retire, or is removed, as the responsible entity of Regal REIT, (B) any certificate given by the Trustee or the REIT Manager or any of their respective officers to the Joint Global Coordinators under or in connection with the Public Offer Underwriting Agreement or the Global Offering is false or misleading in any material respect, (C) the Trustee or the REIT Manager or any of their respective directors or officers is prosecuted for a criminal offence or (D) any of the Trustee or the REIT Manager or Regal is subject to any insolvency or analogous event or circumstance referred to in the Public Offer Underwriting Agreement; or

(ix) any tax ruling on stamp duty or other tax matters obtained by Regal REIT, the REIT Manager, any member of the Regal Group, the Vendor, Holding SPV, the Property Companies, the Finance Companies or the Holding Companies in connection with the Global Offering and/or the Restructuring is revoked or varied; or

(x) any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in the Hong Kong Offering Documents, or to the issue of the Hong Kong Offering Documents; or

(b) there develops, occurs, or is introduced or comes into force:

(i) any calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls;

(ii) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the United States, the United Kingdom, Singapore, Australia, Canada, France, Germany, Ireland, Italy, the Netherlands, Belgium, Switzerland or the UAE (collectively, the "**Relevant Jurisdictions**"); or

(iii) any event or series of events in the nature of force majeure (including without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, epidemic, accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions; or

(iv) without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism or any other state of emergency or calamity or crisis; or

(v) any tax law or other change or development involving a change or prospective change in taxation in or affecting any of the Relevant Jurisdictions having an adverse effect, or prospective adverse effect, on the Hong Kong Public Offering and/or the Global Offering, Regal REIT or the Units (or the transfer of any Units) or an investment in the Units; or

(vi) any downgrading or the issue or giving of any notice of any intended or potential downgrading in the sovereign rating accorded to Hong Kong by any of Standard & Poor's, Moody's Investors Service, Fitch IBCA or Duff & Phelps, or the MSCI Real Estate Sub-Index falls by more than 15.0% below the relevant index between 5:00 p.m. on the Business Day immediately before the date of the Public Offer Underwriting Agreement and 5:00 p.m. on the Business Day immediately preceding the Listing Date; or

(vii) any downgrading or the issue or giving of any notice of any intended or potential downgrading of the credit rating assigned for Regal, any member of the Regal Group or any securities issued by any such companies (if any); or

(viii) the imposition or declaration of (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange or the London Stock Exchange or (B) any moratorium on banking activities or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions (as defined above), and which in the sole opinion of the Joint Global Coordinators, (A) is, will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of Regal REIT or Regal REIT and its subsidiaries as a whole, or potential Unitholders, or (B) makes or is likely to make it impracticable or inadvisable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of Units on the Listing Date or (C) has or will or may have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Public Offer Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged.

Undertakings

Regal REIT

Pursuant to the Public Offer Underwriting Agreement, the REIT Manager and Regal REIT agree that, except pursuant to the Global Offering (including the Over-allotment Option) or with the consent of the Joint Global Coordinators, neither Regal REIT nor any of its subsidiaries shall, during a period of six months following the Listing Date, and whether conditionally or unconditionally:

(a) allot, issue (except for Units to be issued to the REIT Manager as part of its fees as described in this Offering Circular), offer, sell, contract to sell, hedge, grant any option or right to subscribe or purchase over or in respect of, or otherwise dispose of any Units or any securities exchangeable or convertible into Units or which carry rights to subscribe for or purchase Units; or

(b) deposit Units with a depositary in connection with the issue of depositary receipts; or

(c) enter into a transaction (including, without limitation, a swap or other derivative transaction) that transfers, in whole or in part, any economic consequence of ownership of any Units; or

(d) offer or agree or announce any intention to do any of the foregoing.

Regal entities

Pursuant to the Public Offer Underwriting Agreement, each of Regal, Complete Success Investments Limited, Great Prestige Investments Limited and the REIT Manager agrees that:

(a) neither it nor any of its subsidiaries has any present intention of disposing of any Unit which may be beneficially owned or controlled by it on completion of the Global Offering and the Subscription Agreement, or any interest therein;

(b) except with the consent of the Joint Global Coordinators or as described below, it will not, and will procure that its subsidiaries will not, during a period of six months following the Listing Date, and whether conditionally or unconditionally:

    (i) dispose of: (A) any Units or any direct or indirect interest therein (including, without limitation, by granting or creating any option, mortgage, pledge, charge or other security interest); or (B) any securities exchangeable or convertible into any Units; or

(ii) enter into any swap or other derivative transaction or other arrangement that transfers, in whole or in part, any economic consequence of ownership of any Units or any securities exchangeable or convertible into any Units; or

(iii) dispose of any direct or indirect interest in any company or entity holding any Units or any securities exchangeable or convertible into any Units; or

(iv) offer or agree to do any of the foregoing or announce any intention to do so; and

(c) in the event of such a disposal of any Units or any interest therein, whether by itself or any of its subsidiaries, within the further period of six months following the expiry of the six month period referred to in (b) above, it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market.

These restrictions do not apply to: (i) a transfer of Units to a wholly owned subsidiary of Regal (provided such transferee enters into equivalent obligations); (ii) the exercise of the Over-allotment Option; (iii) the transfer of Units pursuant to the Unit Borrowing Agreement; or (iv) any Units (save for AEP Units and Units issued to the REIT Manager as part of its fees as described in this Offering Circular) which Regal, the REIT Manager, Complete Success Investments Limited or Great Prestige Investments Limited or any of their subsidiaries may acquire following the Listing Date.

Commission, expenses and indemnity

Under the terms and conditions of the Underwriting Agreements, the fees and commissions to which the Underwriters are entitled will comprise a gross underwriting commission of 2.5% on the Offer Price (which excludes brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy). Regal and the REIT Manager (on behalf of Regal REIT) have agreed that the expenses of the Global Offering, including underwriting fees and expenses, consulting fees and expenses, legal and other professional fees and expenses and printing costs, will be paid by deduction from the proceeds of the Hong Kong Public Offering and, shall be paid by Regal REIT or, failing which, Regal. (See the section headed "Key Investment Information and Highlights — Use of Proceeds" in this Offering Circular.)

Under the terms and conditions of the Underwriting Agreements, Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the REIT Manager and Regal REIT have agreed (or will agree) to indemnify the Underwriters for certain losses which they may suffer, including losses incurred as a result of Underwriters' performance of their obligations under the Underwriting Agreements or as a result of any breach of the representations and warranties given to the Underwriters under the Underwriting Agreements and any breach by Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the REIT Manager or Regal REIT of the Underwriting Agreements.

Underwriters' interest in Regal REIT

Save for its obligations under the relevant Underwriting Agreement(s) or its respective obligations under the Financing Agreement, the interest rate hedging agreements and/or the unconditional and irrevocable guarantee in the amount of HK$1 billion in favor of the Lessors and the Trustee (as the case may be) or as otherwise disclosed in this Offering Circular, none of the Underwriters owns any Units or has any shareholding interest or other ownership interest in Regal REIT, the Trustee or the REIT Manager or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Units or securities in Regal REIT, the Trustee or the REIT Manager, other than the interest of Deutsche Bank AG in the Trustee.

The Global Offering

The Global Offering comprises the Hong Kong Public Offering, the International Offering and the Preferential Offering. A total of 869,289,000 Units will initially be made available under the Global Offering which consists of:

(i) the Hong Kong Public Offering of 86,930,000 Units (subject to adjustment and reallocation as mentioned below) in Hong Kong as described below under the sub-heading "The Hong Kong Public Offering";

(ii) the International Offering of 782,359,000 Units (subject to adjustment and reallocation as mentioned below) as described below under the sub-heading "The International Offering". The Reserved Units being offered under the Preferential Offering are offered out of the Units being offered under the International Offering; and

(iii) the Preferential Offering of 49,877,375 Reserved Units (subject to adjustment and reallocation as mentioned below) which is being extended to Qualifying Regal Shareholders, as described below under the sub-heading "The Preferential Offering".

Investors may apply for Units under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for Units under the International Offering, but not under both (except those eligible to apply for Reserved Units in the Preferential Offering may also apply for Units under the Hong Kong Public Offering if eligible). Investors may only receive Units under either the International Offering or the Hong Kong Public Offering, but not under both (except those receiving Reserved Units under the Preferential Offering may also receive Units under the Hong Kong Public Offering if eligible). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve the selective marketing of Units to institutional and professional investors and other investors anticipated to have a sizeable demand for such Units, in each case, in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A or other applicable exemptions from the registration requirements of the US Securities Act. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares, units and other securities, and corporate entities which regularly invest in shares, units and other securities. The Preferential Offering is open to Qualifying Regal Shareholders only.

The number of Units to be offered under the Hong Kong Public Offering, the International Offering and the Preferential Offering may be subject to reallocation as described below in this section.

Allocation

As part of the International Offering process, prospective professional, institutional and other investors will be required to specify the number of Units they would be prepared to acquire under the International Offering either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about, the Price Determination Date.

Allocation of the Units pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investors are likely to buy further Units, and/or hold or sell their Units, after the listing of the Units on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the International Offering Units on a basis which would lead to the establishment of a solid unitholder base to the benefit of Regal REIT and Unitholders as a whole.

Allocation of Units to applicants under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offering Units validly applied for, but, subject to that (and in accordance with the allocation of Hong Kong Public Offering Units in Pool A and Pool B described below under the sub-section headed "The Hong Kong Public Offering"), the allocation of Hong Kong Public Offering Units could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offering Units, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offering Units.

Determining the Offer Price

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), Regal and the REIT Manager on the Price Determination Date, following completion of the book-building process for the International Offering and after assessment of the level of market demand for the Global Offering. The Price Determination Date is expected to be Friday, March 23, 2007.

The Offer Price will fall within the Offer Price range as stated in this Offering Circular unless otherwise announced, as further explained below, at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of Regal and the REIT Manager, reduce the indicative Offer Price range below that stated in this Offering Circular at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. In such a case, notices of the reduction in the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators with Regal and the REIT Manager, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offer statistics as currently set out in the section headed "Offering Circular Summary" in this Offering Circular, and any other financial information which may change as a result of such reduction.

If applications under the Hong Kong Public Offering and the Preferential Offering have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, then if the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) of a reduction in the indicative Offer Price range stated in this Offering Circular on or before the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, the Offer Price will under no circumstances be set outside the Offer Price range as stated in this Offering Circular.

If the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), Regal and the REIT Manager are unable to reach agreement on the Offer Price, the Global Offering will not become unconditional and will lapse.

An announcement of the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Public Offering Units, and the final number of Hong Kong Public Offering Units, Pool A and Pool B, respectively, is expected to be published on or before Thursday, March 29, 2007.

Price Payable on Application under Hong Kong Public Offering and Preferential Offering

The Offer Price will not be more than HK$3.38 and is currently expected to be not less than HK$2.68. Applicants for Hong Kong Public Offering Units and Reserved Units are required to pay, on application, the Maximum Offer Price of HK$3.38 per Hong Kong Public Offering Unit or Reserved Unit together with brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%, amounting to a total of HK$3,414.11 per board lot of 1,000 Units.

If the Offer Price, as finally determined in the manner described in the sub-section headed “Determining the Offer Price” above, is lower than the Maximum Offer Price, appropriate refund payments (including the brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies) will be made to applicants, without interest. Further details are set out in the sections headed “Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units” and “Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering” in this Offering Circular.

Conditions of the Hong Kong Public Offering and the Preferential Offering

All acceptances of applications for the Hong Kong Public Offering Units and Reserved Units in the Hong Kong Public Offering and the Preferential Offering are conditional upon, among other matters:

(a) Listing

The Hong Kong Stock Exchange granting listing of, and permission to deal in, all the Units to be issued as mentioned herein;

(b) Sale and Purchase Agreement

The Sale and Purchase Agreement having become and remaining unconditional in accordance with its terms;

(c) Financing Agreement Unconditional

The Financing Agreement having become and remaining unconditional in accordance with its terms, and the Facility having been unconditionally made available to be drawn down in the amount of not less than HK$4.35 billion;

(d) International Purchase Agreement

The International Purchase Agreement having been duly executed by all parties thereto;

(e) Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators for and on behalf of the Underwriters) and neither Underwriting Agreement being terminated in accordance with its terms or otherwise;

(f) SFC Authorization

The SFC having authorized this Offering Circular and approved the application forms pursuant to section 105 of the SFO;

(g) Pricing

The Offer Price being duly determined; and

(h) Subscription Agreement

The Joint Global Coordinators being satisfied with respect to completion of the subscription obligations under the Subscription Agreement,

in the case of each of (a) to (h) above, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

The consummation of each of the International Offering (including the Preferential Offering) and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be caused to be published by the REIT Manager in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on the Business Day next following such lapse.

In the above situation, all application monies will be returned to applicants, without interest and on the terms set out in the section headed "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units" in this Offering Circular. In the meantime, all application monies will be held in a separate bank account or separate bank accounts with a receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Unit certificates are expected to be issued by Thursday, March 29, 2007, but will only become valid at 8:00 a.m. on Friday, March 30, 2007, provided that: (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Other Information — Underwriting — Underwriting Arrangements — Grounds For Termination by the Hong Kong Underwriters" in this Offering Circular has not been exercised.

The Hong Kong Public Offering

The Hong Kong Public Offering is a fully underwritten public offer (subject to satisfaction or waiver of the other conditions described in the sub-section above headed "Conditions of the Hong Kong Public Offering and the Preferential Offering") for the subscription in Hong Kong of, initially, 86,930,000 Units (representing approximately 10% of the total number of Units initially available under the Global Offering) at the Offer Price.

The total number of Hong Kong Public Offering Units available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes: Pool A and Pool B. All valid applications that have been received for Hong Kong Public Offering Units with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of HK$5 million or below will fall into Pool A (and Hong Kong Public Offering Units will be allocated on an equitable basis to successful applicants within this pool) and all valid applications that have been received for Hong Kong Public Offering Units with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of more than HK$5 million will fall into Pool B (and Hong Kong Public Offering Units will be allocated on an equitable basis to successful applicants within this pool).

Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. Where either of the pools is undersubscribed, the surplus Hong Kong Public Offering Units will be transferred to satisfy demand in the other Pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offering Units from Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than half of the Hong Kong Public Offering Units initially available under the Hong Kong Public Offering (that is, 43,465,000 Hong Kong Public Offering Units) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offering Units under the International Offering (except for any Reserved Units under the Preferential Offering), and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

The final number of Hong Kong Public Offering Units comprised in the Hong Kong Public Offering, Pool A and Pool B respectively, will, following the determination by the Joint Global Coordinators, be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on Thursday, March 29, 2007 with the announcement of the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the Preferential Offering, and the basis of allocations of the Hong Kong Public Offering Units.

The allocation of Units between the Hong Kong Public Offering and the International Offering is subject to adjustment by the Joint Global Coordinators. The number of Units initially available under the Hong Kong Public Offering will be approximately 10% of the total number of Units available under the Global Offering (before taking into account any exercise of the Over-allotment Option).

In addition, if the number of the Units validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Units initially available under the Hong Kong Public Offering, then Units will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Units available under the Hong Kong Public Offering will be at least 260,788,000 Units (representing at least 30% of the Units initially available under the Global Offering). If the number of Units validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Units initially available under the Hong Kong Public Offering, then the number of Units to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Units available under the Hong Kong Public Offering will be at least 347,716,000 Units (representing at least 40% of the Units initially available under the Global Offering). If the number of Units validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Units initially available under the Hong Kong Public Offering, then the number of Units to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Units available under the Hong Kong Public Offering will be at least 434,646,000 Units (representing at least 50% of the Units initially available under the Global Offering).

Units validly applied for under the Hong Kong Public Offering (as a multiple of the 86,930,000 Units initially available)	**Post "clawback"(1) At least**	**Post "clawback"(2) At least**
At least 15 times but less than 50 times	260,788,000	30%
At least 50 times but less than 100 times	347,716,000	40%
At least 100 times	434,646,000	50%

Notes:

(1) Expressed as the total number of Units to be available under the Hong Kong Public Offering post "clawback".

(2) Units available under the Hong Kong Public Offering, expressed as an approximate percentage of the total number of Units available under the Global Offering, before exercise of the Over-allotment Option.

The number of the Reserved Units will not be affected by such reallocations.

In addition, in the event of an under-subscription in the Hong Kong Public Offering, the Joint Global Coordinators will have the discretion to reallocate to the International Offering such number of unsubscribed Hong Kong Public Offering Units as they may deem appropriate.

The REIT Manager, the Director and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Units in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Units in the Hong Kong Public Offering.

The International Offering

A total of 782,359,000 Units will initially be available to investors under the International Offering, including the Reserved Units. These 782,359,000 Units represent approximately 90% of the Units available under Global Offering (before taking into account any exercise of the Over-allotment

Option). Pursuant to the International Offering, the International Offering Units will be offered to institutional, professional and other investors by the International Underwriters or through selling agents appointed by them. International Offering Units will be offered to and placed with professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offering Units in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A.

In addition, the International Offering Units may be reallocated to the Hong Kong Public Offering in the case of over-subscription under the Hong Kong Public Offering as set out in the sub-section headed "The Hong Kong Public Offering" above.

The Reserved Units being offered under the Preferential Offering are offered out of the Units being offered under the International Offering.

The Preferential Offering

In order to enable shareholders of Regal to participate in the Global Offering on a preferential basis as to allocation only, Qualifying Regal Shareholders are being invited to apply for an aggregate of 49,877,375 Reserved Units (representing approximately 5.7% of the Units initially available under the Global Offering and approximately 1.6% of the Units in Regal REIT upon completion of the Global Offering) in the Preferential Offering on the basis of an Assured Entitlement of one Reserved Unit for every whole multiple of 100 Regal Shares held by them at the close of business on Friday, March 9, 2007. Any Qualifying Regal Shareholder holding less than 100 Regal Shares at the close of business on Friday, March 9, 2007 will not be entitled to apply for any Reserved Unit. The Reserved Units are being offered out of the Units being offered under the International Offering.

The Assured Entitlements may represent Units not in a multiple of a full board lot of 1,000 Units, and dealings in odd lot Units may be at or below their prevailing market price.

A **BLUE** Application Form is being dispatched to each Qualifying Regal Shareholder, together with an electronic copy of this Offering Circular on CD ROM. Qualifying Regal Shareholders are permitted to apply for a number of Reserved Units which is equal to or less than their Assured Entitlement under the Preferential Offering. A valid application in respect of a number of Reserved Units equal to or less than a Qualifying Regal Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions as mentioned on the **BLUE** Application Forms. If an application is made for a number of Reserved Units greater than the Assured Entitlement, the Assured Entitlement will be satisfied in full but the excess portion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Units less than the Assured Entitlement, the applicant is **recommended** to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Units; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Units applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Unit will be allotted to such applicant. The Joint Global Coordinators, on behalf of the Underwriters, will allocate any Assured Entitlements not taken up by Qualifying Regal Shareholders to the International Offering.

In addition to any application for Reserved Units, Qualifying Regal Shareholders will be entitled to make one application for the Hong Kong Public Offering Units on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS. Qualifying Regal Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Public Offering Units made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC under the Hong Kong Public Offering.

Assured Entitlements of Qualifying Regal Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Hong Kong Stock Exchange. The Joint Global Coordinators have the authority to reallocate all or any Reserved Units not taken up by Qualifying Regal Shareholders to the International Offering.

The procedure for application under, and the terms and conditions of, the Preferential Offering are set out in the sections headed "Other Information — How to Apply for Hong Kong Pubic Offering Units and Reserved Units — How to apply for Reserved Units" and "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" and on the **BLUE** Application Form.

The documents to be issued in connection with the Hong Kong Public Offering and the Preferential Offering (comprising this Offering Circular and the Application Forms) will not be registered under any applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no Reserved Units are being offered to Non-qualifying Regal Shareholders under the Preferential Offering and no **BLUE** Application Forms will be sent to such persons. Applications will not be accepted from Non-qualifying Regal Shareholders or persons who are acting for the benefit of Non-qualifying Regal Shareholders.

Over-allotment Option and Stabilization

The Over-allotment Option

In connection with the Global Offering and in connection with over-allocations in the International Offering, if any, and other stabilizing action in respect of the Units, Regal is expected to grant to Merrill Lynch International (on behalf of the International Underwriters) the Over-allotment Option, which will be exercisable on one or more occasions at any time from the Listing Date up to and including the date which is the 30th day after the last day for lodging Application Forms under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, Regal may be required to make available up to 130,393,350 Units, representing approximately 15%, of the total number of Units initially available under the Global Offering, to be offered to investors as part of the International Offering. In the event that the Over-allotment Option is exercised, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese). Where all or any of the Units subject to the Over-allotment Option are held by one or more of its respective subsidiaries, Regal has agreed to procure compliance with the Over-allotment Option by such respective subsidiaries.

Stabilizing Action

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it) on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Units at a level higher than that which might otherwise prevail for a period of 30 days after the last day for lodging Application Forms under the Hong Kong Public Offering. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to do this. Such transactions, if commenced, may be discontinued at any time and are required to be brought to an end upon expiry of such 30-day period. The Stabilizing Manager has been or will be appointed as stabilizing manager for the purposes of the Global Offering and will conduct stabilizing activities (if any) on a basis as disclosed in this section and equivalent to that required under the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilizing Manager.

Following any over-allocation of Units in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market for a period of 30 days after the last day for lodging applications under the Hong Kong Public Offering, exercising the Over-allotment Option in full or in part, making unit borrowing arrangements or by any combination of the above. Any such secondary market purchases will be made in compliance with all applicable laws and regulatory requirements and on a basis consistent with the Securities and Futures (Price Stabilizing) Rules made under the SFO as if those rules were directly applicable. The number of Units which can be over-allocated will not exceed the number of Units under the Over-allotment Option, being 130,393,350 Units representing approximately 15% of the Units initially available under the Global Offering.

In order to facilitate settlement of over-allocations in connection with the International Offering, the Stabilizing Manager or any person acting for it is expected to enter into the Unit Borrowing Agreement with Complete Success Investments Limited (a subsidiary of Regal). Under the Unit Borrowing Agreement, Complete Success Investments Limited is expected to agree that it will, if requested by the Stabilizing Manager or any person acting for it and subject to the terms of the Unit Borrowing Agreement, make available up to 130,393,350 Units by way of unit lending, in order to cover over-allocations in connection with the International Offering.

The possible stabilizing action which may be taken by the Stabilizing Manager in connection with the Global Offering may involve (among other things): (i) over-allocation of Units for the purpose of preventing or minimizing any reduction in the market price of the Units, (ii) selling or agreeing to sell Units so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Units, (iii) borrowing Units or exercising the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase Units for the sole purpose of preventing or minimizing any reduction in the market price of the Units, (v) selling or agreeing to sell Units purchased by the Stabilizing Manager in the course of primary stabilizing action in order to liquidate a long position established as a result of those purchases and (vi) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in Units should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Units. There is no certainty regarding the extent to which and the time period for which the Stabilizing Manager will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Units;

- no stabilizing action will be taken to support the price of the Units for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire at the end of April 21, 2007, being the day which is expected to be the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Units, demand for the Units, and therefore the price of the Units, could fall;

- the price of any security (including the Units) cannot be assured to stay at or above its offer price by the taking of any stabilizing action; and

- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Units.

These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Units. As a result, the price of the Units may be higher than the price that otherwise might exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the Units staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Units by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Units by investors in the Global Offering.

The REIT Manager will ensure or procure that a public announcement, on a basis consistent with the Securities and Futures (Price Stabilizing) Rules as if those rules were directly applicable, will be made within seven days of the expiration of the stabilizing period.

This section sets out details of the reports prepared by various experts. The REIT Manager and the Joint Global Coordinators have reviewed the reports prepared by these experts.

Each of the Sole Listing Agent, CB Richard Ellis Limited, Ernst & Young, Savills Valuation and Professional Services Limited and Savills Project Consultancy Limited has given and have not withdrawn their respective written consents to the issue of this Offering Circular with the inclusion of their reports and/or opinions and/or memorandum and/or valuation certificates and/or summary thereof (as the case may be) and/ or references to their names included herein in the form and context in which they are respectively included.

The Sole Listing Agent was responsible for considering whether the profit forecast set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" was made by the REIT Manager after due and careful enquiry, the text of their letter is set out in Part C of Appendix III to this Offering Circular.

CB Richard Ellis Limited was responsible for: (i) conducting a valuation of the Initial Hotel Properties; (ii) producing a comprehensive report in relation to the findings thereof, the text of their report is set out in Appendix IV to this Offering Circular and (iii) opining on the terms of the Lease Agreements and the Hotel Management Agreements, the text of which is set out in Appendix VII to this Offering Circular.

Ernst & Young is a firm of certified public accountants and are the reporting accountants and auditors for the Predecessor Group, the text of their report is set out in Appendix I to this Offering Circular and Ernst & Young reviewed the accounting policies used in the Profit Forecast, the text of their letter is set out in Part B of Appendix III to this Offering Circular.

Savills Valuation & Professional Services Limited was responsible for carrying out a comprehensive study of the hotel industry in Hong Kong and for producing a comprehensive report and executive summary in relation to the findings thereof, the text of which is set out in Appendix V to this Offering Circular.

Savills Project Consultancy Limited was responsible for carrying out a building survey report, the text of which is set out in Appendix VI to this Offering Circular.

I. HOW TO APPLY FOR HONG KONG PUBLIC OFFERING UNITS

There are two ways to make an application for the Hong Kong Public Offering Units:

- you may use a **WHITE** or **YELLOW** Application Form; or
- you may electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Public Offering Units on your behalf.

Except where you are a nominee and provide the required information in your application, you, or you and your joint applicant(s), may not make more than one application (whether individually or jointly) by applying on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC.

1. Which application method to use

(a) WHITE Application Forms

Use a **WHITE** Application Form if you want the Hong Kong Public Offering Units issued in your own name.

(b) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Hong Kong Public Offering Units issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) Instruct HKSCC via CCASS to make an electronic application on your behalf

Instead of using a **YELLOW** Application Form, you may **electronically** instruct HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Public Offering Units on your behalf. Any Hong Kong Public Offering Units allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

2. Where to collect the WHITE and YELLOW Application Forms

(a) You can collect a **WHITE** Application Form and an Offering Circular during normal business hours from 9:00 a.m. on Monday, March 19, 2007 until 12:00 noon on Thursday, March 22, 2007 (or such other time or date as may subsequently be announced) from any of the addresses as set out below. For further details on the times of collection of a **WHITE** Application Form and an Offering Circular, please refer to the sub-section headed "When to apply for Hong Kong Public Offering Units" below:

Any participant of the Hong Kong Stock Exchange

Merrill Lynch Far East Limited	17/F, ICBC Tower, 3 Garden Road Central, Hong Kong
Deutsche Bank AG, Hong Kong Branch	55/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
Goldman Sachs (Asia) L.L.C.	68/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
BOCI Asia Limited	20th Floor, Bank of China Tower 1 Garden Road Hong Kong
Celestial Capital Limited	21/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
DBS Asia Capital Limited	22nd Floor, The Center 99 Queen's Road Central Central, Hong Kong
ICEA Capital Limited	26/F, ICBC Tower 3 Garden Road, Central Hong Kong
Sun Hung Kai International Limited	12/F, One Pacific Place 88 Queensway Hong Kong
Taifook Securities Company Limited	25/F, New World Tower 16-18 Queen's Road Central Hong Kong

or any of the following branches of:

The Bank of East Asia, Limited:

Hong Kong Island:

Chai Wan Branch	345 Chai Wan Road
Kennedy Town Centre Branch	Shop D, G/F, Kennedy Town Centre, 23 Belcher's Street
Queen's Road Central Branch	Shop A-C, G/F, Wah Ying Cheong Central Building, 158-164 Queen's Road Central
Siu Sai Wan Branch	Shops Nos. 56-62, G/F, Cheerful Garden
Wanchai Branch	Shop Nos A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai

Kowloon:

Lower Wong Tai Sin Estate Branch	S13, 2/F, Wong Tai Sin Shopping Centre
Kwun Tong Branch	7 Hong Ning Road
Mongkok Branch	638-640 Nathan Road
Tsim Sha Tsui Branch	Shop A & B, Milton Mansion, No.96 Nathan Road
Yaumatei Branch	G/F, 526 Nathan Road

New Territories:

Ma On Shan Plaza Branch	Shop Nos. 318-322, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
East Point City Branch	Shop No. 217B, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O
Tai Po Branch	62-66 Po Heung Street, Tai Po Market
Tin Shui Wai Branch	Shop No. 128, 1/F, Phase 2, Kingswood Ginza, 12-18 Tin Yan Road, Tin Shui Wai

Tuen Mun Town Plaza Branch	Shop Nos. 2-10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun

Hang Seng Bank Limited:

Hong Kong Island:

Head Office	83 Des Voeux Road Central
Central District Branch	Basement Central Building, Pedder Street
Causeway Bay Branch	28 Yee Wo Street
Wanchai Branch	200 Hennessy Road
North Point Branch	335 King's Road

Kowloon:

Tsim Sha Tsui Branch	18 Carnarvon Road
Kwun Tong Branch	70 Yue Man Square
Kowloon Main Branch	618 Nathan Road
Mongkok Branch	677 Nathan Road
Yaumati Branch	363 Nathan Road

New Territories:

Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

The Hongkong and Shanghai Banking Corporation Limited:

Hong Kong Island:

Hong Kong Office	1 Queen's Road Central

Aberdeen Centre Branch	Shop 2, G/F, Site I, Aberdeen Centre, Aberdeen
Des Voeux Road Central Branch	China Insurance Group Building, 141 Des Voeux Road Central
North Point Branch	G/F, Winner House, 306-316 King's Road, North Point
The Westwood Branch	LG01-3, LG Floor, The Westwood, 8 Belcher's Street
Hopewell Centre Branch	Shop No.1-2, G/F, Hopewell Centre, 183 Queen's Road East, Wan Chai
Kowloon:	
Mong Kok Branch	673 Nathan Road, Mong Kok
Kwun Tong Branch	No. 1, Yue Man Square, Kwun Tong
Kowloon City Branch	1/F, 18 Fuk Lo Tsun Road, Kowloon City
Amoy Plaza Branch	Shops G193-200 & 203, G/F, Amoy Plaza Phase II, 77 Ngau Tau Kok Road
238 Nathan Road Branch	Shop No. 1, 1/F & Shop No. 1-3, G/F, 238 Nathan Road
Ocean Centre Branch	Shop 361-5, Level 3, Ocean Centre, Harbour City
New Territories:	
Citylink Plaza Branch	Shops 38-46, Citylink Plaza, Shatin Station Circuit, Sha Tin
Tuen Mun Town Plaza Branch	Shop 1, UG/F, Shopping Arcade Phase II, Tuen Mun Town Plaza, Tuen Mun
Tai Wai Branch	Shops 42-44, KCR Tai Wai Station, Sha Tin

Industrial and Commercial Bank of China (Asia) Limited:

Hong Kong Island:

Queen's Road Central Branch	122-126 Queen's Road Central
Central Branch	1/F., 9 Queen's Road Central
Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
West Point Branch	242-244 Queen's Road West, Sai Ying Pun
Wanchai Branch	117-123 Hennessy Road, Wanchai
Causeway Bay Branch	Shop A, G/F, Jardine Center, 50 Jardine's Bazaar, Causeway Bay
North Point Branch	G/F, 436-438 King's Road, North Point

Kowloon:

Tsim Sha Tsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsim Sha Tsui
Kwun Tong Branch	G/F., Lemmi Centre, 50 Hoi Yuen Road, Kwun Tong
Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
Shamshuipo Branch	G/F, 290 Lai Chi Kok Road, Shamshuipo

New Territories:

Kwai Chung Branch	Unit G02, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung
Sha Tsui Road Branch	Shop 4, G/F., Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan

Standard Chartered Bank (Hong Kong) Limited:

Hong Kong Island:

Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road, Central
88 Des Voeux Road Branch	88 Des Voeux Road, Central
Central Branch	Shop No. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central
Hennessy Road Branch	399 Hennessy Road, Wanchai
Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
North Point Centre Branch	North Point Centre, 284 King's Road, North Point
Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, 6-12 Nam Ning Street, Aberdeen

Kowloon:

Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
Kwun Tong Branch	1A Yue Man Square, Kwun Tong
Tsim Sha Tsui Branch	G/F, 10 Granville Road, Tsim Sha Tsui
Yaumati Branch	546-550 Nathan Road, Yaumati
Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
San Po Kong Branch	Shop A, G/F., Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
Chatham Road Branch	Shop No. 1,2,3, G/F, Katherine House, No. 53-55, Chatham Road South, Tsim Sha Tsui

Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street

New Territories:

Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, No. 298 Sha Tsui Road, Tsuen Wan
Metroplaza Branch	Shop No. 186-188, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
Yuen Long Branch	140, Yuen Long Main Road, Yuen Long

(b) You can collect a **YELLOW** Application Form and an Offering Circular during normal business hours from 9:00 a.m. on Monday, March 19, 2007 until 12:00 noon on Thursday, March 22, 2007 from:

(i) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(ii) your broker, who may have the Application Forms and the Offering Circular available.

3. How to make applications

(a) Applying by completing WHITE or YELLOW Application Forms:

(i) Obtain a **WHITE** or **YELLOW** Application Form as appropriate.

(ii) You should read the instructions in this Offering Circular and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying check or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on the Application Form.

(iii) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If an application is made through a duly authorized attorney, the Joint Global Coordinators (or their agents or nominees) may accept it at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of the attorney.

(iv) Each Application Form must be accompanied by either one check or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form.

If payment is made by check, the check must:

— be in Hong Kong dollars;

— be drawn on a Hong Kong dollar bank account in Hong Kong;

— show the applicant's account name, which must either be pre-printed on the check, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name in the Application Form. If the application is a joint application, the account name must be the same as the name of the first-named applicant;

— be made payable to "HSBC Nominees (Hong Kong) Limited — Regal REIT Public Offer" (in the case of applicants using **WHITE** and **YELLOW** Application Forms), or to "HSBC Nominees (Hong Kong) Limited — Regal REIT Preferential Offer" (in the case of applicants using **BLUE** Application Forms);

— be crossed "Account Payee Only"; and

— not be post-dated.

An application is liable to be rejected if the check does not meet all of these requirements or is dishonored on its first presentation.

If payment is made by banker's cashier order, the banker's cashier order must:

— be in Hong Kong dollars;

— be issued by a licensed bank in Hong Kong and have the applicant's name certified on the back by a person authorized by the bank on which it is drawn. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;

— be made payable to "HSBC Nominees (Hong Kong) Limited — Regal REIT Public Offer" (in the case of applicants using **WHITE** and **YELLOW** Application Forms), or to "HSBC Nominees (Hong Kong) Limited — Regal REIT Preferential Offer" (in the case of applicants using **BLUE** Application Forms);

— be crossed "Account Payee Only"; and

— not be post-dated.

An application is liable to be rejected if the banker's cashier order does not meet all of these requirements.

No money shall be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 regulated activity under Part V of the SFO.

(v) Lodge the Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in paragraph (a) of the sub-section headed "When to apply for Hong Kong Public Offering Units" below.

(vi) Multiple or suspected multiple applications are liable to be rejected. Please see the sub-section headed "How many applications you may make" below.

(vii) In order for the **YELLOW** Application Forms to be valid:

If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

— the designated CCASS Participant or its authorized signatories must sign in the appropriate box in the Application Form; and

— the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

If the application is made by an individual CCASS Investor Participant:

— the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and

— the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

If the application is made by a joint individual CCASS Investor Participant:

— the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and

— the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

If the application is made by a corporate CCASS Investor Participant:

— the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and

— the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** Application Form, should match with the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorized signatory(ies) or other similar matters may render the application invalid.

(viii) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an account number or other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. Failure to provide the account number(s) or other identification code(s) for the beneficial owner(s) will result in the application being deemed to be submitted for the benefit of the nominee(s) in question. The attention of nominees is also drawn to the sub-section headed "How many applications you may make" below.

(b) Applying by giving electronic application instructions to HKSCC via CCASS:

(i) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for Hong Kong Public Offering Units and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or the CCASS Internet System at *https://ip.ccass.com* (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

HKSCC Customer Service Centre
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Offering Circulars are available for collection from the above address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offering Units on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the REIT Manager and our Unit Registrar.

(ii) Minimum application amount and permitted multiples

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Public Offering Units. Such instructions must be in one of the multiples of Hong Kong Public Offering Units set out in the table on the **WHITE** and **YELLOW** Application Forms.

(iii) Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offering Units applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offering Units in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Public Offering Units given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. Please refer to the sub-section headed "How many applications you may make" below in this section for further details.

(iv) Allocation of Hong Kong Public Offering Units

For the purpose of allocating Hong Kong Public Offering Units, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

(v) Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by the REIT Manager and our Unit Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

(vi) Warning

The application for Hong Kong Public Offering Units by giving **electronic application instructions** to HKSCC is a facility provided only to CCASS

Participants. The REIT Manager, the Joint Global Coordinators and other parties involved in the Hong Kong Public Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Public Offering Units.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on Thursday, March 22, 2007 or such later time as stated in the sub-paragraph (d) headed "Effect of bad weather on the opening of the application lists" in the sub-section headed "When to apply for Hong Kong Public Offering Units" below.

The REIT Manager, the Joint Global Coordinators, the Underwriters, other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents and advisers are entitled to rely on any warranty, representation or declaration made by you in your application.

All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

4. How many applications you may make

(a) **You may make more than one application for the Hong Kong Public Offering Units if and only if:**

- **you are a nominee**, in which case you may make an application by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) lodging more than one **WHITE** or **YELLOW** Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees", you must include:

  — an account number; or

  — some other identification code,

  for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

- **you are a Qualifying Regal Shareholder**, in which case you may apply for Reserved Units under the Preferential Offering on a **BLUE** Application Form, as beneficial owner, and also make one application for Hong Kong Public Offering

Units either on a **WHITE** or **YELLOW** Application Form or electronically through CCASS (if you are a CCASS Investor Participant or act through a CCASS Broker or Custodian Participant). However, in respect of any application for Hong Kong Public Offering Units using the above-mentioned methods, you will not enjoy the preferential treatment accorded to you under the Preferential Offering as described in the section headed "Other Information — Structure of the Global Offering — Preferential Offering" in this Offering Circular.

Otherwise, multiple applications are not allowed.

(b) Multiple applications or suspected multiple applications will be rejected.

(c) It will be a term and condition of all applications under the Hong Kong Public Offering that by completing and delivering an Application Form you:

— (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or

— (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorized to sign the Application Form (where relevant) as that other person's agent.

(d) Save as referred to above, all of your applications (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) under the Hong Kong Public Offering will be rejected as multiple applications if you, or you and joint applicants together:

— make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or

— both apply (whether individually or jointly) on one **WHITE** and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instruction** to HKSCC; or

— apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than 43,465,000 Hong Kong Public Offering Units; or

— have indicated an interest for, or have been or will be issued International Offering Units under the International Offering (except in respect of Reserved Units under the Preferential Offering).

(e) **All** of your applications under the Hong Kong Public Offering will also be rejected as multiple applications if more than one application is made **for your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. When to apply for Hong Kong Public Offering Units

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged **by 12:00 noon on Thursday, March 22, 2007**, or, if the application lists are not open on that day, by the time and date stated in sub-paragraph (d) below.

Your completed Application Form, with one check or one banker's cashier order attached, should be deposited in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited or Standard Chartered Bank (Hong Kong) Limited listed above under the sub-section headed "Where to collect the **WHITE** and **YELLOW** Application Forms" in this section at the following times:

Monday, March 19, 2007 — 9:00 a.m. to 4:30 p.m.
Tuesday, March 20, 2007 — 9:00 a.m. to 4:30 p.m.
Wednesday, March 21, 2007 — 9:00 a.m. to 4:30 p.m.
Thursday, March 22, 2007 — 9:00 a.m. to 12:00 noon

(b) Electronic application instructions to HKSCC via CCASS

CCASS Broker Participants and Custodian Participants should input **electronic application instructions** at the following times:

Monday, March 19, 2007 — 9:00 a.m. to 8:30 p.m.[(1)]
Tuesday, March 20, 2007 — 8:00 a.m. to 8:30 p.m.[(1)]
Wednesday, March 21, 2007 — 8:00 a.m. to 8:30 p.m.[(1)]
Thursday, March 22, 2007 — 8:00 a.m.[(1)] to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, March 19, 2007 until 12:00 noon on Thursday, March 22, 2007 (24 hours daily except on the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, March 22, 2007, or, if the application lists are not open on that day, by the time and date stated in paragraph (d) below.

(c) Application lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, March 22, 2007, except as provided in paragraph (d) below.

The applications monies for the Hong Kong Public Offering Units will not be processed and no allocation of any such Hong Kong Public Offering Units will be made until the closing of the application lists.

(d) Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

— a tropical cyclone warning signal number 8 or above; or

— a "black" rainstorm warning signal,

in force at any time between 9:00 a.m. and 12:00 noon on Thursday, March 22, 2007. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

For the purposes of this section, **Business Day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

II. HOW TO APPLY FOR RESERVED UNITS

An application for Reserved Units under the Preferential Offering may only be made by Qualifying Regal Shareholders using a **BLUE** Application Form which is being dispatched to Qualifying Regal Shareholders by Regal. Using the **BLUE** Application Form, Qualifying Regal Shareholders may apply on an assured basis for a number of Reserved Units equal to or less than their Assured Entitlement. The Assured Entitlement for each Qualifying Regal Shareholder will be specified on their individual **BLUE** Application Form.

A valid application in respect of a number of Reserved Units equal to or less than a Qualifying Regal Shareholder's Assured Entitlement will be accepted in full. Qualifying Regal Shareholders may not apply for a number of Reserved Units in excess of their Assured Entitlement specified on their individual **BLUE** Application Form. If an application is made for a number of Reserved Units greater than their Assured Entitlement, the Assured Entitlement will be satisfied in full but the excess portion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Units less than the Assured Entitlement, the applicant is **recommended** to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Units; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Units applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Unit will be allotted to such applicant. Qualifying Regal Shareholders who require a replacement **BLUE** Application Form should contact Computershare Hong Kong Investor Services Limited at its hotline on 2862 8555 at any time between 9:00 a.m. and 6:00 p.m. on Monday, March 19, 2007, Tuesday, March 20, 2007, Wednesday, March 21, 2007 and at any time between 9:00 a.m. and 12:00 noon on Thursday, March 22, 2007.

1. Dispatch of BLUE Application Forms

A **BLUE** Application Form is being dispatched to you if you are a Qualifying Regal Shareholder with an Assured Entitlement.

2. How to complete the BLUE Application Forms

There are detailed instructions on each **BLUE** Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you at your own risk at the address stated in the **BLUE** Application Form.

All Qualifying Regal Shareholders who would like to apply for Reserved Units must complete the **BLUE** Application Form. Qualifying Regal Shareholders are permitted to apply for a number of Reserved Units which is equal to or less than their Assured Entitlement under the Preferential Offering. A valid application in respect of a number of Reserved Units equal to or less than a Qualifying Regal Shareholder's Assured Entitlement will be accepted in full. If an application is made for a number of Reserved Units greater than the Assured Entitlement, the Assured Entitlement will be satisfied in full but the excess portion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Units less than the Assured Entitlement, the applicant is **recommended** to apply for a number in one of the multiples of full board lots stated in the table of multiples and payments on the back page of the **BLUE** Application Form which also states the amount of remittance payable on application for each multiple of full board lots of Reserved Units; if such applicant does not follow this recommendation when applying for less than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Units applied for by using the formula set out below the table of multiples and payments on the back page of the **BLUE** Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Unit will be allotted to such applicant.

If your application is made through a duly authorized attorney, the REIT Manager and the Joint Global Coordinators (on behalf of the International Underwriters) as its agent may accept it at their discretion and subject to any conditions they think fit, including evidence of the authority of your attorney.

In order for the **BLUE** Application Form to be valid, Qualifying Regal Shareholders should complete the **BLUE** Application Form and then deposit the completed **BLUE** Application Form, with one check or one banker's cashier order as payment attached, in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited or Standard Chartered Bank (Hong Kong) Limited listed in the sub-section above headed "Where to collect the **WHITE** and **YELLOW** Application Forms" in this section or at Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before the latest time for lodgment of the **BLUE** Application Forms, as specified in the sub-section headed "When to apply for Reserved Units" in this section below.

If the application is accepted, the Reserved Units will be transferred to and registered in the name of the relevant Qualifying Regal Shareholder.

3. How many applications you may make

Please see the sub-section above headed "How many applications you may make" under the section "How to Apply for Hong Kong Public Offering Units" for the situations where you may make more than one application for Hong Kong Public Offering Units.

4. When to apply for Reserved Units

Completed **BLUE** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, March 22, 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed **BLUE** Application Form, with one check or one banker's cashier order attached, should be deposited in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited, Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited or Standard Chartered Bank (Hong Kong) Limited listed in the sub-paragraph above headed "Where to collect the **WHITE** and **YELLOW** Application Forms" or at Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at the following times:

Monday, March 19, 2007 — 9:00 a.m. to 4:30 p.m.
Tuesday, March 20, 2007 — 9:00 a.m. to 4:30 p.m.
Wednesday, March 21, 2007 — 9:00 a.m. to 4:30 p.m.
Thursday, March 22, 2007 — 9:00 a.m. to 12:00 noon

The latest time for lodging the application is 12:00 noon on Thursday, March 22, 2007, or if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open. The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, March 22, 2007, except as provided in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

5. Effect of bad weather on the opening of the application lists

The application lists will not be open if there is:

— a tropical cyclone warning signal number 8 or above; or

— a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, March 22, 2007. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

For the purposes of this section, **Business Day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

III. HOW MUCH TO PAY FOR THE HONG KONG PUBLIC OFFERING UNITS AND RESERVED UNITS

Applicants must pay the Maximum Offer Price of HK$3.38 per Hong Kong Public Offering Unit or Reserved Unit, plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004% in full when they apply for the Hong Kong Public Offering Units or Reserved Units. The Application Forms have tables showing the exact amount payable for multiples of Units applied for up to 43,465,000 Units in the case of the **WHITE** and **YELLOW** Application Forms and up to 49,877,375 Units in the case of the **BLUE** Application Forms.

If an application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange, the Hong Kong Stock Exchange trading fee is paid to the Hong Kong Stock Exchange, and the SFC transaction levy is paid to the SFC.

Appropriate refund payments representing the difference (if any) between the Offer Price and the Maximum Offer Price (including brokerage, Hong Kong Stock Exchange trading fee, SFC transaction levy attributable to the surplus application monies) will be made to successful applicants without interest.

IV. PUBLICATION OF RESULTS

The results of allocations of the Hong Kong Public Offering Units under the Hong Kong Public Offering, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants, and the results of the Preferential Offering will be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on or before Thursday, March 29, 2007.

V. DISPATCH/COLLECTION OF UNIT CERTIFICATES AND REFUND OF APPLICATION MONIES

For details please refer to the sub-sections headed "If an application for the Hong Kong Public Offering Units or the Reserved Units is successful (in whole or in part)" and "Refund of money — additional information" in the section headed "Other Information — Further Terms and Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular.

VI. COMMENCEMENT OF DEALINGS IN THE UNITS ON THE STOCK EXCHANGE

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, March 30, 2007, it is expected that dealings in the Units on the Hong Kong Stock Exchange are expected to commence on Friday, March 30, 2007. Units will be traded on the Hong Kong Stock Exchange in board lots of 1,000 Units each.

VII. UNITS WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Units on the Hong Kong Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Units to be admitted into CCASS.

I. General

1. If you apply for Hong Kong Public Offering Units in the Hong Kong Public Offering or for Reserved Units in the Preferential Offering, you will be agreeing with the REIT Manager and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters in respect of the Hong Kong Public Offering Units and on behalf of the International Underwriters in respect of the Reserved Units) as set out below.

2. If you electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Public Offering Units on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

3. In this section, references to "you", "applicants", "joint applicants" and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees is applying for the Hong Kong Public Offering Units or for the Reserved Units; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.

4. Applicants should, prior to making an application, read this Offering Circular carefully, including other terms and conditions of the Hong Kong Public Offering and the Preferential Offering, and the terms and conditions set out in the sections headed "Other Information — Structure of the Global Offering" and "Other Information — How to apply for Hong Kong Public Offering Units and Reserved Units" in this Offering Circular, contained in the relevant Application Form or imposed by HKSCC.

II. Offer to acquire the Hong Kong Public Offering Units and Reserved Units

1. You offer to subscribe for at the Offer Price the number of the Hong Kong Public Offering Units or the Reserved Units indicated in your Application Forms or in your applications inputted via CCASS electronically as the case may be (or any smaller number in respect of which the application is accepted) on the terms and conditions set out in this Offering Circular and the relevant Application Form.

2. For applicants using Application Forms, where applicable, a refund check in respect of the surplus application monies (if any) (a) relating to the Hong Kong Public Offering Units or Reserved Units applied for but not allocated to them and (b) representing the difference (if any) between the Offer Price and the Maximum Offer Price (including, in each case, the brokerage, Hong Kong Stock Exchange trading fee, SFC transaction levy attributable thereto), is expected to be sent to them at their own risk to the address stated on their Application Forms on or before Thursday, March 29, 2007. Details of the procedure for refunds are contained below in the sub-sections headed "If an application for the Hong Kong Public Offering Units or the Reserved Units is successful (in whole or in part)" and "Refund of money — additional information" in this section.

3. Any application may be rejected in whole or in part.

4. Applicants under the Hong Kong Public Offering and the Preferential Offering should note that, unless otherwise provided, in no circumstances can applications be withdrawn once submitted.

5. The total number of Hong Kong Public Offering Units available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes: Pool A and Pool B. All valid applications that have been received for Hong Kong Public Offering Units with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of HK$5 million or below will fall into Pool A (and Hong Kong Public Offering Units will be allocated on an equitable basis to successful applicants within this pool) and all valid applications that have been received for Hong Kong Public Offering Units with a total subscription amount (excluding brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy payable thereon) of more than HK$5 million will fall into Pool B (and Hong Kong Public Offering Units will be allocated on an equitable basis to successful applicants within this pool).

   Applicants should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. Where either of the pools is undersubscribed, the surplus Hong Kong Public Offering Units will be transferred to satisfy demand in the other Pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offering Units from Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than half of the Hong Kong Public Offering Units initially available under the Hong Kong Public Offering (that is, 43,465,000 Hong Kong Public Offering Units) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offering Units under the International Offering (except for any Reserved Units under the Preferential Offering), and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

   Further information is set out in the section headed "Other Information — Structure of the Global Offering — The Hong Kong Public Offering" in this Offering Circular.

III. Acceptance of applicants' offers

1. The Hong Kong Public Offering Units will be allocated after the application lists close. The REIT Manager expects to announce the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Public Offering Units and the final number of the Hong Kong Public Offering Units comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively on or before Thursday, March 29, 2007, in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese).

2. The results of allocations of the Hong Kong Public Offering Units under the Hong Kong Public Offering including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of the Hong Kong Public Offering Units successfully applied for, as well as the results of the Preferential Offering will be made available in the manner described in the sub-section headed "Publication of results" below.

3. The REIT Manager may accept your offer to subscribe (if the application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

4. If the REIT Manager accepts your offer to subscribe (in whole or in part), there will be a binding contract under which you will be required to subscribe for the Hong Kong Public Offering Units or the Reserved Units in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.

5. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of their application. This does not affect any other right you may have.

IV. Effect of making any application

1. By making any application, the applicant (and if the application is made by joint applicants, each of the joint applicants jointly and severally) for himself/herself/itself or as agent or nominee and on behalf of each person for whom the applicant acts as agent or nominee:

   — **instructs** and **authorizes** the REIT Manager, the Trustee and/or the Joint Global Coordinators (or their respective agents or nominees) to execute any documents on the applicant's behalf and to do on the applicant's behalf all other things necessary to effect the registration of any Hong Kong Public Offering Units or Reserved Units allocated to the applicant in the applicant's name(s) or HKSCC Nominees, as the case may be, as required by the Trust Deed and otherwise to give effect to the arrangements described in this Offering Circular and the relevant Application Form;

   — **undertakes** to sign all documents and to do all things necessary to enable the applicant or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Public Offering Units or the Reserved Units allocated to the applicant, and as required by the Trust Deed;

   — **represents** and **warrants** that he/she/it understands that the Units have not been and will not be registered under the US Securities Act and the applicant is outside the United States when completing the Application Form or giving an **electronic application instruction** and is not a U.S. person (within the meaning of Regulation S);

   — **confirms** that the applicant has received a copy of this Offering Circular and has only relied on the information and representations contained in this Offering Circular in making the application, and not on any other information or representation concerning

Regal REIT and agrees that none of the REIT Manager, the Trustee, the Joint Global Coordinators or the Underwriters nor any of their respective directors, officers, employees, partners, agents or advisers will have any liability for any such other information or representations;

— **agrees** that (without prejudice to any other rights which the applicant may have) once the application has been accepted, the applicant may not rescind it because of an innocent misrepresentation;

— (if the application is made for the applicant's own benefit) **warrants** that in the case of the Hong Kong Public Offering, the application is the only application which will be made for the applicant's benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS;

— (if the application is by an agent on the applicant's behalf) **warrants** that the applicant has validly and irrevocably conferred on the agent all necessary power and authority to make the application;

— (if the applicant is an agent for another person) **warrants** that in the case of the Hong Kong Public Offering, reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS, and that the applicant is duly authorized to sign the Application Form or to give **electronic application instruction** as that other person's agent;

— (in the case of an application made by a **BLUE** Application Form) **warrants** that, in making an application, the applicant or any person(s) on whose behalf the applicant may be acting is/are Qualifying Regal Shareholder(s);

— **undertakes** and **confirms** that, in the case of the Hong Kong Public Offering, the applicant (if the application is made for the applicant's benefit) or the person(s) for whose benefit the application is made has not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offering Units in, nor otherwise participate in, the International Offering (except in respect of the Reserved Units under the Preferential Offering);

— **warrants** the truth and accuracy of the information contained in the application;

— **agrees** to disclose to the REIT Manager, the Trustee, the Joint Global Coordinators, the Unit Registrar, the receiving bankers and their respective agents any personal data and information which they require about the applicant or the person(s) for whose benefit the applicant has made the application;

— **agrees** that the application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

— **undertakes** and **agrees** to accept the Hong Kong Public Offering Units or Reserved Units applied for, or any lesser number allocated to the applicant under the application;

— **authorizes** the REIT Manager and the Trustee to place the applicant(s)' name(s) or HKSCC Nominees, as the case may be, on the register of Unitholders of Regal REIT as the holder(s) of any Hong Kong Public Offering Units or Reserved Units allocated to the applicant, and the REIT Manager, the Trustee and/or their respective agents to send any Unit certificate (in the case of applicants using **WHITE** or **BLUE** Application Forms only) and/or any refund check (in the case of applicants using any Application Forms) to the applicant or (in case of joint applicants) the first named applicant in the Application Form by ordinary post at the applicant's own risk to the address stated on the applicant's Application Form, except that if an applicant has applied for 1,000,000 or more Hong Kong Public Offering Units or Reserved Units and has indicated in the Application Form that the applicant will collect the Unit certificate(s) (in the case of applicants using **WHITE** and **BLUE** Applications Forms only) and refund check (in the case of applicants using any Application Forms) in person, the applicant may do so from the Unit Registrar from 9:00 a.m. to 1:00 p.m. on Thursday, March 29, 2007, (or any other date notified by the REIT Manager in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) as the date of dispatch and availability of Unit certificates and refund checks);

— **understands** that these declarations and representations will be relied upon by the REIT Manager and the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Public Offering Units or Reserved Units in response to the applicant's application; and

— if the laws of any place outside Hong Kong are applicable to an applicant's application, the applicant **agrees** and **warrants** that he/she/it has complied with all such laws and none of the REIT Manager, the Trustee, the Joint Global Coordinators or the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of the applicant's offer to acquire, or any actions arising from the applicant's rights and obligations under the terms and conditions contained in this Offering Circular.

2. If an applicant applies for the Hong Kong Public Offering Units using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in 1 above, the applicant (and in the case of joint applicants, each of the joint applicants jointly and severally) **agrees** that:

— any Hong Kong Public Offering Units allocated to the applicant shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to the applicant's CCASS Investor Participant stock account or the stock account of the applicant's designated CCASS Participant, in accordance with the applicant's election on the Application Form;

— each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion:

(i) **not to accept** any or part of the Hong Kong Public Offering Units allocated to the applicant in the name of HKSCC Nominees or **not to accept** such allocated Hong Kong Public Offering Units for deposit into CCASS; (ii) to cause such allocated Hong Kong Public Offering Units to be withdrawn from CCASS and transferred into the applicant's name (or, in the case of joint applicants, to the name of the first-named applicant) at the applicant's own risk and costs; and (iii) to cause such **allocated Hong Kong Public Offering Units to be issued in the applicant's name** (or, in the case of joint applicants, to the first-named applicant) and in such a case, to **post the Unit certificates** for such allocated Hong Kong Public Offering Units at the applicant's own risk to the address on the applicant's Application Form by ordinary post **or to make available the same for the applicant's collection**;

— each of HKSCC and HKSCC Nominees may adjust the number of the Hong Kong Public Offering Units issued in the name of HKSCC Nominees;

— neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this Offering Circular and the Application Form; and

— neither HKSCC nor HKSCC Nominees shall be liable to the applicant in any way.

3. In addition, by giving **electronic application instructions** to HKSCC or instructing a broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC via CCASS, an applicant (and in the case of joint applicants, each of the joint applicants jointly and severally) is deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the REIT Manager nor any other person in respect of such things:

— **instruct** and **authorize** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Public Offering Units on the applicant's behalf;

— **instruct** and **authorize** HKSCC to arrange payment of the Maximum Offer Price, brokerage, the Hong Kong Stock Exchange trading fee, the SFC transaction levy by debiting the applicant's designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the Maximum Offer Price, refund the appropriate portion of the application money by crediting the applicant's designated bank account; and

— **instruct** and **authorize** HKSCC to cause HKSCC Nominees to do on the applicant's behalf the following and any other thing which it is stated to do on the applicant's behalf in the **WHITE** Application Form:

  — **agree** that HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Offering Circular;

— **agree** that the Hong Kong Public Offering Units to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to the applicant's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on the applicant's behalf;

— **undertake** and **agree** to accept the Hong Kong Public Offering Units in respect of which the applicant has given **electronic application instructions** or any lesser number;

— **undertake** and **confirm** that the applicant has not applied for or taken up any International Offering Units under, nor otherwise participated in the International Offering (except in respect of the Reserved Units under the Preferential Offering);

— (if the **electronic application instructions** are given for the applicant's own benefit) **declare** that only one set of **electronic application instructions** under the Hong Kong Public Offering has been given for the applicant's benefit;

— (if the applicant is an agent for another person) **declare** that the applicant has given only one set of **electronic application instructions** for the benefit of that other person, and that the applicant is duly authorized to give those instructions as that other person's agent;

— **understand** that the above declaration will be relied upon by the REIT Manager and the Joint Global Coordinators in deciding whether or not to make any allocation of the Hong Kong Public Offering Units in respect of the **electronic application instructions** given by the applicant and that the applicant may be prosecuted if the applicant makes a false declaration;

— **authorize** the REIT Manager and the Trustee to place the name of HKSCC Nominees on the register of Unitholders of Regal REIT as the holder of the Hong Kong Public Offering Units allocated in respect of the applicant's **electronic application instructions** and to send Unit certificates and/or refund monies in accordance with arrangements separately agreed between the REIT Manager or the Trustee and HKSCC;

— **confirm** that the applicant has read the terms and conditions and application procedures set out in this Offering Circular and agrees to be bound by them;

— **confirm** that the applicant has only relied on the information and representations in this Offering Circular in giving the applicant's **electronic application instructions** or instructing the applicant's broker/custodian to give **electronic application instructions** on the applicant's behalf;

— **agree** that the REIT Manager, the Trustee, the Joint Global Coordinators, the Underwriters and any other parties involved in the Hong Kong Public Offering are liable only for the information and representations contained in this Offering Circular;

— **agree** (without prejudice to any other rights which the applicant may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

— **agree** to disclose the applicant's personal data to the REIT Manager, the Trustee, the Joint Global Coordinators, the Unit Registrar, the receiving banker(s), their respective agents and advisers together with any information about the applicant which they require;

— **agree** that any application made by HKSCC Nominees on behalf of the applicant pursuant to **electronic application instructions** given by the applicant is irrevocable, such agreement to take effect as a collateral contract with the REIT Manager and to become binding when the applicant gives the instructions and such collateral contract to be in consideration of the REIT Manager agreeing that it will not offer any Hong Kong Public Offering Units to any person except by means of one of the procedures referred to in this Offering Circular;

— **agree** that once the application of HKSCC Nominees is accepted, neither that application nor the applicant's **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offering made available by the REIT Manager; and

— **agree** to the arrangements, undertakings and warranties specified in the participant agreement between the applicant and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Public Offering Units.

4. The REIT Manager, the Trustee, the Joint Global Coordinators, the Underwriters, any other parties involved in the Hong Kong Public Offering or the Preferential Offering and their respective directors, officers, employees, partners, agents and advisers are entitled to rely on any warranty, representation or declaration made by the applicants in their applications.

5. All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

V. Circumstances in which applicants may not be allocated Hong Kong Public Offering Units or Reserved Units

Details of the circumstances in which applicants may not be allocated any Hong Kong Public Offering Units under the Hong Kong Public Offering or Reserved Units under the Preferential Offering are set out in the notes attached to the relevant Application Forms, and should be read carefully. The Joint Global Coordinators and their agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

Applicants should note in particular the following situations in which Hong Kong Public Offering Units will not be allocated to them or their applications are liable to be rejected or satisfied only in part (as applicable):

1. If the conditions set out in the section headed "Other Information — Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular are not fulfilled on or before Friday, March 30, 2007.

2. If the Joint Global Coordinators or their agents or nominees exercise their discretion to reject or to accept any application, or to accept only part of any application.

3. If:

   — the application is a multiple or a suspected multiple application; or

   — the Application Form is not completed correctly; or

   — the payment is not made correctly or payment is made by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation; or

   — the applicant or the person for whose benefit the applicant is applying has applied for and/or received or will receive Units under the International Offering (except for the Reserved Units under the Preferential Offering); or

   — either of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof; or

   — the applicant applies for more than 43,194,000 Units, representing half of the Hong Kong Public Offering Units initially made available for subscription under the Hong Kong Public Offering; or

   — the application for Units is not in one of the numbers or multiples set out in the table in the Application Form.

4. If an applicant is giving **electronic application instructions** to HKSCC to apply for Hong Kong Public Offering Units on his/her/its behalf, the applicant will also not be allocated any Hong Kong Public Offering Units if the relevant HKSCC Nominees' application is not accepted.

Applicants should note in particular the following situations in which Reserved Units will not be allocated to them or their applications are liable to be rejected or satisfied only in part (as applicable):

1. If the conditions set out in the section headed "Other Information — Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular are not fulfilled on or before Friday, March 30, 2007.

2. If the Joint Global Coordinators or their agents or nominees exercise their discretion to reject or to accept any application, or to accept only part of any application.

3. If:

— the Application Form is not completed correctly; or

— the payment is not made correctly or payment is made by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation; or

— either of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof; or

— the Units applied for exceed the amount of the applicant's Assured Entitlement.

VI. Publication of results

The announcement of the Offer Price, the level of indications of interest in the International Offering, the results of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Public Offering Units and the final number of Hong Kong Public Offering Units comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively, is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) on or before Thursday, March 29, 2007.

If an applicant is unable to locate his/her/its allocation results, he/she/it can contact the Unit Registrar, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by calling 2862 8555 between 9:00 a.m. and 6:00 p.m. daily from Monday to Friday.

VII. If an application for the Hong Kong Public Offering Units or the Reserved Units is successful (in whole or in part)

1. If applicants are applying using a **WHITE** or **BLUE** Application Form and the application is wholly or partly successful:

— For those applicants who apply for (i) less than 1,000,000 Hong Kong Public Offering Units or Reserved Units or (ii) 1,000,000 or more Hong Kong Public Offering Units or Reserved Units but who have not opted for personal collection, their Unit certificates and/or refund checks are expected to be sent on or before Thursday, March 29, 2007 to the address as stated in their Application Forms by ordinary post and at their own risk. **Applicants should note that there is no guarantee when he/she/it will receive his/her/its Unit certificates by post. Therefore if such applicant sells his/her/its Units in the first few days after the Units commence trading on the Hong Kong Stock Exchange, he/she/it may not receive his/her/its Unit certificates in time for settlement.**

— Applicants who apply on **WHITE** Application Forms or **BLUE** Application Forms, as the case may be, for 1,000,000 or more Hong Kong Public Offering Units or Reserved Units under the Hong Kong Public Offering or the Preferential Offering and have indicated in their Application Forms that they wish to collect Unit certificates and/or refund checks in person may do so from the Unit Registrar from 9:00 a.m. to 1:00 p.m.

on Thursday, March 29, 2007, (or any other date notified by the REIT Manager in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) as the date of dispatch and availability of Unit certificates and refund checks).

— Applicants being individuals who opt for personal collection cannot authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by personal authorized representatives each bearing a letter of authorization from the corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Unit Registrar.

— Uncollected Unit certificates and refund checks will be dispatched by ordinary post to the addresses specified in the relevant Application Forms at the applicants' own risk.

2. If: (i) applicants are applying on a **YELLOW** Application Form; or (ii) applicants are giving **electronic application instructions** to HKSCC, and the application is wholly or partly successful, the Unit certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to the applicant's CCASS Investor Participant stock account or the stock account of the applicant's designated CCASS Participant as instructed by the applicant (on the Application Form or electronically, as the case may be), at the close of business on Thursday, March 29, 2007 or, under contingent situation, on any other date HKSCC or HKSCC Nominees chooses.

— If an applicant is applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form:

The applicant can check the number of Hong Kong Public Offering Units allocated to him/her/it with that CCASS Participant.

— If an applicant is applying as a CCASS Investor Participant on a **YELLOW** Application Form:

The REIT Manager is expected to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described in the sub-section headed "Publication of results" above, on Thursday, March 29, 2007. Applicants should check the results made available by the REIT Manager and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, March 29, 2007 or such other date HKSCC or HKSCC Nominees chooses. Immediately after the credit of the Hong Kong Public Offering Units to the applicants' stock accounts, applicants can check their new account balance via the CCASS Phone System by calling 2979 7888 or CCASS Internet System at *https://ip.ccass.com* (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to the applicants an activity statement showing the number of Hong Kong Public Offering Units credited to their stock accounts.

— If an applicant has given **electronic application instructions** to HKSCC:

The REIT Manager is expected to make available the application results of the Hong Kong Public Offering, including the results of applications made electronically by CCASS Participants (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the REIT Manager shall include information relating to the beneficial owner, if supplied), the applicant's Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the sub-section headed "Publication of Results" above, on Thursday, March 29, 2007. Applicants should check the results made available by the REIT Manager and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, March 29, 2007 or on any other date HKSCC or HKSCC Nominees chooses.

— If an applicant is instructing a CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** to HKSCC on the applicant's behalf:

Applicants can also check the number of Hong Kong Public Offering Units allocated to them and the amount of refund (if any) payable to them with that CCASS Broker Participant or CCASS Custodian Participant.

— If an applicant is applying as a CCASS Investor Participant by giving **electronic application instructions** to HKSCC:

Applicants can also check the number of the Hong Kong Public Offering Units allocated to them and the amount of refund (if any) payable to them via the CCASS Phone System by calling 2979 7888 or CCASS Internet System at *https://ip.ccass.com* (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, March 29, 2007. On the next day following the credit of the Hong Kong Public Offering Units to their stock accounts and the refunds to their bank accounts, HKSCC will also make available to them an activity statement showing the number of the Hong Kong Public Offering Units credited to their stock accounts and the amount of refund (if applicable) credited to their designated bank accounts.

— If applicants are applying using a **YELLOW** Application Form:

For those applicants who apply for (i) less than 1,000,000 Hong Kong Public Offering Units or (ii) 1,000,000 or more Hong Kong Public Offering Units but who have not opted for personal collection, their refund checks are expected to be sent on or before Thursday, March 29, 2007 to the address as stated in their Application Forms by ordinary post and at their own risk. For those applicants who apply for 1,000,000 or more Hong Kong Public Offering Units under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks in person may do so from the Unit Registrar from 9:00 a.m. to 1:00 p.m. on Thursday, March 29, 2007, (or any other date notified by the REIT Manager in the South China Morning Post (in English) and the Hong Kong Economic Journal (in Chinese) as the date of dispatch and availability of refund checks).

Applicants being individuals who opt for personal collection cannot authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by personal authorized representatives each bearing a letter of authorization from the corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Unit Registrar.

Uncollected refund checks will be dispatched by ordinary post to the addresses specified in the relevant Application Forms at the applicants' own risk.

No receipt will be issued for application monies paid. The REIT Manager will not issue temporary documents of title.

VIII. Refund of money — additional information

1. An applicant will be entitled to a refund if:

   — the application is not successful or the conditions of the Hong Kong Public Offering and the Preferential Offering are not fulfilled in accordance with the section headed "Other Information — Structure of the Global Offering — Conditions of the Hong Kong Public Offering and the Preferential Offering" in this Offering Circular, in which case the REIT Manager will refund the application money together with the brokerage, Hong Kong Stock Exchange trading fee, SFC transaction levy to the applicant, without interest;

   — the application is accepted only in part, in which case the REIT Manager will refund the appropriate portion of the application money, together with related brokerage, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, without interest; and

   — the Offer Price (as finally determined) is less than the price per Unit initially paid by the applicant on application, in which case the REIT Manager will refund the surplus application money together with the appropriate portion of brokerage, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, without interest.

2. If an applicant applies by using any Application Form for 1,000,000 or more Hong Kong Public Offering Units or Reserved Units under the Hong Kong Public Offering or the Preferential Offering and has indicated in the Application Form that the applicant wishes to collect refund checks (if applicable) in person from the Unit Registrar, the applicant may collect the refund check (if any) in person from the Unit Registrar on Thursday, March 29, 2007. The procedure for collection of refund checks is set out in the sub-section headed "If an application for the Hong Kong Public Offering Units or the Reserved Units is successful (in whole or in part)" in this section.

3. If an applicant applies by using any Application Form (a) for 1,000,000 or more Hong Kong Public Offering Units or Reserved Units and has not indicated in the applicant's Application Form that it will collect its refund check in person or (b) for less than 1,000,000 Hong Kong Public Offering Units or Reserved Units, the applicant's refund check is expected to be sent to the address on the applicant's Application Form on Thursday, March 29, 2007 by ordinary post at its own risk.

4. If an applicant is applying by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply on the applicant's behalf, all refunds are expected to be credited to the applicant's designated bank account (if the applicant is applying as a CCASS Investor Participant) or the designated bank account of the applicant's broker or custodian (if the applicant is applying through a CCASS Broker/Custodian Participant) on Thursday, March 29, 2007.

5. All refunds by check will be crossed "Account Payee Only", and made out to the applicants, or if the applicants are a joint applicant, to the first-named applicant on the Application Form. Part of the applicant's Hong Kong Identity Card number/passport number, or, if the applicants are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by the applicant may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purpose. A banker may require verification of the applicant's Hong Kong Identity Card number/passport number before encashment of the applicant's refund check. Inaccurate completion of the applicant's Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate the applicant's refund check.

Refund checks are expected to be dispatched on Thursday, March 29, 2007. It is intended that when processing applications, special efforts will be made to avoid delays in refunding application monies due.

IX. Personal Data

Personal information collection statement

The main provisions of the Personal Data (Privacy) Ordinance came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of Hong Kong Public Offering Units or Reserved Units of the policies and practices of the Trustee, the REIT Manager and the Unit Registrar in relation to personal data and the Ordinance.

1. Reasons for the collection of your personal data

From time to time it is necessary for applicants for Units or registered holders of Units to supply their latest correct personal data to the Trustee, the REIT Manager and the Unit Registrar when applying for Units or transferring Units into or out of their names or in procuring the services of the Unit Registrar.

Failure to supply the requested data may result in an applicant's application for Units being delayed or an applicant's application may not be considered. It may also prevent or delay registration or transfer of the Units which an applicant has successfully applied for and/or the dispatch of Unit certificate(s), and/or the dispatch or encashment of refund check(s) to which an applicant is entitled.

It is important that applicants inform the Trustee, the REIT Manager and the Unit Registrar immediately of any inaccuracies in the data supplied.

2. Purposes

The personal data of the applicants may be used, held and/or stored (by whatever means) for the following purposes:

— processing of an applicant's application and refund check, where applicable, and verification of compliance with the terms and application procedures set out in this Offering Circular and the Application Forms and announcing results of allocations of Hong Kong Public Offering Units and Reserved Units;

— registering new issues or transfers into or out of the name of holders of Units including, where applicable, HKSCC Nominees;

— maintaining or updating the register of Unitholders of Regal REIT;

— conducting or assisting to conduct signature verifications, any verification or exchange of information;

— establishing entitlements of holders of Units of Regal REIT, such as distributions and notices;

— distributing communications from or on behalf of the Trustee or the REIT Manager in relation to Regal REIT;

— compiling statistical information and investor profiles;

— enabling compliance with all applicable laws, rules and regulations (whether statutory or otherwise) in Hong Kong or elsewhere;

— disclosing relevant information to facilitate claims on entitlements; and

— any other incidental or associated purposes relating to the above and/or enable the Trustee, the REIT Manager and the Unit Registrar to discharge their obligations to holders of Units and/or regulators and/or any other purposes to which the holders of Units may from time to time agree.

3. Transfer of personal data

Personal data (including Hong Kong Identity Card details) held by the Trustee, the REIT Manager and the Unit Registrar relating to the applicants and the holders of Units will be kept confidential but the Trustee, the REIT Manager and the Unit Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of Unit to, from or with any and all of the following persons and entities:

— the Trustee, the REIT Manager or its appointed agents such as financial advisers, receiving bankers;

— where applicants for Units request deposit into CCASS, to HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;

— any broker whose company chop or other identification number has been placed on the Application Form;

— any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Trustee, the REIT Manager or the Unit Registrar in connection with the operation of their respective businesses;

— the Hong Kong Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies in Hong Kong or elsewhere; and

— any other persons or institutions with which the holders of Units have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

4. Access to and correction of personal data

The Ordinance provides applicants with rights to ascertain whether the Trustee, the REIT Manager or the Unit Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Trustee, the REIT Manager and the Unit Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to the Trustee, the REIT Manager, or the Unit Registrar for the attention of the privacy compliance officer.

DEFINITIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

Adjusted GOP	means the aggregate of the Gross Operating Profit and the Net Rental Income.
Adjustments	has the meaning given to it in the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular.
average room rate	means the total hotel room revenue divided by the total number of room nights sold in a given period.
Base Fee	means the fee payable to the REIT Manager, currently at the rate of 0.3% per annum, subject to a maximum of 0.5% per annum, of the value of the Deposited Property, as more fully described in the section headed "Structure and Management — REIT Manager" in this Offering Circular.
Base Rent	means the pre-determined rent payable by the Lessee to the Lessor pursuant to each Lease Agreement.
CAGR	means, in relation to a period of two or more years, compound annual growth rate.
CCASS Operational Procedures	means the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force.
Collective NPI Excess	means, in respect of all the Initial Hotel Properties, the excess of the aggregate Net Property Income over the aggregate annual Base Rent for any relevant period, taking into account any negative Net Property Income.
Commercial Space Available for Letting	means, in respect of an Initial Hotel Property, that portion of the floor area of that Initial Hotel Property as determined by the Lessee at any given time to be lettable commercial space.
Covered Floor Area	means all floor area covered by 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.

deed of mutual covenant	means, in respect of a property, the deed which: (a) defines and regulates the rights, interests and obligations of the owners and the manager of the development (of which the relevant property forms part); and (b) sets out provisions relating, *inter alia*, to the management and maintenance of such development.
distribution yield	means DPU, on an annualized basis, divided by the market price of a Unit.
DPU	means distribution(s) per Unit. Unless otherwise stated or the context otherwise requires, the DPU amounts stated take account of the effect of the AEP Units.
FF&E Reserve	means those funds set aside and applied pursuant to the Hotel Management Agreements to meet the cost of all investments in the replacement of furniture, fixtures and equipment at the Initial Hotel Properties which are required to maintain the Initial Hotel Properties at the operating standards as prescribed in the Hotel Management Agreements and at the operating capacity of the Initial Hotel Properties, and for the purpose of this definition:- (a) "furniture" includes all loose furniture, furnishings, decorations and appliances in restaurants, bars, hotel rooms, offices, kitchens and workshops, throughout the Initial Hotel Properties, (b) "fixtures" includes all fixed furniture such as stationary bar counters and reception desks, fixed carpets, marble and hardwood floors, wall coverings and walk-in freezers and fridges, (c) "equipment" includes kitchen equipment, ranges, workshop machinery, cleaning equipment, telecommunications equipment, computer equipment and vehicles; but the term "FF&E" shall exclude (i) items which are included as part of the fixtures of the building in which the Initial Hotel Properties are located; and (ii) Operating Equipment except for those Operating Equipment owned by the Lessor on the date of the Hotel Management Agreements and any additional Operating Equipment capitalized under the circumstances of a capital addition.

Fixed Charges	means expenses which constitute a non-operating expense in nature in accordance with the 9th edition (or such later edition) of the Uniform System of Accounts for the Lodging Industry published by the American Hotel & Lodging Association, including but not limited to the premiums of property insurance, third party rental charges, government rent and rates, property tax and other similar taxes or government charges in respect of the Initial Hotel Properties, and other sundry fixed charges.
Floor Rent	means the sum of HK$400 million per annum in respect of all five Initial Hotel Properties.
GDP	means gross domestic product.
General Rules of CCASS	means the general rules of CCASS, as may be amended or modified from time to time.
Gross Floor Area	means in respect of a property, the Gross Floor Area of that property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground 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)), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding 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 any similar service.
Gross Operating Profit	means the Total Hotel Revenue less the Hotel Operating Expenses.

Gross Revenue	means all revenue derived from an Initial Hotel Property, including the Total Hotel Revenue, Total Rental Revenue in respect of lettable areas of the Initial Hotel Property, all subsidy payments, governmental allowances and awards, and any other form of incentive payments or awards which are attributable to the operation of the Initial Hotel Property or the management of the lettable areas of such Initial Hotel Property, but excluding (a) hotel accommodation tax or other similar government charges, (b) income derived from securities and other property investments; (c) receipts from expropriation awards or sales under the threat of expropriation, (d) proceeds of any insurance other than business interruption, (e) rebates, discounts or credits of a similar nature, (f) gratuities paid to hotel employees, (g) payments received at such Initial Hotel Property for accommodation, goods or services to be provided at other hotels.
Hotel Operating Expenses	means the expenses which constitute an operating expense in nature in accordance with the 9th edition (or such later edition) of the Uniform System of Accounts for the Lodging Industry published by the American Hotel & Lodging Association, including but not limited to (a) cost of sales, (b) payroll and related expenses by hotel rooms, food and beverage, administrative and general, sales and marketing, and repair and maintenance departments, (c) expense for Operating Equipment, (d) other departmental expenses, (e) administrative and general expenses, (f) sales and marketing expense, (g) repair and maintenance expenses, (h) energy and utility expenses, and (i) premiums of business interruption insurance, third party liability insurance and other insurances against items like theft or damage to hotel guests' properties.
lease	means a lease, tenancy agreement or license in respect of premises at the Initial Hotel Properties granted to a tenant and "leases" shall be construed accordingly.
Lease Income	means, for the purpose of calculating the REIT Manager's Variable Fee, in relation to a particular piece of real estate under a lease agreement, the gross income derived from leasing or licensing such real estate, as more fully described in the Trust Deed. In the case of the Initial Hotel Properties leased under the Lease Agreements, such gross income includes the contracted cash Base Rents, Variable Rents and the Lessee's contributions to the FF&E Reserve.

market value	means 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 necessary the parties had each acted knowledgeably, prudently and without compulsion.
NAV	means net asset value, which is calculated as total assets minus total liabilities.
Net Property Income	means, in relation to the results of operation of an Initial Hotel Property, an amount equal to Adjusted GOP less (i) hotel management base fee, (ii) hotel management incentive fee and (iii) Fixed Charges, as more fully described in the Hotel Management Agreements, provided that, in relation to the calculation of the Variable Fee, "Net Property Income" means the income derived from owning, leasing or operating a particular piece of real estate asset and related other operating income less operating expenses, as more fully described in the Trust Deed, provided further that, in relation to the calculation of the Variable Fee referable to a particular piece of real estate leased under a lease agreement, it means the Lease Income in relation to such real estate.
Net Rental Income	means total rental revenue in respect of lettable areas of the Initial Hotel Properties less attributable expenses including but not limited to government rent and rates, leasing expenses, air-conditioning charges, energy and utility expenses, repair and maintenance and other expenses (administration and sundry expenses), as more fully described in the Hotel Management Agreements.
NPI Excess	means, in respect of the results of operation of an Initial Hotel Property, the excess of the Net Property Income of such Initial Hotel Property over the annual Base Rent for any relevant period.
NTA	means net tangible assets, which is calculated as NAV minus intangible assets (including goodwill).
occupancy rate	means the total number of room nights sold divided by the total number of room nights available for sale in a given period.
Operating Equipment	means supply items which may be consumed in the operation of a hotel including chinaware, glassware, linens, towels, silverware, tools, kitchen utensils, miscellaneous serving equipment, uniforms, engineering and housekeeping tools and utensils, and similar items, as more fully described in the Hotel Management Agreements.

RevPAR	means revenue per available room, which is calculated by dividing total hotel room revenue by the total number of room nights available for sale in a given period, or by multiplying average room rate and occupancy rate in a given period.
room nights	means the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours in a given period.
Special Purpose Vehicle or SPV	means an entity whose primary purpose is to, whether directly or through another such entity, hold or own real estate or arrange financing for Regal REIT.
sq.ft.	means square feet.
Total Distributable Income	has the meaning given to it in the section headed "Key Investment Information and Highlights — Distribution Policy" in this Offering Circular.
Total Hotel Revenue	means revenue derived from (a) the Initial Hotel Properties in relation to (i) rooms rented; (ii) food and beverage sales; (iii) catering operations conducted outside of the Initial Hotel Properties; (iv) miscellaneous banquet and meeting room income; (v) parking services rendered; (vi) laundry and dry cleaning services rendered and (vii) health center, swimming pool, spa and gym services; (b) other miscellaneous operated departments in the Initial Hotel Properties; and (c) service charge levied by the Initial Hotel Properties on all hotel room revenue and food and beverage revenue (excluding in-hotel-room mini-bar revenue), as more fully described in the Hotel Management Agreements.
Total Rental Revenue	means rent and other charges paid by tenants under their lease agreements and license fees and other charges paid by licensees under their license arrangements for commercial space in the Initial Hotel Properties, as more fully described in the Hotel Management Agreements.
Variable Fee	means, in respect of each piece of real estate owned by Regal REIT, the fee payable to the REIT Manager, currently at the rate of 3% per annum, subject to a maximum of 5% per annum, of the Net Property Income as more fully described in the section headed "Structure and Management — REIT Manager" in this Offering Circular.
Variable Rent	means the variable rent payable by the Lessee pursuant to each Lease Agreement, being a 100%, 70%, 60% and 50% share of Collective NPI Excess for each year from 2007 to 2010, respectively.

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

ABN AMRO Rothschild	means ABN AMRO Bank N.V., Hong Kong Branch and N M Rothschild & Sons (Hong Kong) Limited, each trading as ABN AMRO Rothschild.
Acquisition	means the acquisition by Regal REIT of (i) the entire issued share capital in Holding SPV and (ii) the Promissory Notes pursuant to the Sale and Purchase Agreement.
Adjustment Sum	has the meaning given in the section headed "Material Agreements — Sale and Purchase Agreement".
AEP Agency Deed	means the deed dated March 2, 2007 and made between each of the Property Companies (other than Ricobem Limited), the AEP Agent and Regal relating to the AEP Contracts.
AEP Agent	means Regal Contracting Agency Limited, a wholly-owned subsidiary of Regal.
AEP Contracts	means all construction contracts and/or other contracts in relation to the carrying out of the Asset Enhancement Program entered into by the relevant Property Company or to be entered into by the AEP Agent (as agent for and on behalf of the relevant Property Company), with the relevant contractors and/or project consultants and/or other professional advisers whose services are from time to time engaged in connection with the execution of the Asset Enhancement Program.
AEP Units	means the Regal Subscription Units to be subscribed for by Great Prestige Investments Limited, being a wholly-owned subsidiary of Regal, in relation to which it has agreed to the arrangements under the Distribution Deed.
Application Form(s)	means the **WHITE** application form(s), **YELLOW** application form(s), and **BLUE** application form(s) or where the context so requires, any of them.

Appraised Value	means the value of a particular Initial Hotel Property or, as the case may be, of a particular portion of the Asset Enhancement Program, as at December 31, 2006, as appraised by the Independent Property Valuer as set out in Appendix IV in this Offering Circular.
Articles of Association	means the articles of association of the REIT Manager.
AsiaWorld-Expo	is an exhibition and event venue offering over 70,000 square meters of rentable space for exhibitions, conventions, concerts, sports and entertainment events.
Asset Enhancement Program or AEP	means the extension program in relation to the Initial Hotel Properties, as more fully described under the section headed "The Initial Hotel Properties" in this Offering Circular.
associate	has the meaning ascribed to it under the SFO.
Assured Entitlement	the entitlements of Qualifying Regal Shareholders to apply for Reserved Units under the Preferential Offering on the basis of an assured entitlement of one Reserved Unit for every whole multiple of 100 Regal Shares held by each Qualifying Regal Shareholder at the close of business on Friday, March 9, 2007. For the avoidance of doubt, a Qualifying Regal Shareholder is not entitled to any Reserved Unit in respect of any holding of fewer than 100 Regal Shares.
Board	means the board of Directors.
Building Surveying Consultant	means Savills Project Consultancy Limited.
Business Day	means a day (excluding, Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general business in Hong Kong.
CCASS	means the Central Clearing and Settlement System established and operated by HKSCC.
CCASS Broker Participant	means a person admitted to participate in CCASS as a broker participant.
CCASS Custodian Participant	means a person admitted to participate in CCASS as a custodian participant.
CCASS Investor Participant	means a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation.

CCASS Participant	means a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant.
CCIHL	means Century City International Holdings Limited.
Century City Group	means Century City International Holdings Limited and its subsidiaries.
CEPA	means the Closer Economic Partnership Arrangement between Hong Kong and the PRC.
Completion	means the completion of the sale and purchase of the Holding SPV Shares and the assignment of the Promissory Notes pursuant to the Sale and Purchase Agreement.
connected person	has the meaning ascribed to it in the REIT Code.
Deed of Non-Competition	means the deed dated March 16, 2007 between Regal, the REIT Manager and the Trustee relating to certain non-compete undertakings and right of first refusal to be given by Regal.
Deed of Tax Indemnity	means the deed dated March 2, 2007 between the Vendor and Regal in favor of the Trustee and Holding SPV.
Deed of Trade Mark Licence	means the deed dated March 16, 2007 between Regal International Limited, the REIT Manager, Holding SPV, the Holding Companies, Finance Company 1 and the Lessors relating to trademark and service mark licences granted to the REIT Manager and each Lessor.
Deposited Property	means all the assets of Regal REIT, including but not limited to the Initial Hotel Properties.
Directors	means the directors of the REIT Manager.
Distributable Income Guarantee Deed	means the deed dated March 12, 2007 between Regal, the Trustee and the REIT Manager pursuant to which Regal has guaranteed that it shall, in the event that the Total Distributable Income for the Distribution Periods specified therein, in aggregate, is less than HK$420.3 million, pay the Trustee an amount which represents the shortfall.
Distribution Deed	means a deed poll dated March 2, 2007 by each of Regal and Great Prestige Investments Limited pursuant to which they give certain undertakings relating to their right to sell, or receive distributions in respect of their AEP Units.

Distribution Entitlement	means the respective entitlement of each Unitholder to a pro-rata share of a distribution.
Distribution Period	means a period in respect of which a distribution is declared.
Executive Officers	means the executive officers of the REIT Manager as at the date of this Offering Circular.
Existing Borrowings	means, in respect of Holding SPV and each of its subsidiaries, the aggregate amount of their indebtedness for borrowed monies comprising all amounts whether principal, interest or otherwise owing and outstanding immediately prior to Completion.
Facility	means the aggregate HK$4.5 billion secured credit facility extended to the Finance Companies, comprising a term loan facility and a revolving credit facility under the Financing Agreement.
Finance Companies	means Finance Company 1 and Finance Company 2.
Finance Company 1	means Rich Day Investments Limited.
Finance Company 2	means Bauhinia Hotels Limited.
Financing Agreement	means the term and revolving facilities agreement dated December 13, 2006 (as amended and supplemented from time to time) and made between, amongst others, the Finance Companies as borrowers and ABN AMRO Bank N.V., The Bank of East Asia, Limited, Calyon, Citic Ka Wah Bank Limited, Deutsche Bank AG, Hong Kong Branch, Hang Seng Bank Limited, Industrial and Commercial Bank of China (Asia) Limited, Merrill Lynch International Bank Limited, London Branch, Oversea-Chinese Banking Corporation Limited, Hong Kong Branch, Standard Chartered Bank (Hong Kong) Limited and Sumitomo Mitsui Banking Corporation as mandated lead arrangers and, as relevant, the security and other agreements relating to the Facility.
Forecast Period	means the period from the Listing Date to December 31, 2007.
Global Offering	means the Hong Kong Public Offering and the International Offering.
Government	means the government of the Hong Kong Special Administrative Region.

Government Grant/Lease	means in respect of each Initial Hotel Property, the Government Conditions or Lease (as the case may be) and any variation or modification thereof under which the Initial Hotel Property is held from the Government by the relevant Property Company.
Greater China	means mainland China, Hong Kong, Macau and Taiwan.
HK$ or Hong Kong dollars	means Hong Kong dollars, the lawful currency of Hong Kong.
HKFRS	means Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants, as amended, supplemented or otherwise modified for the time being.
HKICPA	means the Hong Kong Institute of Certified Public Accountants (previously named as the Hong Kong Society of Accountants).
HKSCC	means Hong Kong Securities Clearing Company Limited.
HKSCC Nominees	means HKSCC Nominees Limited.
Holding Companies	means, as at Completion, the respective holding companies of the Property Companies, being (i) (in respect of Regal Airport Hotel) Fieldstar Investments Limited, in relation to Bauhinia Hotels Limited, (ii) (in respect of Regal Hongkong Hotel) Yield Rich Limited, in relation to Cityability Limited, (iii) (in respect of Regal Kowloon Hotel) Fit Result Investments Limited, in relation to Ricobem Limited, (iv) (in respect of Regal Oriental Hotel) Chasehill Limited, in relation to Gala Hotels Limited and (v) (in respect of Regal Riverside Hotel) Wide Lead Corporation, in relation to Regal Riverside Hotel Limited and "Holding Company" means any one of them.
Holding SPV	means Regal Asset Holdings Limited.
Holding SPV Shares	means the shares comprising the entire issued share capital of Holding SPV.
Hong Kong	means The Hong Kong Special Administrative Region of the PRC.
Hong Kong GAAP	means accounting principles generally accepted in Hong Kong including HKFRS.
Hong Kong Interbank Offered Rate, or HIBOR	means the rate of interest offered on Hong Kong dollar loans by banks in the interbank market for a specified period.

Hong Kong Public Offering	means the offer of Units to the public in Hong Kong at the Offer Price, on and subject to the terms and conditions described in this Offering Circular and the Application Forms.
Hong Kong Public Offering Units	means the 86,930,000 Units initially being offered by Regal REIT pursuant to the Hong Kong Public Offering (subject to adjustment and reallocation as described in the section headed "Other Information — Structure of the Global Offering" in this Offering Circular).
Hong Kong Stock Exchange	means The Stock Exchange of Hong Kong Limited or any successor thereto.
Hong Kong Underwriters	means the underwriters of the Hong Kong Public Offering whose names are set out in the section headed "Other Information — Underwriting — Hong Kong Underwriters" in this Offering Circular.
Hotel Management Agreement No. 1	means the hotel management agreement dated March 16, 2007 among (i) Bauhinia Hotels Limited as Lessor, (ii) Favour Link International Limited as Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of Regal Airport Hotel.
Hotel Management Agreement No. 2	means the hotel management agreement dated March 16, 2007 among (i) Cityability Limited as Lessor, (ii) Favour Link International Limited as Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of Regal Hongkong Hotel.
Hotel Management Agreement No. 3	means the hotel management agreement dated March 16, 2007 among (i) Ricobem Limited as Lessor, (ii) Favour Link International Limited as Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of Regal Kowloon Hotel.
Hotel Management Agreement No. 4	means the hotel management agreement dated March 16, 2007 among (i) Gala Hotels Limited as Lessor, (ii) Favour Link International Limited as Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of Regal Oriental Hotel.

Hotel Management Agreement No. 5	means the hotel management agreement dated March 16, 2007 among (i) Regal Riverside Hotel Limited as Lessor, (ii) Favour Link International Limited as Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of Regal Riverside Hotel.
Hotel Management Agreements	means Hotel Management Agreement No. 1, Hotel Management Agreement No. 2, Hotel Management Agreement No. 3, Hotel Management Agreement No. 4 and Hotel Management Agreement No. 5, and "Hotel Management Agreement" means any one of them.
Hotel Manager	means Regal Hotels International Limited, wholly-owned subsidiary of Regal.
Independent Property Valuer	means CB Richard Ellis Limited.
Initial Hotel Properties	means the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel and "Initial Hotel Property" or "Property" means any one of them.
International Offering	means the offer of International Offering Units for cash at the Offer Price to institutional, professional and other investors and the Preferential Offering, as further described in the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.
International Offering Units	means the 782,359,000 Units (subject to adjustment and reallocation) initially available to investors in the International Offering and up to an additional 130,393,350 Units under the Over-allotment Option.
International Purchase Agreement	means the agreement relating to the International Offering expected to be entered into on March 23, 2007 between the REIT Manager, Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the Joint Global Coordinators and the International Underwriters, as further described in the section headed "Other Information — Underwriting" in this Offering Circular.

International Underwriters	means the group of underwriters of the International Offering, led by the Joint Global Coordinators, as further described in the section headed "Other Information — Underwriting" in this Offering Circular.
IPO	means the initial public offering of the Units in Hong Kong.
Issue Price	means the price at which new Units may be issued pursuant to the Trust Deed.
Joint Bookrunners	means Merrill Lynch Far East Limited, Deutsche Bank AG, Hong Kong Branch and Goldman Sachs (Asia) L.L.C.
Joint Global Coordinators	means Merrill Lynch Far East Limited, Deutsche Bank AG, Hong Kong Branch and Goldman Sachs (Asia) L.L.C.
KCRC	means Kowloon-Canton Railway Corporation.
Latest Practicable Date	means March 7, 2007, being the latest practicable date for the purposes of ascertaining certain information contained in this Offering Circular.
Lease Agreement No. 1	means the lease agreement dated March 16, 2007 between Bauhinia Hotels Limited as Lessor and the Lessee relating to Regal Airport Hotel.
Lease Agreement No. 2	means the lease agreement dated March 16, 2007 between Cityability Limited as Lessor and the Lessee relating to Regal Hongkong Hotel.
Lease Agreement No. 3	means the lease agreement dated March 16, 2007 between Ricobem Limited as Lessor and the Lessee relating to Regal Kowloon Hotel.
Lease Agreement No. 4	means the lease agreement dated March 16, 2007 between Gala Hotels Limited as Lessor and the Lessee relating to Regal Oriental Hotel.
Lease Agreement No. 5	means the lease agreement dated March 16, 2007 between Regal Riverside Hotel Limited as Lessor and the Lessee relating to Regal Riverside Hotel.
Lease Agreements	means Lease Agreement No. 1, Lease Agreement No. 2, Lease Agreement No. 3, Lease Agreement No. 4 and Lease Agreement No. 5, and "Lease Agreement" means any one of them.

Lease Guarantees	means the lease guarantees, all dated March 16, 2007 among Regal as guarantor, the Lessor as owner of the relevant Initial Hotel Property and the Trustee, pursuant to which Regal guarantees to pay all amounts from time to time owing by the Lessee to the Lessors under the Lease Agreements, and "Lease Guarantee" means any one of them.
Lessee	means Favour Link International Limited, a wholly-owned subsidiary of Regal.
Lessors	means the Property Companies, and "Lessor" means any one of them.
Listing Agreement	means the agreement to be entered into between the Trustee, the REIT Manager and the Hong Kong Stock Exchange in relation to the post-regulatory regime applicable to Regal REIT.
Listing Date	means the date, expected to be Friday, March 30, 2007, on which the Units are first listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange.
Listing Rules	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Long-Stop Date	means, in relation to each phase of the Asset Enhancement Program, the date which falls one year after the target completion date in respect of such phase, except that, in relation to Regal Riverside Hotel, it is the date which falls 18 months after the relevant target completion date in relation thereto, each such date is subject to such extensions of time as are provided for under the Sale and Purchase Agreement.
Market Consultant	means Savills Valuation and Professional Services Limited.
Maximum Offer Price	means the maximum price of HK$3.38 per Unit payable in full by applicants under the Hong Kong Public Offering.
Minimum Offer Price	means the expected minimum price of HK$2.68 per Unit payable in full by applicants under the Hong Kong Public Offering.

Non-qualifying Regal Shareholders	means (a) registered holders of Regal Shares whose addresses on the register of members of Regal is, at the close of business on Friday, March 9, 2007, in a place outside Hong Kong and who the directors of Regal, after making enquiries regarding the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider his/her/its exclusion from the definition of "Qualifying Regal Shareholder" is necessary or expedient, and (b) Paliburg Holdings Limited and its associates (as defined in the Listing Rules).
Offer Price	means the final Hong Kong dollar price per Unit (exclusive of brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) at which the Units are to be issued and allotted pursuant to the Global Offering, to be determined as further described in the section headed "Other Information — Structure of the Global Offering" in this Offering Circular.
Ordinary Resolution	means a resolution of Unitholders proposed and passed by a simple majority of the votes of those present and entitled to vote.
Over-allotment Option	means the option proposed to be granted by Regal (through Complete Success Investments Limited) to make available up to 130,393,350 Units to be offered to investors as part of the International Offering solely to cover the over-allotment of Units (if any).
PHL	means Paliburg Holdings Limited.
PRC or mainland China	means The People's Republic of China excluding, for the purposes of this Offering Circular only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.
Predecessor Group	means the companies (including the Property Companies) whose results of operation for the years ended December 31, 2003, 2004 and 2005 and nine months ended September 30, 2006 are set out in the combined financial statements in Appendix I to this Offering Circular.

Preferential Offering	means the preferential offer to the Qualifying Regal Shareholders of 49,877,375 Units (representing approximately 5.7% of the Units initially available under the Global Offering (subject to adjustment and the Over-allotment Option)) out of the Units being offered under the International Offering at the Offer Price on and subject to the terms and conditions stated herein and in the BLUE Application Form, as further described in the section headed "Other Information — Structure of the Global Offering — The Preferential Offering".
Price Determination Date	means the date, expected to be on Friday, March 23, 2007, on which the Offer Price is determined for the purposes of the Global Offering.
Promissory Notes	means the promissory notes for the sums of HK$5,549,245,000, HK$2,386,000,000 and HK$5,620,052,000 issued by Holding SPV to the Vendor pursuant to the Restructuring and which will be assigned to the Trustee (on behalf of Regal REIT) upon Completion pursuant to the Sale and Purchase Agreement.
Property Companies	means the respective direct owners of the Initial Hotel Properties (being (i) Bauhinia Hotels Limited, in relation to Regal Airport Hotel, (ii) Cityability Limited, in relation to Regal Hongkong Hotel, (iii) Ricobem Limited, in relation to Regal Kowloon Hotel, (iv) Gala Hotels Limited, in relation to Regal Oriental Hotel and (v) Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel) and "Property Company" means any one of them.
Public Offer Underwriting Agreement	means the agreement dated March 16, 2007 relating to the Hong Kong Public Offering between the REIT Manager, Regal, Complete Success Investments Limited, Great Prestige Investments Limited, the Vendor, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in the section headed "Other Information — Underwriting" in this Offering Circular.
QIBs	means qualified institutional buyers within the meaning of Rule 144A.
Qualifying Regal Shareholder	means holders of Regal Shares, whose names appeared on the register of members of Regal as holding Regal Shares at the close of business on Friday, March 9, 2007, other than "Non-qualifying Regal Shareholders".
Record Date	means the date or dates, determined by the REIT Manager as the record date or dates for the purpose of determining the entitlement of a Unitholder.

Regal or RHIHL	means Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 78).
Regal Airport Hotel	means the property sub-leased by Bauhinia Hotels Limited from the Airport Authority on which Regal Airport Hotel is situated.
Regal Connected Persons Group	means Regal and any person who is a "connected person" of Regal REIT as a result of its connection with Regal.
Regal Group	means Regal and its subsidiaries.
Regal Hongkong Hotel	means the property owned by Cityability Limited on which Regal Hongkong Hotel is situated.
Regal Kowloon Hotel	means the property owned by Ricobem Limited on which Regal Kowloon Hotel is situated.
Regal Oriental Hotel	means the property owned by Gala Hotels Limited on which Regal Oriental Hotel is situated.
Regal REIT	means Regal Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO subject to applicable conditions from time to time.
Regal Riverside Hotel	means the property owned by Regal Riverside Hotel Limited on which Regal Riverside Hotel is situated.
Regal Shares	means ordinary shares of nominal value HK$0.01 each in the share capital of Regal.
Regal Subscription Units	means the Units to be subscribed for by Regal through its wholly-owned subsidiaries, Complete Success Investments Limited and Great Prestige Investments Limited, under the Subscription Agreement.
Regulation S	means Regulation S under the U.S. Securities Act.
REIT	means a real estate investment trust.
REIT Code	means the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified.
REIT Manager	means Regal Portfolio Management Limited, a wholly-owned subsidiary of Regal.
Reserved Units	means the Units offered pursuant to the Preferential Offering and which are to be allocated out of the Units being offered under the International Offering.

Restructuring	means the acquisitions and disposals of certain companies and the transfers of certain assets, liabilities and employees within the Regal Group which are required to structure the ownership of the Holding Companies, the Property Companies, the Initial Hotel Properties and Finance Company 1, to be owned directly or indirectly by Holding SPV immediately before Completion.
RHK Licence Agreements	means certain letters and agreements between the owner of 68 Yee Wo Street, Causeway Bay, Hong Kong and Cityability Limited, granting to Cityability Limited the right and/or licence to use certain premises, installations and facilities at such building.
RHK Supporting Premises	means certain areas for the mechanical, electrical, back-of-house and other minor hotel business which are required for the operation of Regal Hongkong Hotel located in the building currently known as 68 Yee Wo Street, Causeway Bay, Hong Kong leased or licensed pursuant to the RHK Supporting Premises Tenancy Agreement.
RHK Supporting Premises Tenancy Agreement	means the tenancy agreement between Athlone Limited and Cityability Limited dated May 13, 1992, the side agreement dated August 1, 2002 and the supplemental agreement dated April 28, 2006, as more fully described under the section headed "Other Information — Information regarding title to the Initial Hotel Properties" in this Offering Circular.
Rule 144A	means Rule 144A under the U.S. Securities Act.
Sale and Purchase Agreement	means the sale and purchase agreement dated March 2, 2007 entered into between the Vendor, the Trustee, the REIT Manager, Regal and Holding SPV relating to the sale and purchase of (1) the Holding SPV Shares and (2) the Promissory Notes and the Asset Enhancement Program.
SARS	means severe acute respiratory syndrome.
SFC	means the Securities and Futures Commission of Hong Kong.
SFO	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified and the rules thereunder.
significant holder	has the meaning ascribed to it in the REIT Code.
Sole Listing Agent	means Merrill Lynch Far East Limited.

Special Resolution	means a resolution of Unitholders proposed and passed at a meeting of Unitholders carried by 75% or more of the votes of those Unitholders present and entitled to vote in person or by proxy.
Stabilizing Manager	means Merrill Lynch Far East Limited.
Subscription Agreement	means the subscription agreement dated March 2, 2007 entered into between Regal, Complete Success Investments Limited, Great Prestige Investments Limited and the REIT Manager pursuant to which Complete Success Investments Limited and Great Prestige Investments Limited (failing whom, Regal) has agreed to subscribe for an aggregate of 2,235,316,748 Regal Subscription Units.
Trust Deed	means the trust deed dated December 11, 2006 entered into between the Trustee and the REIT Manager constituting Regal REIT (as supplemented by the supplemental trust deed dated March 2, 2007 and as may be supplemented by any other supplemental deeds from time to time pursuant to the provisions therein).
Trustee	means DB Trustees (Hong Kong) Limited, the trustee of Regal REIT.
Trustee Ordinance	means the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as amended, supplemented or otherwise modified.
Underwriters	means the Hong Kong Underwriters and the International Underwriters.
Underwriting Agreements	means the Public Offer Underwriting Agreement and the International Purchase Agreement.
Unit	means a unit of Regal REIT.
Unit Borrowing Agreement	means the unit borrowing agreement to be entered into on or prior to the Price Determination Date among the Stabilizing Manager or any person acting for it, Complete Success Investments Limited and Regal.
Unit Registrar	means Computershare Hong Kong Investor Services Limited.
United States or US	means the United States of America.
Unitholder	means any person registered as holding a Unit.
US$	means United States dollars, the lawful currency of the United States.
U.S. person	has the meaning given to it in Regulation S.

U.S. Securities Act	means the United States Securities Act of 1933, as amended.
Valuation Report	means the valuation report produced by the Independent Property Valuer, as set out in Appendix IV of this Offering Circular.
Vendor	means Regal International (BVI) Holdings Limited, a wholly-owned subsidiary of Regal.

APPENDICES

The following is the text of a report, received from Ernst & Young, the independent reporting accountants of Regal REIT, prepared for the purpose of inclusion in this Offering Circular.

ERNST & YOUNG

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

March 19, 2007

The Directors
Regal Portfolio Management Limited
Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information relating to the Predecessor Group (as defined hereunder)(the "**Financial Information**"), prepared on the basis set out in note 1 of Section (II) below, for inclusion in the offering circular of Regal Real Estate Investment Trust ("**Regal REIT**") dated March 19, 2007 in connection with the proposed listing of the units in Regal REIT on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**") pursuant to the Code on Real Estate Investment Trusts (the "**Proposed Listing**").

Regal REIT is a collective investment scheme constituted as a unit trust and is authorized under section 104 of the Securities and Futures Ordinance. Regal REIT was established under a trust deed dated December 11, 2006 made between Regal Portfolio Management Limited and DB Trustees (Hong Kong) Limited. Regal REIT had not carried on any business since the date of its establishment.

Regal Hotels International Holdings Limited ("**RHIHL**"), a company incorporated in Bermuda and listed on the SEHK, through its indirectly wholly-owned subsidiary companies, owns Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, respectively, in Hong Kong (collectively, the "**Hotel Properties**").

Pursuant to a group restructuring, Regal REIT will become the holding entity of the companies holding directly or indirectly the Hotel Properties (collectively, the "**Predecessor Group**") upon the Proposed Listing.

At the date of this report, the particulars of the companies comprising the Predecessor Group, all of which are companies with limited liability and have adopted December 31 as their financial year end date, are as follows:

Company name	Place and date of incorporation	Issued and paid-up share capital	Percentage of equity attributable to RHIHL	Principal activities
Regal Asset Holdings Limited ("RAHL")	Bermuda October 5, 2006	US$ 12,000	100%	Investment holding
Bauhinia Hotels Limited	Hong Kong December 22, 1987	HK$ 2	100%	Hotel ownership and operation of Regal Airport Hotel
Cityability Limited	Hong Kong April 10, 1987	HK$ 10,000	100%	Hotel ownership and operation of Regal Hongkong Hotel
Ricobem Limited	Hong Kong March 17, 1981	HK$100,000	100%	Hotel ownership and operation of Regal Kowloon Hotel
Gala Hotels Limited	Hong Kong December 22, 1987	HK$ 2	100%	Hotel ownership and operation of Regal Oriental Hotel
Regal Riverside Hotel Limited	Hong Kong October 14, 1994	HK$ 2	100%	Hotel ownership and operation of Regal Riverside Hotel
Yield Rich Limited ("Yield Rich")	British Virgin Islands May 26, 1989	US$ 1	100%	Investment holding
Wide Lead Corporation ("Wide Lead")	British Virgin Islands May 26, 1989	US$ 1	100%	Investment holding
Fieldstar Investments Limited	British Virgin Islands February 8, 1996	US$ 1	100%	Investment holding
Fit Result Investments Limited	British Virgin Islands August 29, 2005	US$ 1	100%	Investment holding
Chasehill Limited	British Virgin Islands May 25, 1988	US$ 1	100%	Investment holding
Rich Day Investments Limited	Hong Kong December 9, 2005	HK$ 1	100%	Provision of financing

Prior to the acquisition of the Predecessor Group by Regal REIT upon the Proposed Listing (the "**Acquisition**"), Hotel Riverside Plaza Limited, a wholly-owned subsidiary company of Wide Lead, was dissolved in October 2006. At the date of the Acquisition, Fortune Nice Investment Limited, a wholly-owned subsidiary company of Yield Rich, was disposed of to a subsidiary company of RHIHL at its then net asset value. For the purpose of preparing this report, the results and the assets and liabilities of Hotel Riverside Plaza Limited and Fortune Nice Investment Limited (collectively the "**Excluded Subsidiaries**") have been excluded from the Predecessor Group's combined results and cash flows for each of the three years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006 (the "**Relevant Periods**"), and combined balance sheets as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively.

Included in the balance sheet of the Predecessor Group as at September 30, 2006 are assets and liabilities of HK$162,888,000 and HK$130,000,000, respectively, attributable to the hotel operations. Such assets and liabilities will not be acquired by Regal REIT and will be transferred by the Predecessor Group to a subsidiary company of RHIHL at the date of the Acquisition.

We have acted as auditors of the companies comprising the Predecessor Group for the Relevant Periods.

No audited financial statements have been prepared for Yield Rich, Wide Lead, Fieldstar Investments Limited, Fit Result Investments Limited and Chasehill Limited, as there is no statutory requirement for these entities to prepare audited financial statements. However, for the purpose of this report, we have carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") on the management accounts of these companies for the Relevant Periods.

No audited financial statements have been prepared for Regal REIT, RAHL and Rich Day Investments Limited due to the short period after their establishment or incorporation. For the purpose of this report, we have, however, reviewed all material transactions of Regal REIT and these companies since their establishment or incorporation.

For the purpose of this report, we have examined the Financial Information of the Predecessor Group for the Relevant Periods, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have performed a review and carried out procedures as we considered necessary on the Financial Information for the nine months ended September 30, 2005, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Predecessor Group's management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Financial Information for the nine months ended September 30, 2005.

The Financial Information has been prepared based on the audited financial statements or management accounts of the companies comprising the Predecessor Group after making such adjustments as we considered appropriate. The Directors of the companies comprising the Predecessor

Group are responsible for the preparation of the Financial Information. It is our responsibility to form an independent opinion and a review conclusion, based on our examination on the Financial Information for the Relevant Periods and our review on the Financial Information for the nine months ended September 30, 2005, and to report an opinion and a review conclusion thereon respectively.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view on the basis as set out in note 1 to the Financial Information of the state of affairs of the Predecessor Group as at December 31, 2003, 2004 and 2005 and September 30, 2006, and of the combined results and cash flows of the Predecessor Group for the Relevant Periods.

Review conclusion in respect of the Financial Information for the nine months ended September 30, 2005

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modification that should be made to the Financial Information for the nine months ended September 30, 2005.

(I) FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

	Notes	Year ended December 31,			Nine months ended September 30,	
		2003	2004	2005	2005	2006
		HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
REVENUE	4	718,217	993,503	1,077,162	753,253	841,530
Cost of sales		(528,301)	(601,968)	(620,396)	(451,752)	(454,303)
Gross profit		189,916	391,535	456,766	301,501	387,227
Other income and gains	4	2,347	1,956	24,143	23,733	152
Administrative expenses		(11,928)	(8,884)	(11,367)	(6,443)	(6,911)
Other operating expenses		(2,929)	(875)	—	—	—
Write-back of impairment of hotel buildings	8	644,001	1,149,230	964,370	—	—
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION		821,407	1,532,962	1,433,912	318,791	380,468
Depreciation and amortization		(139,550)	(146,557)	(174,615)	(125,885)	(149,727)
OPERATING PROFIT		681,857	1,386,405	1,259,297	192,906	230,741
Finance costs	6	(111,860)	(109,912)	(174,248)	(116,911)	(158,578)
PROFIT BEFORE TAX	5	569,997	1,276,493	1,085,049	75,995	72,163
Tax	7	50,431	20,914	97,193	12,147	(2,328)
PROFIT FOR THE YEAR/PERIOD		620,428	1,297,407	1,182,242	88,142	69,835

COMBINED BALANCE SHEETS

	Notes	As at December 31, 2003 HK$'000	As at December 31, 2004 HK$'000	As at December 31, 2005 HK$'000	As at September 30, 2006 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	8	4,345,979	5,415,509	6,299,746	6,225,726
Prepaid land lease payments	9	831,723	809,071	786,419	769,430
Deferred tax assets	17	3,905	11,842	95,422	91,301
Total non-current assets		5,181,607	6,236,422	7,181,587	7,086,457
CURRENT ASSETS					
Hotel inventories	10	12,940	15,308	15,719	12,322
Debtors, deposits and prepayments	11	82,222	79,341	111,220	132,534
Pledged time deposits	12	1,213	1,216	—	—
Cash and cash equivalents	12	6,827	14,850	21,616	18,032
Total current assets		103,202	110,715	148,555	162,888
CURRENT LIABILITIES					
Creditors and accruals	13	(110,568)	(127,610)	(167,386)	(120,624)
Deposits received		(6,898)	(6,191)	(7,970)	(9,376)
Interest bearing bank loan, secured	14	(40,000)	—	—	—
Total current liabilities		(157,466)	(133,801)	(175,356)	(130,000)
NET CURRENT ASSETS/ (LIABILITIES)		(54,264)	(23,086)	(26,801)	32,888
TOTAL ASSETS LESS CURRENT LIABILITIES		5,127,343	6,213,336	7,154,786	7,119,345
NON-CURRENT LIABILITIES					
Interest bearing bank loan, secured	14	(1,002,342)	(1,383,480)	(1,386,784)	(1,389,262)
Amount due to a fellow subsidiary company	15	(5,983,472)	(5,410,222)	(5,179,739)	(5,073,778)
Loan from a fellow subsidiary company	16	(2,386,000)	(2,386,000)	(2,386,000)	(2,386,000)
Deferred tax liabilities	17	(48,510)	(35,533)	(21,920)	(20,127)
Other payable	18	(6,325)	—	—	—
Total non-current liabilities		(9,426,649)	(9,215,235)	(8,974,443)	(8,869,167)
Net liabilities		(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)
EQUITY					
Issued capital	19	—	—	—	—
Accumulated losses		(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)
Total equity		(4,299,306)	(3,001,899)	(1,819,657)	(1,749,822)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Issued share capital	Accumulated losses	Total equity
	HK$'000	HK$'000	HK$'000
At January 1, 2003	—	(4,919,734)	(4,919,734)
Profit for the year	—	620,428	620,428
At December 31, 2003 and January 1, 2004	—	(4,299,306)	(4,299,306)
Profit for the year	—	1,297,407	1,297,407
At December 31, 2004 and January 1, 2005	—	(3,001,899)	(3,001,899)
Profit for the year	—	1,182,242	1,182,242
At December 31, 2005 and January 1, 2006	—	(1,819,657)	(1,819,657)
Profit for the period	—	69,835	69,835
At September 30, 2006	—	(1,749,822)	(1,749,822)
At January 1, 2005	—	(3,001,899)	(3,001,899)
Profit for the period (unaudited)	—	88,142	88,142
At September 30, 2005 (unaudited)	—	(2,913,757)	(2,913,757)

COMBINED CASH FLOW STATEMENTS

	Note	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2005	Nine months ended September 30, 2006
		HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	20	180,345	402,934	458,084	285,541	335,821
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(16,760)	(42,801)	(64,446)	(37,701)	(64,514)
Interest received		6	6	14	14	135
Decrease/(Increase) in pledged time deposits		(1,213)	(3)	1,216	1,216	—
Net cash outflow from investing activities		(17,967)	(42,798)	(63,216)	(36,471)	(64,379)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of an amount due to a fellow subsidiary company		(50,021)	(573,250)	(230,483)	(137,477)	(105,961)
New bank loan		—	1,400,000	—	—	—
Repayment of bank loan		(6,605)	(1,054,180)	—	—	—
Interest paid		(110,055)	(124,683)	(157,619)	(114,282)	(169,065)
Net cash outflow from financing activities		(166,681)	(352,113)	(388,102)	(251,759)	(275,026)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(4,303)	8,023	6,766	(2,689)	(3,584)
Cash and cash equivalents at beginning of year/period		11,130	6,827	14,850	14,850	21,616
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		6,827	14,850	21,616	12,161	18,032
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		6,827	14,850	21,616	12,161	18,032

(II) NOTES TO FINANCIAL INFORMATION

1. BASIS OF PREPARATION

For the purpose of the Acquisition, the Financial Information has been prepared on a combined basis to present the combined results and combined cash flows of the Predecessor Group in respect of the hotel operations of the Hotel Properties for the Relevant Periods and the nine months ended September 30, 2005, and the combined balance sheets as at December 31, 2003, 2004 and 2005 and September 30, 2006, as if (i) the Excluded Subsidiaries had not been in existence; and (ii) RAHL had been the beneficial holding company of the subsidiary companies, which collectively comprise the Predecessor Group, throughout the Relevant Periods.

Upon the Proposed Listing, the Predecessor Group will cease to engage in hotel operations and will commence to be involved in property rental business arising from the Hotel Properties following the acquisition of its entire interests by Regal REIT. The Financial Information of the Predecessor Group neither represents the financial information of Regal REIT prepared on a basis as if Regal REIT were operating in the rental business, nor will it give an indication of the results, cash flows and financial position of Regal REIT.

As at September 30, 2006, the Predecessor Group had net current assets of HK$32,888,000 and a deficiency in assets of HK$1,749,822,000. The Financial Information has been prepared on the going concern basis as, prior to the Proposed Listing, (i) Fortune Nice Investment Limited and Long Profits Investments Limited, subsidiary companies of RHIHL, have agreed not to demand repayments of the amounts due to them until such time when the Predecessor Group is in a position to repay the amounts without impairing its liquidity position; and (ii) Regal International (BVI) Holdings Limited, another subsidiary company of RHIHL, has agreed to provide adequate funds for the Predecessor Group to meet its liabilities as and when they fall due.

The Financial Information of the Predecessor Group has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting policies set out in notes 2(a) to 2(o) below, which conform with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong.

The Predecessor Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions

The HKAS 1 Amendment shall be applied for annual periods beginning on or after January 1, 2007.

HKFRS 7 shall be applied for annual periods beginning on or after January 1, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Predecessor Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after March 1, 2006, May 1, 2006, June 1, 2006, November 1, 2006 and March 1, 2007, respectively.

Except for certain disclosure requirements, the Predecessor Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Predecessor Group's financial information in the period of initial application.

(a) **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than hotel inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(b) **Related parties**

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

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Predecessor Group; (2) has an interest in the Predecessor Group that gives it significant influence over the Predecessor Group; or (3) has joint control over the Predecessor 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 Predecessor Group or its parent;

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

(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); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Predecessor Group, or of any entity that is a related party of the Predecessor Group.

(c) **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel buildings	Over the shorter of 100 years or the remaining lease terms
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents hotels extension and refurbishment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(d) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Predecessor Group is the lessor, assets leased by the Predecessor 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 Predecessor Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

(e) **Financial assets**

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs.

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 subsequently carried at amortized cost using the effective interest method. Amortization 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 recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(f) **Impairment of financial assets**

The Predecessor Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

The Predecessor Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

In relation to trade 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) that the Predecessor Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

(g) **Derecognition of financial assets**

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

- the rights to receive cash flows from the asset have expired;
- the Predecessor 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 Predecessor Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(h) **Financial liabilities at amortized cost (including interest bearing loans and borrowings)**

Financial liabilities including creditors and accruals, deposits received and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

(i) **Derecognition of financial liabilities**

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

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

(j) **Hotel inventories**

Hotel inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is based on the estimated selling prices less any further costs expected to be incurred to disposal.

(k) **Cash and cash equivalents**

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, 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 Predecessor Group's cash management.

For the purpose of the combined balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(l) **Income tax**

Income tax comprises current and deferred tax. Income tax is recognized in the income statement or in equity if it relates to items that are recognized in the same or a different period directly in equity.

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 recognized for all taxable temporary differences while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized.

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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.

(m) **Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Predecessor Group and when the revenue can be measured reliably, on the following bases:

(i) hotel income, in the period in which such services are rendered;

(ii) rental income, in the period in which the property or equipment is let and on the straight-line basis over the lease terms; and

(iii) interest income, 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.

(n) **Employee benefits**

Employment Ordinance long service payments

Certain of the Predecessor Group's employees have completed the required number of years of service to the Predecessor Group and are eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Predecessor Group is liable to make such payments in the event that such a termination of employment falls within the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Predecessor Group as at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Predecessor Group.

Staff retirement scheme

The Predecessor Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Predecessor Group in an independently administered fund. The Predecessor Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Predecessor Group's employer voluntary contributions, part or all of which are refunded to the Predecessor Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

(o) **Borrowing costs**

Borrowing costs directly attributable to the construction and development of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use. Interest is capitalized at the Predecessor Group's weighted average interest rate on external borrowings and, where applicable, the interest rates related to specific development project borrowings.

3. SIGNIFICANT ACCOUNTING JUDGMENT AND ESTIMATES

(a) Judgment

In the process of applying the Predecessor Group's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the Financial Information:

Operating lease commitments - Predecessor Group as lessor

The Predecessor Group has entered into leases on commercial area and shop arcades in the Hotel Properties. The Predecessor Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Assessment of impairment of assets

The Predecessor Group's management periodically reviews each asset for possible impairment or reversal of previously recognized impairment. Recoverability of assets is measured by a comparison of the carrying amount of an asset to the higher of its fair value less costs to sell and its value in use. If such assets are considered by management to be impaired or no longer be impaired, the impairment or reversal of impairment previously recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets less costs to sell. In the analysis of fair value, the Predecessor Group uses independent valuations which are based on various assumptions and estimates.

Recognition of deferred tax

Deferred tax assets are recognized for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the carryforward of unused tax losses can be utilized. Recognition of deferred tax primarily involves judgment and estimates regarding the future performance of the Predecessor 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 realized, such as tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred tax assets and related taxable profits projection are reviewed at each balance sheet date.

4. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Predecessor Group's turnover), other income and gains are analyzed as follows:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Revenue					
Gross hotel income:					
Room	398,991	636,703	700,853	486,462	546,289
Food and beverage	256,278	290,087	307,581	216,568	235,912
Others	37,849	43,836	42,714	31,817	34,959
	693,118	970,626	1,051,148	734,847	817,160
Gross rental income from Hotel Properties	25,099	22,877	26,014	18,406	24,370
	718,217	993,503	1,077,162	753,253	841,530
Other income and gains					
Rental income in respect of other equipment	1,632	1,632	1,632	1,224	—
Settlement amount received less expenses for the business interruption claims	—	—	22,400	22,400	—
Others	715	324	111	109	152
	2,347	1,956	24,143	23,733	152

5. PROFIT BEFORE TAX

The Predecessor Group's profit before tax is arrived at after charging/(crediting):

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Cost of sales#	528,301	601,968	620,396	451,752	454,303
Cost of inventories sold and services provided	325,236	357,306	369,091	268,462	283,692
Depreciation	116,898	123,905	151,963	108,896	132,738
Recognition of prepaid land lease payments	22,652	22,652	22,652	16,989	16,989
Impairment/(Write-back of impairment) on trade debtors	2,546	475	115	183	(119)
Employee benefits expense*:					
Wages and salaries	225,222	250,885	261,031	189,132	188,530
Staff retirement scheme contributions	11,470	11,403	10,821	7,931	9,017
Less: Forfeited contributions	(615)	(655)	(380)	(260)	(197)
Net staff retirement scheme contributions	10,855	10,748	10,441	7,671	8,820
	236,077	261,633	271,472	196,803	197,350
Auditors' remuneration	1,890	1,810	1,816	1,430	1,404
Minimum lease payments under operating leases:					
Land and buildings	8,173	4,040	3,921	3,099	2,539
Office equipment	—	37	65	36	87
	8,173	4,077	3,986	3,135	2,626
Gross rental income from Hotel Properties	(25,099)	(22,877)	(26,014)	(18,406)	(24,370)
Less: Outgoings	5,699	5,671	6,542	4,292	5,310
Net rental income from Hotel Properties	(19,400)	(17,206)	(19,472)	(14,114)	(19,060)
Net hotel income	(170,516)	(374,329)	(437,294)	(287,387)	(368,167)

Cost of sales does not include depreciation and amortization, which is separately shown on the face of the combined income statements.

* Inclusive of amounts of HK$186,218,000, HK$200,856,000, HK$206,734,000, HK$150,143,000 and HK$149,976,000 for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006, respectively, classified under cost of inventories sold and services provided.

No directors' remuneration was paid by the Predecessor Group during the years/periods.

6. FINANCE COSTS

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Interest on:					
Bank loan	37,035	38,731	59,225	38,887	59,987
Loan from a fellow subsidiary company	74,825	69,464	115,023	78,024	98,591
Other	—	1,717	—	—	—
Total finance costs	111,860	109,912	174,248	116,911	158,578

7. TAX

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Deferred tax (note 17) and tax charge/(credit) for the year/period	(50,431)	(20,914)	(97,193)	(12,147)	2,328

No provision for Hong Kong profits tax has been made for the year ended December 31, 2003 as the companies comprising the Predecessor Group either had no assessable profits or had available tax losses brought forward from prior years to offset the estimated assessable profits derived from or earned in Hong Kong during that year.

No provision for Hong Kong profits tax has been made for the years ended December 31, 2004 and 2005 and the nine months ended September 30, 2005 and 2006 as the Predecessor Group had available tax losses brought forward from prior years to offset the estimated assessable profits derived from or earned in Hong Kong during those years/periods.

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax credit at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Year ended December 31,						Nine months ended September 30,			
	2003		2004		2005		2005		2006	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Profit before tax	569,997		1,276,493		1,085,049		75,995		72,163	
Tax at the statutory tax rate	99,749	17.5	223,386	17.5	189,884	17.5	13,299	17.5	12,628	17.5
Effect on opening deferred tax of increase in tax rate	8,908	1.6	—	—	—	—	—	—	—	—
Income not subject to tax	(112,700)	(19.8)	(201,115)	(15.7)	(168,765)	(15.6)	—	—	—	—
Expenses not deductible for tax	16,620	2.9	16,654	1.3	18,331	1.7	14,319	18.8	12,678	17.6
Tax losses utilized from previous years/periods	(1,511)	(0.3)	(27,956)	(2.2)	(27,721)	(2.6)	(19,572)	(25.8)	(22,497)	(31.2)
Tax effect of utilization of tax losses previously not recognized	(61,042)	(10.7)	—	—	—	—	—	—	—	—
Decrease in deferred tax assets not recognized during the year/period	—	—	(32,294)	(2.5)	(108,821)	(10.0)	(20,920)	(27.5)	(347)	(0.5)
Others	(455)	(0.1)	411	—	(101)	—	727	1.0	(134)	(0.2)
Tax charge/(credit) at the Predecessor Group's effective rate	(50,431)	(8.9)	(20,914)	(1.6)	(97,193)	(9.0)	(12,147)	(16.0)	2,328	3.2

8. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At January 1, 2003:				
Cost	7,448,394	428,232	600	7,877,226
Accumulated depreciation	(1,049,772)	(265,118)	(557)	(1,315,447)
Accumulated impairment	(2,757,601)	—	—	(2,757,601)
Net carrying amount	3,641,021	163,114	43	3,804,178
At January 1, 2003, net of accumulated depreciation and impairment	3,641,021	163,114	43	3,804,178
Additions	559	14,139	—	14,698
Disposals	—	—	(500)	(500)
Write-back of impairment	644,001	—	—	644,001
Depreciation provided during the year	(83,332)	(33,541)	(25)	(116,898)
Write-back of depreciation upon disposal	—	—	500	500
At December 31, 2003, net of accumulated depreciation and impairment	4,202,249	143,712	18	4,345,979
At December 31, 2003 and January 1, 2004:				
Cost	7,448,953	442,371	100	7,891,424
Accumulated depreciation	(1,133,104)	(298,659)	(82)	(1,431,845)
Accumulated impairment	(2,113,600)	—	—	(2,113,600)
Net carrying amount	4,202,249	143,712	18	4,345,979
At January 1, 2004, net of accumulated depreciation and impairment	4,202,249	143,712	18	4,345,979
Additions	19,175	25,030	—	44,205
Write-back of impairment	1,149,230	—	—	1,149,230
Depreciation provided during the year	(97,400)	(26,487)	(18)	(123,905)
At December 31, 2004, net of accumulated depreciation and impairment	5,273,254	142,255	—	5,415,509
At December 31, 2004:				
Cost	7,468,128	467,401	100	7,935,629
Accumulated depreciation	(1,230,504)	(325,146)	(100)	(1,555,750)
Accumulated impairment	(964,370)	—	—	(964,370)
Net carrying amount	5,273,254	142,255	—	5,415,509

	Hotel buildings	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At December 31, 2004 and January 1, 2005:					
Cost	7,468,128	467,401	100	—	7,935,629
Accumulated depreciation	(1,230,504)	(325,146)	(100)	—	(1,555,750)
Accumulated impairment	(964,370)	—	—	—	(964,370)
Net carrying amount	5,273,254	142,255	—	—	5,415,509
At January 1, 2005, net of accumulated depreciation and impairment	5,273,254	142,255	—	—	5,415,509
Additions	7,345	64,485	—	—	71,830
Write-back of impairment	964,370	—	—	—	964,370
Depreciation provided during the year	(122,831)	(29,132)	—	—	(151,963)
At December 31, 2005, net of accumulated depreciation and impairment	6,122,138	177,608	—	—	6,299,746
At December 31, 2005 and January 1, 2006:					
Cost	7,475,473	531,886	100	—	8,007,459
Accumulated depreciation	(1,353,335)	(354,278)	(100)	—	(1,707,713)
Net carrying amount	6,122,138	177,608	—	—	6,299,746
At January 1, 2006, net of accumulated depreciation and impairment	6,122,138	177,608	—	—	6,299,746
Additions	8,032	40,298	—	10,388	58,718
Depreciation provided during the period	(106,123)	(26,615)	—	—	(132,738)
At September 30, 2006, net of accumulated depreciation and impairment	6,024,047	191,291	—	10,388	6,225,726
At September 30, 2006:					
Cost	7,483,505	572,184	100	10,388	8,066,177
Accumulated depreciation	(1,459,458)	(380,893)	(100)	—	(1,840,451)
Net carrying amount	6,024,047	191,291	—	10,388	6,225,726

Certain of the Predecessor Group's commercial area and shop units in the Hotel Properties and other equipment are leased to third parties and fellow subsidiary companies under operating leases, further summary details of which are included in note 23(a).

As at December 31, 2003, 2004 and 2005 and September 30, 2006, the Hotel Properties (including land element (note 9), hotel buildings and the related hotel furniture, fixtures and equipment) were mortgaged to secure banking facilities granted to the Predecessor Group and a fellow subsidiary company.

In 2002, RHIHL and its subsidiary companies (the "RHIHL Group") had intended to dispose of two of its hotel properties, namely Regal Riverside Hotel and Regal Oriental Hotel in Hong Kong as part of its contemplated financial restructuring. A sale and purchase agreement for the disposal of Regal Oriental Hotel for a consideration of HK$350,000,000 was entered into in 2003, but no sale and purchase agreement was entered into in respect of the intended disposal of Regal Riverside Hotel. Accordingly, these two hotel properties were stated at their then expected net realizable values of HK$690,000,000 for Regal Riverside Hotel and HK$287,000,000 for Regal Oriental Hotel, respectively, as at December 31, 2002 on a quick sale basis, calculated at a discount to their valuations at December 31, 2002 performed by an independent valuer with an RICS qualification on an open market, existing use basis. The discount rate was determined by the directors of RHIHL based on professional advice obtained from the independent valuer. The total accumulated impairment loss in respect of these hotels amounted to HK$2,494,284,000 as at December 31, 2002. In addition, there was also an accumulated impairment loss in the amount of HK$263,317,000 in respect of Regal Kowloon Hotel as at that date, which represented the difference between the independent valuation and the net carrying value of the hotel as at that date.

In 2003, in light of the improved financial position of the RHIHL Group, the directors of RHIHL considered it no longer appropriate to state Regal Riverside Hotel at its net realizable value and, accordingly, the impairment loss was partially written back by HK$488,110,000, based on a valuation performed by an independent valuer with an RICS qualification on an open market, existing use basis. The impairment loss in respect of Regal Kowloon Hotel was also partially written back by HK$155,891,000 based on a valuation performed by the same valuer on the same basis. Consequently, a write-back of the impairment loss amounting to HK$644,001,000, in aggregate, was recognized in the income statement for the year ended December 31, 2003.

In connection with the contemplated disposal of hotels by the RHIHL Group mentioned above, a sale and purchase agreement (the "SP Agreement") was entered into by the RHIHL Group in 2003 for the disposal of its entire interest in the immediate holding company of Gala Hotels Limited which owns Regal Oriental Hotel to an independent third party and, accordingly, Regal Oriental Hotel continued to be stated at its net realizable value at December 31, 2003. In 2004, the board of directors of RHIHL considered it in the interests of RHIHL and the shareholders of RHIHL as a whole to terminate the relevant sale and purchase agreement in view of the continuing improvement of the local hotel business sector and the overall tourism industry in Hong Kong. The recoverable amount of the hotel building was measured by reference to a valuation performed by an independent valuer with an RICS qualification on an open market, existing use basis as at December 31, 2004, the impairment loss was written back. In addition, there were further write-back of impairment loss in respect of Regal Riverside Hotel and Regal Kowloon Hotel, based on valuations performed by the same valuer on the same basis. Consequently, a write-back of the impairment loss amounting to HK$1,149,230,000, in aggregate, was recognized in the income statement for the year ended December 31, 2004.

Based on a valuation performed by an independent valuer with an RICS qualification on an open market, existing use basis as at December 31, 2005, the balance of accumulated impairment loss in respect of Regal Riverside Hotel amounting to HK$964,370,000 was written back and recognized in the income statement for the year ended December 31, 2005.

For the nine months ended September 30, 2006, the Predecessor Group carried out a review of the recoverable amounts of the Hotel Properties, which were determined on the basis of their fair values less costs to sell. The fair value of each of the Hotel Properties of the Predecessor Group has been determined by the Directors of the companies comprising the Predecessor Group by reference to the market valuations indicated by CB Richard Ellis Limited on the Hotel Properties in connection with the Proposed Listing. As the recoverable amounts assessed by the Directors exceed the carrying amounts of the Hotel Properties, no impairment loss was recognized.

The independent valuer for the years ended December 31, 2002 and 2003 was Sallmanns (Far East) Limited and that for the years ended December 31, 2004 and 2005 was Savills Valuation and Professional Services Limited.

9. PREPAID LAND LEASE PAYMENTS

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Carrying amount at beginning of year/period	854,375	831,723	809,071	786,419
Recognized during the year/period	(22,652)	(22,652)	(22,652)	(16,989)
Carrying amount at end of year/period	831,723	809,071	786,419	769,430
Leasehold land situated in Hong Kong is held under the following lease terms:				
Long term	174,228	173,626	173,024	172,573
Medium term	657,495	635,445	613,395	596,857
	831,723	809,071	786,419	769,430

10. HOTEL INVENTORIES

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Hotel merchandise	12,940	15,308	15,719	12,322

As at December 31, 2003, 2004 and 2005 and September 30, 2006, certain of the Predecessor Group's hotel inventories with carrying values of HK$12,940,000, HK$4,284,000, HK$4,498,000 and HK$3,543,000, respectively, were pledged to secure banking facilities granted to the Predecessor Group and a fellow subsidiary company.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balances are amounts of HK$38,306,000, HK$53,585,000, HK$72,394,000 and HK$76,740,000 as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, representing the trade debtors of the Predecessor Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	As at December 31,			As at September 30,
	2003	**2004**	**2005**	**2006**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Outstanding balances with ages:				
Within 3 months	35,826	48,676	64,320	67,603
Between 4 to 6 months	2,727	1,294	2,105	5,370
Between 7 to 12 months	868	1,637	4,047	1,304
Over 1 year	1,591	2,964	2,989	3,284
	41,012	54,571	73,461	77,561
Impairment	(2,706)	(986)	(1,067)	(821)
	38,306	53,585	72,394	76,740

Trade debtors, which generally have credit terms of 30 to 90 days, are recognized and carried at their original invoiced amount less impairment which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The Predecessor Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Predecessor Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

Included in debtors, deposits and prepayments are amounts due from fellow subsidiary companies of HK$107,000, HK$2,171,000, HK$7,831,000 and HK$19,789,000 as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, which are repayable on similar credit terms to those offered to the major customers of the Predecessor Group.

At December 31, 2003, an amount of HK$26,674,000 was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin Engineering Limited ("Chatwin"), the main contractor which is a wholly-owned subsidiary company of Paliburg Holdings Limited ("PHL"), a related company, against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of Regal Airport Hotel. During 2004, an amount of HK$18,580,000 was refunded by Chatwin while the remaining balance of HK$8,094,000 continued to be held by Chatwin as the reserve fund against potential claims from a sub-contractor as at December 31, 2004 and 2005 and September 30, 2006.

At September 30, 2006, an amount of HK$4,515,000 was also included in debtors, deposits and prepayments, which represented the hotel room revenue receivable from a related company acting as a travel agency.

As at December 31, 2003, 2004 and 2005 and September 30, 2006, certain of the Predecessor Group's debtors, deposits and prepayments with carrying values of HK$82,222,000, HK$32,586,000, HK$36,881,000 and HK$40,044,000, respectively, were pledged to secure banking facilities granted to the Predecessor Group and a fellow subsidiary company.

12. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	6,827	14,850	21,616	18,032
Time deposits	1,213	1,216	—	—
	8,040	16,066	21,616	18,032
Less: Pledged time deposits	(1,213)	(1,216)	—	—
Cash and cash equivalents	6,827	14,850	21,616	18,032

Cash at banks earns interest at floating rates based on daily bank deposits 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 Predecessor Group, and earn interest at the respective short term time deposit rates.

As at December 31, 2003, 2004 and 2005 and September 30, 2006, certain of the Predecessor Group's cash and cash equivalents with carrying values of HK$6,827,000, HK$4,343,000, HK$5,520,000 and HK$5,452,000, respectively, were pledged to secure banking facilities granted to the Predecessor Group and a fellow subsidiary company.

13. CREDITORS AND ACCRUALS

Included in the balances are amounts of HK$48,778,000, HK$44,066,000, HK$45,371,000 and HK$34,721,000 as at December 31, 2003, 2004, 2005 and September 30, 2006, respectively, representing the trade creditors of the Predecessor Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Outstanding balances with ages:				
Within 3 months	43,333	42,420	44,586	34,315
Between 4 to 6 months	5,377	1,493	761	332
Between 7 to 12 months	10	92	24	11
Over 1 year	58	61	—	63
	48,778	44,066	45,371	34,721

The trade creditors are non-interest bearing and are normally settled on 30 to 60 days.

Included in creditors and accruals are amounts due to fellow subsidiary companies and related companies of HK$8,438,000, HK$11,352,000, HK$20,510,000 and HK$5,838,000, in aggregate, as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, which represented similar credit terms to those offered by the fellow subsidiary companies and the related companies to their respective major customers.

14. INTEREST BEARING BANK LOAN, SECURED

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loan repayable:				
Within one year	40,000	—	—	—
In the second year	85,000	—	—	—
In the third to fifth years, inclusive	365,000	1,383,480	1,386,784	1,389,262
Beyond five years	552,342	—	—	—
	1,042,342	1,383,480	1,386,784	1,389,262
Portion classified as current liabilities	(40,000)	—	—	—
Non-current portion	1,002,342	1,383,480	1,386,784	1,389,262

The Predecessor Group's interest bearing bank loan as at December 31, 2003 was denominated in Hong Kong dollars which bore effective interest rates ranging from 2.4% to 3.8% per annum, with final repayment date on December 31, 2012. On December 31, 2004, RHIHL and certain of its subsidiary companies, including Bauhinia Hotels Limited, refinanced the then existing construction loan by the drawdown under a new syndicated loan facility.

The Predecessor Group's interest bearing bank loan as at December 31, 2004 and 2005 and September 30, 2006 was denominated in Hong Kong dollars which bore effective interest rates ranging from 1.4% to 5.7% per annum, with maturity date on December 31, 2009.

At the balance sheet dates, the Predecessor Group's interest bearing bank loan was secured by the assets and undertakings of the Predecessor Group as further detailed in note 22. In addition, a corporate guarantee was provided by RHIHL in respect of the above bank loan for each of the Relevant Periods.

15. AMOUNT DUE TO A FELLOW SUBSIDIARY COMPANY

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

16. LOAN FROM A FELLOW SUBSIDIARY COMPANY

The amount is unsecured, interest-bearing and not repayable within one year. The amount has been subordinated to banks for the purpose of securing certain loan facilities granted to the Predecessor Group and a fellow subsidiary company. Such subordination arrangement has not restricted the Predecessor Group to repay the subordinated loans before the occurrence of any potential or actual event of default. The annual interest rates of the amount during the years/periods varied from approximately 1.6% to 5.9% per annum.

17. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Predecessor Group during the years/periods are as follows:

Deferred tax assets

	Losses available for offset against future taxable profits			
	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at beginning of year/period	—	70,055	102,349	211,170
Deferred tax credited to the income statement during the year/period (note 7)	70,055	32,294	108,821	347
Gross deferred tax assets at end of year/period	70,055	102,349	211,170	211,517

Deferred tax liabilities

	Accelerated tax depreciation			
	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at beginning of year/period	95,036	114,660	126,040	137,668
Deferred tax charged to the income statement during the year/period (note 7)	19,624	11,380	11,628	2,675
Gross deferred tax liabilities at end of year/period	114,660	126,040	137,668	140,343
Net deferred tax assets/(liabilities) at end of year/period	(44,605)	(23,691)	73,502	71,174

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax assets and liabilities at end of year/period, presented after appropriate offsetting:				
Deferred tax assets	3,905	11,842	95,422	91,301
Deferred tax liabilities	(48,510)	(35,533)	(21,920)	(20,127)
Net deferred tax assets/(liabilities) at end of year/period	(44,605)	(23,691)	73,502	71,174

The Predecessor Group had tax losses arising in Hong Kong amounting to HK$1,723,085,000, HK$1,563,335,000, HK$1,406,764,000 and HK$1,274,532,000 as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, that are available indefinitely for offsetting against future taxable profits of the Predecessor Group. In the opinion of the directors of RHIHL, deferred tax assets have been recognized for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilized.

Deferred tax assets have not been recognized in respect of the tax losses as at December 31, 2003, 2004 and 2005 and September 30, 2006 which amounted to HK$1,322,771,000, HK$978,486,000, HK$200,080,000 and HK$65,863,000, respectively.

As at December 31, 2003 and 2005 and September 30, 2006, certain of the Predecessor Group's deferred tax assets with carrying values of HK$3,905,000, HK$35,143,000 and HK$31,525,000, respectively, were pledged to secure banking facilities granted to the Predecessor Group and a fellow subsidiary company. No deferred tax assets were pledged to secure such banking facilities as at December 31, 2004.

18. OTHER PAYABLE

The other payable as at December 31, 2003 represented loan restructuring fees payable to the bank creditors originally due on December 31, 2006 pursuant to the terms of the then rescheduling agreement entered into in 2003. The balance was fully settled upon the completion of refinancing of the relevant loans on December 31, 2004.

19. SHARE CAPITAL

	As at December 31,			As at September 30,
	2003	**2004**	**2005**	**2006**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Issued capital	—	—	—	—

The balances of the share capital are all less than HK$1,000.

20. NOTE TO THE COMBINED CASH FLOW STATEMENTS

Reconciliation of profit before tax to net cash inflow from operating activities

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Profit before tax	569,997	1,276,493	1,085,049	75,995	72,163
Adjustments for:					
Finance costs	111,860	109,912	174,248	116,911	158,578
Write-back of impairment of hotel buildings	(644,001)	(1,149,230)	(964,370)	—	—
Interest income	(6)	(6)	(14)	(14)	(135)
Depreciation	116,898	123,905	151,963	108,896	132,738
Recognition of prepaid land lease payments	22,652	22,652	22,652	16,989	16,989
Impairment/(Write-back of impairment) on trade debtors	2,546	475	115	183	(119)
Operating profit before working capital changes	179,946	384,201	469,643	318,960	380,214
Decrease/(Increase) in hotel inventories	2,040	(2,368)	(411)	298	3,397
Decrease/(Increase) in debtors, deposits and prepayments	14,982	2,406	(31,994)	(29,378)	(21,195)
Increase/(Decrease) in creditors and accruals	(14,030)	19,402	19,067	(5,818)	(28,001)
Increase/(Decrease) in deposits received	(2,593)	(707)	1,779	1,479	1,406
Net cash inflow from operating activities	180,345	402,934	458,084	285,541	335,821

21. CONTINGENT LIABILITY

The Predecessor Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK$10,712,000, HK$6,646,000, HK$5,371,000 and HK$3,063,000 as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, as further explained in note 2(n). The contingent liability has arisen because, at the balance sheet dates, a number of current employees have achieved the required number of years of service to the Predecessor Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Predecessor Group.

22. PLEDGE OF ASSETS

As at December 31, 2003, 2004 and 2005 and September 30, 2006, certain of the Predecessor Group's property, plant and equipment, prepaid land lease payments, deferred tax assets, cash and cash equivalents, time deposits, hotel inventories, debtors, deposits and prepayments with total carrying values of HK$5,284,809,000, HK$6,266,729,000, HK$7,168,207,000 and HK$7,077,455,000, respectively, were pledged to secure general banking facilities granted to the Predecessor Group and a fellow subsidiary company.

23. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Predecessor Group leases certain of its commercial area and shop units in the Hotel Properties and other equipment under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 4 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At the balance sheet dates, the Predecessor Group had total future minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	As at December 31,			As at September 30,
	2003	**2004**	**2005**	**2006**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Land and buildings:				
Within one year	11,859	13,796	20,976	19,237
In the second to fifth years, inclusive	11,925	9,142	7,783	6,639
	23,784	22,938	28,759	25,876
Other equipment:				
Within one year	1,632	—	1,632	—
In the second to fifth years, inclusive	—	—	1,632	—
	1,632	—	3,264	—
	25,416	22,938	32,023	25,876

(b) **As lessee**

The Predecessor Group leases certain of its office, shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of 6 months to 2 years, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Leases for office equipment are negotiated for terms of 3 to 5 years.

At the balance sheet dates, the Predecessor Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Land and buildings:				
Within one year	3,861	2,970	2,397	3,034
In the second to fifth years, inclusive	10,080	8,949	6,916	5,703
After five years	2,520	364	—	—
	16,461	12,283	9,313	8,737
Office equipment:				
Within one year	—	40	116	89
In the second to fifth years, inclusive	—	43	281	221
	—	83	397	310
	16,461	12,366	9,710	9,047

24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23(b), the Predecessor Group had the following outstanding commitments at the balance sheet dates:

	As at December 31,			As at September 30,
	2003	2004	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Capital commitments in respect of the renovation of, improvements or extensions to the Hotel Properties:				
Authorized and contracted for	3,389	2,035	8,141	90,805
Authorized, but not contracted for	86,919	187,306	294,259	283,724
	90,308	189,341	302,400	374,529

25. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in the Financial Information, the Predecessor Group had the following material related party transactions during the years/periods:

	Notes	Year ended December 31,			Nine months ended September 30,	
		2003	2004	2005	2005	2006
		HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Fellow subsidiary companies:						
Rental income in respect of other equipment	(i)	1,632	1,632	1,632	1,224	—
Rental income from the Hotel Properties	(ii)	2,478	2,478	2,478	1,858	1,030
Interest expense	(iii)	74,825	69,464	115,023	78,024	98,591
Management fees	(iv)	8,460	5,906	8,551	4,430	5,040
Management and marketing fees	(v)	25,382	35,525	38,469	26,913	15,634
Related companies*:						
Advertising and promotion fees	(vi)	7,272	7,264	9,244	4,945	7,478
Laundry services fee	(vii)	5,111	6,344	5,627	4,148	—
Purchases of bakery products	(vii)	3,865	3,599	3,083	1,958	1,772
Repairs, maintenance and construction fees	(viii)	467	783	7,058	5,524	8,916
Consultancy fees	(ix)	—	18,700	5,798	—	—
Hotel room revenue	(x)	—	—	—	—	10,149

* *Certain directors of the related companies are also the directors of the Predecessor Group.*

Notes:

(i) The rental income was charged to a fellow subsidiary company in respect of the equipment used for the operation of laundry services at a monthly amount of HK$136,000.

(ii) The rental income was charged to fellow subsidiary companies for providing a quarter for the chairman of RHIHL up to June 30, 2006 and an area for the operation of laundry services up to December 31, 2005, at monthly amounts of HK$172,000 and HK$35,000, respectively.

(iii) The interest expense arose from a loan from a fellow subsidiary company, details of which are disclosed in note 16.

(iv) The management fees included rentals and other overheads allocated from a fellow subsidiary company in connection with the sharing of the total overheads of the RHIHL Group.

(v) The management and marketing fees were paid to a fellow subsidiary company in connection with the provision of hotel management and marketing services. The management fees and marketing fees were calculated based on 3% and 1%, respectively, of the operating revenue for the five hotels, except that the management fee was calculated based on 1% of the operating revenue for the five hotels with effect from January 1, 2006.

(vi) The advertising and promotion fees paid to a related company comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Predecessor Group and a standard fee based on the total costs involved, in addition to which the actual costs and out-of-pocket expenses incurred were reimbursed.

(vii) The laundry services fee and purchases of bakery products were paid to fellow subsidiary companies for services rendered and products supplied with prices negotiated on an individual transaction basis.

(viii) Fees were paid to a subsidiary company of PHL for providing repairs, maintenance and construction works for the Hotel Properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.

(ix) In 2004, the consultancy fees were paid to a subsidiary company of PHL for services rendered in connection with the settlement of certain claims with the Airport Authority Hong Kong (the "Airport Authority") relating to the construction of Regal Airport Hotel at Chek Lap Kok. The fees comprised a basic fee and a success fee calculated by reference to the term of the sub-lease extension concluded with the Airport Authority upon settlement of all claims.

In 2005, the consultancy fees were paid to the same subsidiary company of PHL for various services provided, which included advisory, supervisory, architectural and design services in connection with the Predecessor Group's room extension and other renovation projects of its hotels. The fees were charged at rates ranging from 4% to 10% of the estimated costs of individual projects.

(x) The hotel room revenue was earned from a related company acting as a travel agency, at rates agreed between the related company and individual hotels.

(b) Outstanding balances with related parties:

		As at December 31,			As at September 30,
	Notes	2003	2004	2005	2006
		HK$'000	HK$'000	HK$'000	HK$'000
Due from fellow subsidiary companies	(i)	107	2,171	7,831	19,789
Due from related companies	(i)	26,674	8,094	8,094	12,609
Due to fellow subsidiary companies	(ii)	(5,987,960)	(5,418,055)	(5,190,152)	(5,077,501)
Loan from a fellow subsidiary company	(iii)	(2,386,000)	(2,386,000)	(2,386,000)	(2,386,000)
Due to related companies	(iv)	(3,950)	(3,519)	(10,097)	(2,115)

Notes:

(i) Details of the amounts due from fellow subsidiary companies and related companies are included in note 11.

(ii) Details of the amounts due to fellow subsidiary companies are included in notes 13 and 15, respectively.

(iii) Details of the loan from a fellow subsidiary company are included in note 16.

(iv) Details of the amounts due to related companies are included in note 13.

(c) There was no key management personnel compensation for the Relevant Periods. The Predecessor Group was charged management fees by a fellow subsidiary company during the Relevant Periods, details of which are set out in note 25(a)(iv).

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Predecessor Group's principal financial instruments comprise cash and cash equivalents, pledged time deposits, an amount due to a fellow subsidiary company, a loan from a fellow subsidiary company and a bank loan. The main purpose of these financial instruments is to raise finance for the Predecessor Group's operations. The Predecessor Group has various other financial assets and liabilities such as trade debtors and trade creditors and accruals, which arise directly from its operations. The carrying amounts of the Predecessor Group's financial instruments, except for long term borrowings, approximate to their fair values due to the short maturity of these instruments. The fair values of long term borrowings are estimated using the expected future payments discounted at market interest rates.

It is, and has been, throughout the years/periods under review, the Predecessor Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Predecessor Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors of the companies comprising the Predecessor Group meet periodically to analyze and formulate measures to manage the Predecessor Group's exposure to these risks. Generally, the Predecessor Group introduces conservative strategies on its risk management. As the Predecessor Group's exposure to these risks is kept to a minimum, the Predecessor Group has not used any derivatives and other instruments for hedging purposes. The Predecessor Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarized below.

Interest rate risk

The Predecessor Group's exposure to interest rate risk relates primarily to the Predecessor Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Predecessor Group's borrowings are disclosed in notes 14 and 16. The Predecessor Group's policy is to obtain the most favorable interest rates for its borrowings.

Credit risk

The Predecessor Group's major exposure to the credit risk arising from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the combined balance sheets. The Predecessor Group trades only with recognized and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Predecessor Group's exposure to bad debts is not significant.

The credit risk of the Predecessor Group's other financial assets, which comprise cash and cash equivalents and pledged time deposits, arises from default of counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Predecessor Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. In the management of liquidity risk, the Predecessor Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Predecessor Group's operations and mitigate the effects of fluctuation in cash flows. The Predecessor Group will raise funds from either the financial market or from realization of its assets if required.

27. SEGMENT INFORMATION

During the years/periods, the Predecessor Group was principally engaged in the hotel operations in Hong Kong, and over 90% of the Predecessor Group's revenue, results, assets and liabilities are derived from customers based in Hong Kong. Accordingly, no business or geographical segment information is presented.

(III) SUBSEQUENT EVENTS

Subsequent to the balance sheet date of September 30, 2006, the Predecessor Group entered into certain agreements in connection with the transfer of certain assets and liabilities attributable to the hotel operations by the Predecessor Group to a subsidiary company of RHIHL at the date of Acquisition.

In addition, the Predecessor Group also entered into the following agreements (as defined in the offering circular of Regal REIT dated March 19, 2007 (the "Offering Circular")): (i) Lease Agreements; (ii) Lease Guarantees; (iii) Hotel Management Agreements; (iv) Deed of Trade Mark Licence; and (v) Financing Agreement and the related interest rate hedging agreements. Further details of the above agreements are set out in the section headed "Material Agreements" in the Offering Circular.

(IV) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Predecessor Group in respect of any period subsequent to September 30, 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA BALANCE SHEETS OF REGAL REIT

The following tables set out, for illustrative purposes only, an unaudited pro forma balance sheet of Regal REIT as at Listing Date based on the Maximum Offer Price and an unaudited pro forma balance sheet based on the Minimum Offer Price. These unaudited pro forma balance sheets have been prepared based on the audited combined balance sheet of the Predecessor Group as at September 30, 2006 as set out in Appendix I to this Offering Circular, taking account of the fair market value of the Initial Hotel Properties as of December 31, 2006 as determined by the Independent Property Valuer and assuming completion of the Restructuring, the issuance of the Units pursuant to the Global Offering, the drawdown of the term loan of HK$4,350 million under the Financing Agreement. These unaudited pro forma balance sheets have been prepared for illustrative purposes only and do not purport to represent what the assets and liabilities of Regal REIT will actually be as at the Listing Date or to give a true picture of the financial position of Regal REIT as at the Listing Date. The fair value of the assets and liabilities of Regal REIT as at the Listing Date may be different from the fair value used in the preparation of the unaudited pro forma balance sheets.

A. Unaudited Pro Forma Balance Sheet of Regal REIT (Based on the Maximum Offer Price of HK$3.38)

	Regal REIT as at December 11, 2006	Audited Combined Balance Sheet of Predecessor Group as at September 30, 2006	Pro forma adjustments	Notes	Pro forma Balance Sheet of Regal REIT
	(Unaudited) Note 1	(Audited) Note 2	(Unaudited)		(Unaudited)
	HK$'000	HK$'000	HK$'000		HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	—	6,225,726	(6,225,726)	3	—
Prepaid land lease payments	—	769,430	(769,430)	3	—
Investment properties	—	—	14,900,000	3	14,900,000
Prepaid construction cost	—	—	1,000,000	4	1,000,000
Goodwill	—	—	102,717	12	102,717
Deferred tax assets	—	91,301	(91,301)	11	—
Total non-current assets	—	7,086,457			16,002,717
CURRENT ASSETS					
Hotel inventories	—	12,322	(12,322)	5	—
Debtors, deposits and prepayments	—	132,534	(132,534)	5	—
Cash and cash equivalents	—	18,032	(18,032)	5	
			14,658,014	15	
			(14,658,014)	16	—
Total current assets	—	162,888			—

	Regal REIT as at December 11, 2006	Audited Combined Balance Sheet of Predecessor Group as at September 30, 2006	Pro forma adjustments	Notes	Pro forma Balance Sheet of Regal REIT
	(Unaudited) Note 1	(Audited) Note 2	(Unaudited)		(Unaudited)
	HK$'000	HK$'000	HK$'000		HK$'000
CURRENT LIABILITIES					
Creditors and accruals	—	(120,624)	120,624	5	
			(2,000)	19	(2,000)
Deposits received	—	(9,376)	9,376	5	—
Total current liabilities	—	(130,000)			(2,000)
NET CURRENT ASSETS/(LIABILITIES)	—	32,888			(2,000)
TOTAL ASSETS LESS CURRENT LIABILITIES	—	7,119,345			16,000,717
NON-CURRENT LIABILITIES					
Interest bearing bank loan, secured	—	(1,389,262)	(10,738)	6	
			1,400,000	7	
			(4,350,000)	8	(4,350,000)
Debt establishment cost	—	—	41,683	8	41,683
Amount due to a fellow subsidiary company	—	(5,073,778)	32,888	5	
			(1,400,000)	7	
			6,440,890	9	—
Loan from a fellow subsidiary company	—	(2,386,000)	2,386,000	9	—
Deferred tax liabilities	—	(20,127)	(1,415,877)	10	
			91,301	11	(1,344,703)
Total non-current liabilities	—	(8,869,167)			(5,653,020)
NET ASSETS/(LIABILITIES)	—	(1,749,822)			10,347,697
REPRESENTED BY:					
Issued equity	—	—	—	13	—
Amount of units to be issued	—	—	10,493,567	14	10,493,567
Issue costs	—	—	(141,176)	17	(141,176)
Accumulated losses	—	(1,749,822)	(10,738)	6	
			1,760,560	18	
			(2,000)	19	
			(2,694)	20	(4,694)
Total	—	(1,749,822)			10,347,697

B. **Unaudited Pro Forma Balance Sheet of Regal REIT (Based on the Minimum Offer Price of HK$2.68)**

	Regal REIT as at December 11, 2006	Audited Combined Balance Sheet of Predecessor Group as at September 30, 2006	Pro forma adjustments	Notes	Pro forma Balance Sheet of Regal REIT
	(Unaudited) Note 1	(Audited) Note 2	(Unaudited)		(Unaudited)
	HK$'000	HK$'000	HK$'000		HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	—	6,225,726	(6,225,726)	3	—
Prepaid land lease payments	—	769,430	(769,430)	3	—
Investment properties	—	—	14,900,000	3	14,900,000
Prepaid construction cost	—	—	1,000,000	4	1,000,000
Deferred tax assets	—	91,301	(91,301)	11	—
Total non-current assets	—	7,086,457			15,900,000
CURRENT ASSETS					
Hotel inventories	—	12,322	(12,322)	5	—
Debtors, deposits and prepayments	—	132,534	(132,534)	5	—
Cash and cash equivalents	—	18,032	(18,032)	5	
			12,500,003	15	
			(12,500,003)	16	—
Total current assets	—	162,888			—
CURRENT LIABILITIES					
Creditors and accruals	—	(120,624)	120,624	5	
			(2,000)	19	(2,000)
Deposits received	—	(9,376)	9,376	5	—
Total current liabilities	—	(130,000)			(2,000)
NET CURRENT ASSETS/(LIABILITIES)	—	32,888			(2,000)
TOTAL ASSETS LESS CURRENT LIABILITIES	—	7,119,345			15,898,000

	Regal REIT as at December 11, 2006	Audited Combined Balance Sheet of Predecessor Group as at September 30, 2006	Pro forma adjustments	Notes	Pro forma Balance Sheet of Regal REIT
	(Unaudited) Note 1	(Audited) Note 2	(Unaudited)		(Unaudited)
	HK$'000	HK$'000	HK$'000		HK$'000
NON-CURRENT LIABILITIES					
Interest bearing bank loan, secured	—	(1,389,262)	(10,738)	6	
			1,400,000	7	
			(4,350,000)	8	(4,350,000)
Debt establishment cost	—	—	41,683	8	41,683
Amount due to a fellow subsidiary company	—	(5,073,778)	32,888	5	
			(1,400,000)	7	
			6,440,890	9	—
Loan from a fellow subsidiary company	—	(2,386,000)	2,386,000	9	—
Deferred tax liabilities	—	(20,127)	(1,415,877)	10	
			91,301	11	(1,344,703)
Total non-current liabilities	—	(8,869,167)			(5,653,020)
NET ASSETS/ (LIABILITIES)	—	(1,749,822)			10,244,980
REPRESENTED BY:					
Issued equity	—	—	—	13	—
Amount of units to be issued	—	—	8,320,343	14	8,320,343
Issue costs	—	—	(125,963)	17	(125,963)
Retained profits/ (Accumulated losses)	—	(1,749,822)	(10,738)	6	
			1,760,560	18	
			2,055,294	12	
			(2,000)	19	
			(2,694)	20	2,050,600
Total	—	(1,749,822)			10,244,980

Notes:

(1) The balances have been extracted from the unaudited balance sheet of Regal REIT as at December 11, 2006, the date of establishment of Regal REIT.

(2) The balances have been extracted from the audited combined balance sheet of the Predecessor Group as at September 30, 2006 as set out in Appendix I.

(3) The Initial Hotel Properties have been reclassified from properties, plant and equipment and prepaid land lease payments to investment properties and stated at the Appraised Value of the Initial Hotel Properties (without Asset Enhancement Program) of HK$14,900,000,000.

(4) The amount represents the prepaid construction cost in respect of the Asset Enhancement Program recognized by Regal REIT, which is derived by mathematical deduction of the Appraised Value of the Initial Hotel Properties without Asset Enhancement Program of HK$14,900,000,000 from the Appraised Value of the Initial Hotel Properties with Asset Enhancement Program of HK$15,900,000,000.

(5) These amounts represent the assets and liabilities transferred out of the Predecessor Group and the net asset balance of HK$32,888,000 so transferred is adjusted to the amount due to a fellow subsidiary company pursuant to the Restructuring.

(6) The amount represents the write-off of the balance of unamortized loan cost in respect of the existing bank loan of the Predecessor Group.

(7) The existing bank loan of the Predecessor Group in the principal amount of HK$1,400,000,000 will be assumed by Regal and adjusted to the amount due to a fellow subsidiary company pursuant to the Restructuring.

(8) The amount of HK$4,350,000,000 represents the term loans to be drawn down by Regal REIT under the Financing Agreement while the debt establishment cost of HK$41,683,000 represents the upfront cost and legal and professional fees relating to the Facility. The revolving credit facility under the Financing Agreement will remain undrawn on the Listing Date.

The debt establishment cost is presented as a separate item in this pro forma balance sheet for illustrative purpose only and will be netted off against the bank loan balance in the future consolidated balance sheet of Regal REIT in accordance with the applicable Hong Kong Financial Reporting Standards.

(9) The adjustments represent the gross amounts of the amount due to a fellow subsidiary company and loan from a fellow subsidiary company of HK$6,440,890,000 and HK$2,386,000,000 respectively assigned to Holding SPV and Finance Company 1 pursuant to the Restructuring.

(10) The amount is calculated as the sum of (i) the deferred tax liability on the fair value gain of the Initial Hotel Properties of HK$1,385,166,000 and (ii) the estimated decrease in net deferred tax assets for the period from October 1, 2006 to the Listing Date of HK$30,711,000.

(11) As the deferred tax liabilities of each of the companies comprising the Predecessor Group will exceed its own deferred tax assets on an individual company basis upon the Completion, the deferred tax assets are netted off against the deferred tax liabilities.

(12) The amount is calculated as the difference between (i) the consideration payable by Regal REIT to the Vendor of HK$14,658,014,000 based on the Maximum Offer Price and HK$12,500,003,000 based on the Minimum Offer Price and (ii) the fair value of the consolidated net assets of Holding SPV and its subsidiaries of HK$14,555,297,000 calculated as the difference between (a) the Appraised Value of the Initial Hotel Properties (with Asset Enhancement Program) of HK$15,900,000,000 and (b) net deferred tax liabilities of HK$1,344,703,000.

The positive amount so calculated based on the Maximum Offer Price is accounted for as goodwill. The negative amount so calculated based on the Minimum Offer Price represents the excess over the cost of business combination and is credited to the income statement.

(13) The amount of HK$41 represents the combined issued capital of those companies in the Predecessor Group, which will be acquired by Holding SPV pursuant to the Restructuring, and is eliminated upon consolidation.

(14) The adjustments take into account the issuance of 2,235,316,748 Units to Regal and the issuance of 869,289,000 Units pursuant to the Global Offering:

	Based on Maximum Offer Price of HK$3.38	**Based on Minimum Offer Price of HK$2.68**
	HK$	**HK$**
Gross proceeds from issuance of Units to Regal	7,555,370,608	5,990,648,885
Gross proceeds of Global Offering	2,938,196,820	2,329,694,520
Total proceeds from issuance of Units	10,493,567,428	8,320,343,405

(15) The amounts of HK$14,658,014,000 based on the Maximum Offer Price and HK$12,500,003,000 based on the Minimum Offer Price represent the aggregate of (i) total proceeds from issuance of Units of HK$10,493,567,000 based on the Maximum Offer Price and HK$8,320,343,000 based on the Minimum Offer Price and (ii) the term loan of HK$4,350,000,000 drawn down under the Financing Agreement, less the aggregate of (a) estimated issue costs of HK$143,870,000 based on the Maximum Offer Price and HK$128,657,000 based on the Minimum Offer Price and (b) debt establishment cost of HK$41,683,000.

(16) The amounts of HK$14,658,014,000 based on the Maximum Offer Price and HK$12,500,003,000 based on the Minimum Offer Price represent the total consideration payable by Regal REIT to the Vendor under the Sale and Purchase Agreement.

(17) The issue costs comprise underwriting commissions payable to the Underwriters, legal and professional fees, auditors' fees, printing costs, listing costs, roadshow expenses and fees for public relations in respect of the listing of Regal REIT, advertisement and marketing related expenses and other administrative expenses.

(18) The amount represents the pre-acquisition accumulated losses of the Predecessor Group eliminated upon acquisition by the Holding SPV pursuant to the Restructuring.

(19) The amount represents Regal REIT's share of the estimated stamp duty payable on the Lease Agreements in the amount of HK$2,000,000.

(20) The amount represents the portion of issue costs expensed of HK$2,694,000.

Since the fair value of the assets and liabilities of Regal REIT as at the Listing Date may be different from the fair value used in the preparation of the unaudited pro forma balance sheets presented above, the goodwill or any excess of the net assets of Holding SPV over the purchase consideration may be different from the estimated amount shown above.

The following is the text of a report received from Ernst & Young, the independent reporting accountants of Regal REIT prepared for inclusion in this Offering Circular, in relation to the unaudited pro forma balance sheet of Regal REIT as set out in the section headed "Financial Information and Profit Forecast — Unaudited Pro Forma Balance Sheet" of this Offering Circular.

ERNST & YOUNG

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

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA BALANCE SHEETS TO THE DIRECTORS OF REGAL PORTFOLIO MANAGEMENT LIMITED, MERRILL LYNCH FAR EAST LIMITED, DEUTSCHE BANK AG, HONG KONG BRANCH AND GOLDMAN SACHS (ASIA) L.L.C.

We report on the unaudited pro forma balance sheets ("Unaudited Pro Forma Balance Sheets") of Regal Real Estate Investment Trust ("Regal REIT") and its controlled entities (hereinafter collectively referred to as the "Group") which have been prepared by the directors of Regal Portfolio Management Limited (the "REIT Manager"), for illustrative purposes only, to provide information on how the proposed listing of the units in Regal REIT on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") might have affected the balance sheet of Regal REIT presented, for inclusion in pages 405 to 410 of Appendix II to the offering circular of Regal REIT dated March 19, 2007 (the "Offering Circular"). The basis of preparation of the Unaudited Pro Forma Balance Sheets is set out on page 405 of Appendix II to the Offering Circular.

Respective Responsibilities of directors of the REIT Manager and Reporting Accountants

It is the responsibility solely of the directors of the REIT Manager to prepare the Unaudited Pro Forma Balance Sheets in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as if the Listing Rules are applicable to Regal REIT, and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Balance Sheets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Balance Sheets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Balance Sheets with the directors of the REIT Manager. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Balance Sheets.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Balance Sheets have been properly compiled by the directors of the REIT Manager on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of Unaudited Pro Forma Balance Sheets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Balance Sheets are for illustrative purposes only, based on the judgments and assumptions of the directors of the REIT Manager, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at Listing Date or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Balance Sheets have been properly compiled by the directors of the REIT Manager on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Balance Sheets as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules as if the Listing Rules are applicable to Regal REIT.

Ernst & Young
Certified Public Accountants
Hong Kong

March 19, 2007

A. LETTER FROM THE REIT MANAGER

The following is the text of a letter from the REIT Manager, prepared for inclusion in this Offering Circular, in relation to the forecast of Regal REIT for the Forecast Period as set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular.

March 19, 2007

The Directors
Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We have prepared the Profit Forecast and Working Capital Forecast (the "Forecast") of Regal REIT for the periods from the Listing Date to December 31, 2007 and from the Listing Date to March 31, 2008 respectively based on the assumptions, as set out in these memoranda and adopted consistent accounting policies normally adopted by the companies now comprising the Predecessor Group. We consider the assumptions and accounting policies used in the Forecast to be appropriate and reasonable. We confirm that we have exercised due care and consideration in compiling the Forecast and we have satisfied ourselves that the Forecast has been stated after due and careful enquiry.

We are satisfied that all material facts which have come to our attention have been taken into account in arriving at the Forecast and are satisfied that the Forecast has been properly considered and documented.

These memoranda have been approved by the board of directors of Regal Portfolio Management Limited.

Yours faithfully,
Regal Portfolio Management Limited

B. LETTER FROM ERNST & YOUNG

The following is the text of a letter received from Ernst & Young, the independent accountants of Regal REIT, prepared for inclusion in this Offering Circular, in relation to the profit forecast of Regal REIT for the Forecast Period as set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular.

ERNST & YOUNG

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

March 19, 2007

The Directors
Regal Portfolio Management Limited
Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit after tax of Regal Real Estate Investment Trust ("Regal REIT") and its controlled entities (hereinafter collectively referred to as the "Group") for the period from March 30, 2007 (the proposed listing date) to December 31, 2007 (the "Profit Forecast") as set out in the sub-section headed "Profit Forecast" under the section headed "Financial Information and Profit Forecast" in the offering circular of Regal REIT dated March 19, 2007 (the "Offering Circular") issued in connection with the initial public offering of Regal REIT and the listing of the units in Regal REIT on the Main Board of The Stock Exchange of Hong Kong Limited.

We conducted our work in accordance with the Auditing Guideline 3.341 on "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of Regal Portfolio Management Limited (the "REIT Manager") are solely responsible, has been prepared by the directors of the REIT Manager based on the forecast of the consolidated results of the Group for the period from March 30, 2007 to December 31, 2007.

In our opinion, the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions and bases made by the directors of the REIT Manager as set out in the sub-section headed "Profit Forecast — Bases and Assumptions" of the Offering Circular and is presented on a basis consistent in all material respects with the accounting policies the REIT Manager expects to adopt for Regal REIT (the "Accounting

Policies”) as set out in the section headed “Management’s Discussion and Analysis of Future Operations — Critical Accounting Policies Adopted by Regal REIT” of the Offering Circular. However, we draw to your attention that the REIT Manager has stated in the sub-section headed “Profit Forecast — Bases and Assumptions” of the Offering Circular that in preparing the Profit Forecast, the REIT Manager has assumed that the market value of investment properties as of December 31, 2007 will be the same as the appraised value at December 31, 2006 as in the opinion of the REIT Manager, it is considered that there is no reliable basis for determining the market value for the investment properties as of any future date.

Without qualifying our opinion above, we would point out that any increase or decrease in fair value of the investment properties and the related deferred tax impact, if any, would need to be credited or charged to the consolidated income statement in accordance with the Accounting Policies of the Group. Should such an increase or decrease arise, this would have the effect of increasing or reducing the consolidated profit of Regal REIT for the period from March 30, 2007 to December 31, 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE LISTING AGENT

The following is the text of a letter received from Merrill Lynch Far East Limited, the Sole Listing Agent, prepared for inclusion in this Offering Circular, in relation to the forecast net profit of Regal REIT for the Forecast Period as set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in this Offering Circular.

Merrill Lynch

March 19, 2007

The Directors
Regal Portfolio Management Limited

Dear Sirs,

We refer to the forecast of the consolidated net profit of Regal Real Estate Investment Trust ("Regal REIT") for the period from the Listing Date to December 31, 2007 (the "Forecast") as set out in the section headed "Financial Information and Profit Forecast — Profit Forecast" in the offering circular of Regal REIT dated March 19, 2007 (the "Offering Circular"). The Forecast has been prepared based on a projection of the combined results of Regal REIT for the period from the Listing Date to December 31, 2007.

We have discussed with you the bases and assumptions made by you as set out in the subsection headed "Profit Forecast" in the section headed "Financial Information and Profit Forecast" in the Offering Circular upon which the Forecast has been made. We have also considered the letter dated March 19, 2007 addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we, as the Sole Listing Agent of Regal REIT, are of the opinion that the Forecast, for which you as directors of Regal Portfolio Management Limited, the REIT Manager of Regal REIT, are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of

Merrill Lynch Far East Limited
John C. Lee
Managing Director

The following is the text of the valuation report received from CB Richard Ellis Limited, the Independent Property Valuer, prepared for the purpose of incorporation in this Offering Circular, in connection with its valuation of the Initial Hotel Properties as at December 31, 2006.

CBRE
CB RICHARD ELLIS
世邦魏理仕

CB Richard Ellis Limited

34/F. Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三十四樓
電話 852 2820 2800 傳真 852 2810 0830

www.cbre.com.hk

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

March 19, 2007

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

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

Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.
(as Joint Global Coordinators, Joint Bookrunners and Joint Lead Underwriters)

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, 2006 (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 proposed Lease Agreements, the proposed Hotel Management Agreements, the proposed 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.

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 made reference to the legal opinions on title provided by the legal advisor, Johnson Stokes & Master, to the Manager of Regal REIT. We are not aware of any title defects, easements or rights of way affecting the Initial Hotel Properties and our valuations assume that none exists, except only where otherwise stated.

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

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

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

We understand Asset Enhancement Program ("AEP") has been launched and/or is about to be launched in four of the Initial Hotel Properties. The total construction costs are approximately HK$320 million (not including land premium which is only required for Regal Riverside Hotel), with the amount involved for each of the relevant Initial Hotel Properties stated in the relevant section of the valuation report. Regal International (BVI) Holdings Limited ("the Vendor") has undertaken to pay the full construction costs and land premium. We were instructed to provide our valuations for each of the Initial Hotel Properties for both "With AEP" and "Without AEP" scenarios. In assessing the values for the "With AEP" scenarios, we have taken into account of the benefits of the AEP with the involved costs being excluded from capital expenditure in our valuations of the property interests. We further assume that the AEP will be completed according to the prescribed target completion dates as stated in the Offering Circular. We have taken into account any short-term impact on hotel operations during the implementation of the AEP in our valuations. Besides, we were informed that twelve guest rooms are currently subject to internal use and will be available for business in early 2007 and thereafter. However, we were informed that the conversion costs for these guest rooms will not exceed HK$500,000 and will be borne by the Vendor and are therefore not taken into account in our valuations.

For the "Without AEP" scenarios, our valuations are based on the original physical states of the Initial Hotel Properties before the commencement of the AEP without taking the potential gain from building additional floor areas into account.

The mathematical difference between the market values under the "Without AEP" and "With AEP" scenarios for each of the Initial Hotel Properties can be regarded as the value of AEP for that property. The AEP value therefore does not represent the standalone market value of the AEP.

The Initial Hotel Properties will be subject to the proposed Lease Agreements with Favour Link International Limited (a subsidiary of Regal) to be the Lessee of all the hotels. The term of the proposed Lease Agreements commences upon the listing of Regal REIT. The proposed Lease Agreements have been taken into account and we have assumed the proposed Lease Agreements would be in effect as at the valuation date.

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.

  Having regard to these factors, we have carried out a DCF analysis for the Initial Hotel Properties for their respective government lease terms. We have projected cash flow generated to Regal REIT from January 1, 2007 to end of 2010, and a resale value as at the commencement of 2011. We have discounted the anticipated annual cash flow pursuant to the Lease Agreements on a midpoint basis. In each calendar year, we assume an income of six months in arrears and six months in advance. Assuming that the Initial Hotel Properties will be sold at the commencement of 2011 and the sale proceeds will be receivable at the beginning of 2011, we have projected the resale value by capitalizing the income at 2011 by appropriate terminal capitalization rates for the remaining terms of the properties.

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

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

  In arriving at our valuations, we have made reference to the actual results of operations of the Initial Hotel Properties for years 2004, 2005 and 2006, 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. We have set out in the attached valuation reports our key assumptions used for the DCF Method, including occupancy, average room rates, terminal capitalization rates and discount rates.

- ***Secondary Method — Direct Comparison***

  As a supporting approach to the valuation, we have also considered the Direct Comparison Method as a check for the valuation arrived at from the DCF Method. Direct Comparison Method, involving the analysis of comparable sales and adjustments are made to reflect the differences in date of sale, location, property quality, market positioning, room configuration and distribution, provision of retail and other facilities, the land lease term, the government rents and other factors affecting the value.

  Information about all recent hotel transactions has been collected and it is found that none of them is a direct comparable to the Initial Hotel Properties as they are different in terms of location, total number of rooms, availability of facilities, date of sale, etc. However, reference and adjustments have been made to such sales transactions and the valuation assessment using this approach serve as benchmarks to check the assessment by the DCF Method.

Inspection

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

Reliance On This Letter

CBRE has provided the addressees of this letter with a valuation report for each of the Initial Hotel Properties. These reports stated the factors which we have considered in arriving at our opinion of values and are attached with 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).

- When we adopted the information from others in our valuations, the assumptions and caveats that were adopted by them in arriving at their figures are also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

- We have no reason to doubt the truth and accuracy of the information provided to us and we also have no reason to believe that the information is not fair and reasonable. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.
- The reports were undertaken based upon information available to us. CBRE accepts no responsibility for subsequent changes in information as to income, expenses or market conditions. No obligation is assumed to revise the valuations to reflect events or conditions which may occur subsequent to the date thereof.

Disclaimer

This report and our valuation is for the use of the REIT Manager of Regal REIT and the Trustee for the proposed acquisition of the Initial Hotel Properties and the underwriters of equity and/or debt financing in connection with the acquisition as well as Merrill Lynch Far East Limited as the Sole Listing Agent and Sole Financial Adviser of Regal REIT. 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.

Mr Kam-hung Yu, Mr Alex PW Leung and CBRE have prepared the valuation reports appearing in this offering circular and specially disclaim liability to any person in the event of any omission from or false or misleading statement included in this offering circular, other than in respect of the information provided within the reports. Mr Yu, Mr Leung and CBRE do not make any warranty or representation as to the accuracy of the information in any other part of the offering circular other than as expressly made or given by CBRE in this letter.

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 reported analysis, opinions and conclusions are only our unbiased professional opinions and are subject to the assumptions and limiting conditions as stated in this letter and our reports. Mr Yu, Mr Leung 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 valuers' 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).

The valuers undertaking these valuations are authorized to practice as valuers. Mr Yu has over 24 years continuous experience in property valuation. Mr Leung is an expert in hotel valuation. They both have over 10 years experience in hotel valuation.

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

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

Mr Kam-hung Yu FHKIS FRICS RPS(GP)
Senior Managing Director
Valuation & Advisory Services

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

Encl.

SUMMARY OF VALUES

Property interests		Number of rooms (with completion of AEP)	Capital values as at December 31, 2006 (assuming without AEP)	Capital values as at December 31, 2006 (assuming with AEP)
1.	**Regal Airport Hotel** 9 Cheong Tat Road Hong Kong International Airport, Chek Lap Kok Lantau Island, New Territories Hong Kong[1]	1,171	HK$5,160,000,000	HK$5,290,000,000
2.	**Regal Hongkong Hotel** 88 Yee Wo Street Causeway Bay Hong Kong[1]	474	HK$2,940,000,000	HK$3,220,000,000
3.	**Regal Kowloon Hotel** 71 Mody Road Tsim Sha Tsui East, Kowloon Hong Kong	600	HK$3,310,000,000	HK$3,310,000,000
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[1]	439	HK$1,110,000,000	HK$1,240,000,000[2]
5.	**Regal Riverside Hotel** 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong[3]	1,132	HK$2,380,000,000	HK$2,840,000,000[4]
		Total:	HK$14,900,000,000	HK$15,900,000,000

1 The AEP of Regal Airport Hotel, Regal Hongkong Hotel and Regal Oriental Hotel is expected to be completed by September 30, 2007.

2 The values of the portions of Po Sing Court were assessed to be HK$47 million by direct comparison method for both with AEP and without AEP scenarios. As most of the areas constitute the back-of-the-house use of Regal Oriental Hotel, it is considered inappropriate to separately assess the value by Discounted Cash Flow Method.

3 The AEP of Regal Riverside Hotel is expected to be completed in full by December 31, 2008.

4 Inclusive of the land premium involved for the AEP.

VALUATION FOR REGAL AIRPORT HOTEL

1. VALUATION ABSTRACT

Property	**Regal Airport Hotel** 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok, Lantau Island New Territories, Hong Kong Portion of the Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto
Site Area	116,963 sq ft (10,866.15 sq m)
Town Planning Zoning	"Commercial" under the current Chek Lap Kok Outline Zoning Plan No. S/I-CLK/10 dated May 9, 2006
Sub-Lease Expiry	December 30, 2028
Annual Government Rent	3% of the rateable value of the property for the time being
Registered Owner	Bauhinia Hotels Limited
Hotel Manager	Regal Hotels International Limited
Description	Regal Airport Hotel, opened in 1999, is a 14-story (including one basement floor) High Tariff B hotel with 1,104 rooms. It is currently the only hotel connected to the Hong Kong International Airport by an air-conditioned footbridge. Regal Airport Hotel overlooks the 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. After the AEP scheduled to be completed by September 30, 2007, the number of hotel rooms will become 1,171.
F & B Outlets	A coffee shop, a Western restaurant, a Japanese restaurant, two Chinese restaurants and a lounge
Floor Areas (Before AEP)	Gross Floor Area: 774,445 sq ft (71,947.65 sq m) or Covered Floor Area: 897,034 sq ft (83,336.49 sq m)
Floor Areas (After AEP)	Gross Floor Area: 775,000 sq ft (71,999.27 sq m) or Covered Floor Area: 897,545 sq ft (83,383.99 sq m)
Valuation Methods	Primary: Discounted Cash Flow Method Secondary: Direct Comparison Method

Date of Valuation	December 31, 2006
Assessed Value (as if AEP is completed)	HK$5,290,000,000 (HONG KONG DOLLARS FIVE BILLION TWO HUNDRED NINETY MILLION)
Estimated Initial Net Yield	5.2%

2. PROPERTY DESCRIPTION

Encumbrances

- Sub-Lease of Hotel from the Airport Authority for a term of 25 years from December 31, 2003 via Memorial No. IS342341 dated August 12, 2004
- Mortgage and Assignment of Rights re Portion by Bauhinia Hotels Limited in favor of The Hongkong and Shanghai Banking Corporation Limited via Memorial No. IS344084 dated December 31, 2004

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	179	Cabana room	23	Regal Club Deluxe	52
Superior	362	Apartment	9	Honeymoon Suite	1
Deluxe (fan-shape)	61	Regal Class Superior	70	Royal Suite	10
Deluxe	194	Regal Class Deluxe	86	Spa Suite	2
Deluxe Suite	7	Regal Club Superior	39	Presidential Suite	1
Regal Suite	8				
Size Range[5]	291 sq ft	(27 sq m) to 926 sq ft	(86 sq m)	**TOTAL**	1,104

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Cafe Aficionado	G/F	Coffee Shop	733
China Coast Bar & Grill	G/F	Western	530
Dragon Inn	G/F	Chinese	324
Airport Izakaya	G/F	Japanese	202
Rouge	1/F	Chinese	454
Lobby Lounge	2/F	Lounge	306

5 Except Presidential Suite which is of 3,014 sq ft (280 sq m).

Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Pre-Function Area	B/F	1	6,760	628
Meeting Rooms	B/F	13	10,300	1,018
Meeting Room	G/F	1	1,916	178
Ballroom	1/F	1, can be subdivided into 3	10,333	960
Meeting Rooms	1/F	7	5,274	490
Meeting Rooms	2/F	3	1,012	94
Meeting Room	9/F	1	646	60

Other Facilities

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

Tenancies/Licences

Retail Spaces

Total Retail area (lettable):	40,860 sq ft (3,796 sq m)
Occupied area (lettable):	10,426 sq ft (969 sq m)
Vacant Space (lettable):	30,434 sq ft (2,827 sq m)
Occupancy:	25.5%
Monthly base rent:	HK$428,980
Range of terms: (excluding monthly tenancies)	6 months to 3 years

Tenancy Expiry Profile:

	Lettable Area (sq ft)
Monthly Tenancies	0
2006	0
2007	8,354
2008	891
2009	1,181

Latest expiry date:	November 10, 2009
Option to Renew:	2 tenancies having options to renew for 2 to 3 years
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.

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

Number of Licences:	8
Monthly licence fee:	HK$240,000
Latest expiry date:	March 31, 2007

Asset Enhancement Program ("AEP")

- 67 additional rooms to be completed by September 30, 2007 and the total number of rooms will increase to 1,171.
- Total cost involved is estimated to be about HK$38 million.
- GFA will increase to about 775,000 sq ft (71,999.27 sq m).

Change in Room Configuration due to AEP

Room Type	Change	Room Type	Change	Room Type	Change
Standard	+10	Regal Suite	Unchanged	Regal Club Superior	Unchanged
Superior	+17	Cabana room	Unchanged	Regal Club Deluxe	Unchanged
Deluxe (fan-shape)	+7	Apartment	Unchanged	Honeymoon Suite	Unchanged
Deluxe	+1	Regal Class Superior	+11	Royal Suite	+2
				Spa Suite	Unchanged
Deluxe Suite	Unchanged	Regal Class Deluxe	+19	Presidential Suite	Unchanged
				TOTAL	+67

3. HOTEL OPERATION

Proposed 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
Annual Incentive Fee:	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP[7] over the Base Fee[8] and the Fixed Charges[9]
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

6 In accordance with the proposed Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

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

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

9 Under the proposed 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.

Proposed Lease Agreement

Lessor: Bauhinia Hotels Limited

Lessee: Favour Link International Limited (a subsidiary of Regal)

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

Rental[10]: 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income[11] ("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.

4. VALUATION RATIONALE

Brief Market Analysis

The average occupancy rates of hotels in Hong Kong have increased steadily from 1998 to 2004, except 2001 and 2003 when the 9/11 event and the outbreak of SARS happened. A marginal decline in occupancy rates was recorded in 2005 due to the increased supply of rooms. In 2005, the average occupancy rate was 86% and the number of rooms occupied was 31,348. On the demand side, with the exception of 2003, the number of visitors has been rising from 13.7 million in 2001 to 23.4 million in 2005. According to the Hong Kong Tourism Board, the number of visitors in 2006 was about 25.3 million. It is observed that the number of visitors has been soaring at a faster pace than the new supply of hotel rooms.

10 We consider the base rents and variable rents of the Lease Agreement are within a fair and reasonable range.

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

In 2006, there were 126 hotels providing 47,128 rooms in Hong Kong. According to the Hong Kong Tourism Board, 34 new hotels (including conversion of industrial sites into hotels) are scheduled for completion between 2007 and 2010. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 58,922 in 2010.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the maturing operations of AsiaWorld-Expo, SkyPlaza and Disneyland and the expected 24-hour operation of Hong Kong International Airport, the occupancy for hotel rooms is expected to be further improved.

Discounted Cash Flow Method — "With AEP" scenario

		Assumptions/ Adoptions	**Remarks**
(a)	**Annual Growth in Daily Room Rate (per room)**	2004: 7.6% 2005: 18.6% 2006: 11.0% 2007: 5.1% 2008: 20.0% 2009: 16.2% 2010: 15.9%	Regal Airport Hotel is currently the only hotel connected to the Hong Kong International Airport by an air-conditioned footbridge. It will directly enjoy the benefits from the increase of the tourist/business traveler arrivals. The hotel management will change its marketing strategy in 2007 to build up occupancy rate ahead of the increase in room rates. The average daily rate per room and occupancy are estimated to be about HK$1,080 and 78.0% respectively in 2007.
()	**Occupancy (on available room basis)**	2004: 73.3% 2005: 66.0% 2006: 64.1% 2007: 78.0% 2008: 80.0% 2009: 83.0% 2010: 83.0%	The growth of daily rate and occupancy will be supported by Disneyland and the maturing of AsiaWorld-Expo and SkyPlaza, as well as the considerable increase in the Airport traffic due to the growing China trades and the CEPA. The improvements in conference and room facilities will also attract more clients. The forecast growth rates adopted represent the improving economic conditions and increasing property prices in Hong Kong.
(c)	**Incomes under Proposed Lease Agreement**	Under the Proposed Lease Agreement	As mentioned in Section 3 of this report, Regal Airport Hotel will be subject to a proposed Lease Agreement with rental guarantee agreement. The surpluses over the fixed rents are based on the estimated future results.
(d)	**Provision for Furniture, Fixtures and Equipment ("FF&E")**	2% on Total Hotel Revenue	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.
(e)	**Discount Rate for the Period from the Listing Date until December 2010**	8.25% p.a.	The proposed Lease Agreement has captured most of the operational risk during the Period from the Listing Date until December 2010. After considering the market risk, business risk, credit risk, counter-party risk as well as other remaining risks, we have adopted a discount rate of 8.25%.
(f)	**Income as at 2011**	Room Rate Growth of 5% Occupancy of 87.0%	The hotel income at 2011 is based a room rate growth of 5% from 2010 whilst the occupancy rate being the same as 2010.

		Assumptions/ Adoptions	Remarks
(g)	**Terminal Capitalization Rate and Discount Rate**	Terminal Capitalization Rate: 5.25% Discount Rate: 8.25%	The income at 2011 is capitalized and discounted to arrive at the resale price in today's value.[12]
(h)	**Remaining Term of Sub-lease**	22 years	In the assessment of the resale price, the remaining term of the Sub-Lease from 2011 to 2028 governing the property will become about 18 years (i.e. the end of the First Period to December 30, 2028). The income at 2011 has therefore been capitalized for 18 years only.

Direct Comparison Method — "With AEP" scenario

	Hotel	Transacted price	Price per guestroom	Transaction Date	Description and Remarks
1	Regent Hotel Hong Kong (currently known as Inter-Continental Hong Kong)	About HK$2,750 million	About HK$5.350 million	May 2001	Regent Hotel, completed in 1980, was a High Tariff A hotel located in Tsim Sha Tsui. It is contained within a large, multi-use commercial complex namely New World Centre. The hotel offers some 514 guestrooms.
2	Kowloon Hotel	HK$1,930 million	About HK$2.622 million	December 2004	Kowloon Hotel, completed in 1985, is a High Tariff B hotel located in Tsim Sha Tsui. It is situated at the junction of Nathan Road and Middle Road. The hotel offers some 736 guestrooms. The hotel has a particularly small typical room size of 194 sq ft, inclusive of bay window area.
3	Novotel Century Harbourview Hotel	HK$588.384 million	About HK$2.147 million	June 2006	Novotel Century Harbourview Hotel, completed in 1999, is a Medium Tariff hotel located in Western. The hotel offers some 274 guestrooms.

12 Consideration has been made for the minimum rental guarantee for years 2011 to 2015.

We have considered several transactions of hotels having size and location as comparable as possible to Regal Airport Hotel in our valuation using the direct comparison method. Comparable 1 is considered to be a better comparable, particularly in terms of scale and quality of the hotel. Appropriate adjustments on time, location, view, property quality, management, facilities, room configuration, etc. have been applied to derive the value of Regal Airport Hotel. In addition, the risk element of the AEP has also been considered and reflected. The assessed value for Regal Airport Hotel is HK$5.260 billion. For indication, it reflects unit rates of HK$4.492 million per room, HK$6,787 per sq ft of GFA or HK$5,860 per sq ft of Covered Floor Area.

Reconciliation of Two Methods — "With AEP" scenario

Valuation Method	Value Indication
Primary Method: Discounted Cash Flow Method	HK$5,290,000,000
Secondary Method: Direct Comparison Method	HK$5,260,000,000

The results of the two valuation methods are reasonably close and therefore provide some degree of mutual support.

Market Value — "Without AEP" scenario

If there is no AEP, in view of the difference in number of rooms available and their potential impact on hotel operations, we have considered the income and expenses would have correspondingly changed. Applying the Discount Cash Flow method, we assessed the market value of Regal Airport Hotel under the "Without AEP" scenario to be HK$5,160 million based on the same conditions of the abovementioned proposed Lease Agreement and Management Agreement.

Implied Value of the AEP

Based on the mathematical difference between our assessed values under the "Without AEP" and "With AEP" scenarios, the implied value of the AEP is estimated to be HK$130 million.

5. CONCLUSION

We adopted the result of the DCF Method as the value conclusion, which was, as at December 31, 2006, in the sum of **HK$5,290,000,000 (HONG KONG DOLLARS FIVE BILLION TWO HUNDRED NINETY MILLION)** assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned proposed Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost being fully paid by the Vendor.

VALUATION FOR REGAL HONGKONG HOTEL

1. VALUATION ABSTRACT

Property	**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
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
Land Lease Expiry	December 24, 2883
Annual Government Rent	Nominal rent only
Registered Owner	Cityability Limited
Hotel Manager	Regal Hotels International Limited
Description	Regal Hongkong Hotel, opened in 1993, is a 37-story (including four basement floors) High Tariff A hotel with 424 rooms. It is positioned in a way that the majority of rooms could command a view of the Victoria Park. After the Asset Enhancement Program scheduled to be completed by September 30, 2007, the number of hotel rooms will become 474.
F & B Outlets	A coffee shop, a Chinese restaurant, an Italian restaurant, a bar, a cake shop and a lobby lounge
Floor Areas (Before AEP)	Gross Floor Area: 215,736 sq ft (20,042.37 sq m) or Covered Floor Area: 320,417 sq ft (29,767.45 sq m) In addition, the current owner of Regal Hongkong Hotel has also rented some spaces on G/F to 3/F of 68 Yee Wo Street by two tenancies. The first tenancy is related to the ancillary uses to the daily hotel operation. Expiring on March 1, 2010 with an option to renew for 12 years, involves a lettable area of 10,510 sq ft at a current rent of HK$182,000 per month. The second one is a shorter tenancy expiring on March 28, 2008 involving a lettable area of 3,437 sq ft at a rent of HK$70,800 per month.

Floor Areas (After AEP)	Gross Floor Area: 269,911 sq ft (25,075.38 sq m) or Covered Floor Area: 343,864 sq ft (31,945.74 sq m)
Valuation Methods	Primary: Discounted Cash Flow Method Secondary: Direct Comparison Method
Date of Valuation	December 31, 2006
Assessed Value (as if AEP is completed)	HK$3,220,000,000 (HONG KONG DOLLARS THREE BILLION TWO HUNDRED TWENTY MILLION)
Estimated Initial Net Yield	4.7%

2. PROPERTY DESCRIPTION

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.
- Mortgage in favor of the Hongkong and Shanghai Banking Corporation Limited via Memorial No. UB9455774 dated December 31, 2004.

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	15	Regal Class Superior	14	Royal Suite	8
Superior	142	Regal Class Deluxe	26	Imperial Suite	1
Deluxe	143	Regal Club Superior	18	Presidential Suite	1
Deluxe Suite	21	Regal Club Deluxe	35		
Size Range[13]	258 sq ft (24 sq m) to 1,649 sq ft (153 sq m)			**TOTAL**	424

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Windsor Arms Sports Bar	2/B	Bar	182
Tiffany Lounge	G/F	Lobby Lounge	109
Regal Patisserie	G/F	Cake Shop	—
Café Rivoli	1/F	Coffee Shop	316
Regal Palace	3/F	Chinese	746
Zeffirino Ristorante	31/F[14]	Italian	215

13 Except Presidential Suite, which is of 6,318 sq ft (587 sq m).

14 Temporarily relocated to 2/B.

Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Meeting Room[15]	2/B	1	2,250	209
Ballroom	1/B	1	2,300	230
Meeting Rooms	1/B	3	1,894	176
Meeting Rooms	3/F	6	3,617	336

Other Facilities

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

Tenancies/Licences

Mobile Phone Base Stations/Antennae

Number of Licences: 4

Monthly licence fee: HK$81,200

Latest expiry date: June 30, 2008

Asset Enhancement Program ("AEP")

- 50 additional rooms to be completed by September 30, 2007, the number of rooms will increase to 474
- Total cost involved is estimated to be about HK$90 million.
- GFA will increase to 269,911 sq ft (25,075.38 sq m).

Change in Room Configuration due to AEP

Room Type	Change	Room Type	Change	Room Type	Change
Standard	Unchanged	Regal Class Superior	+21	Royal Suite	Unchanged
Superior	Unchanged	Regal Class Deluxe	+39	Imperial Suite	Unchanged
Deluxe	Unchanged	Regal Club Superior	-5	Presidential Suite	Unchanged
Deluxe Suite	+1	Regal Club Deluxe	-6		
				TOTAL	+50

15 Now temporarily occupied by Zeffirino Ristorante.

3. HOTEL OPERATION

Proposed 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[16]
	In any other cases:	2% of the Gross Revenues
Annual Incentive Fee:	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP[17] over the Base Fee[18] and the Fixed Charges[19]
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

Proposed Lease Agreement

Lessor: Cityability Limited

Lessee: Favour Link International Limited

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

Rental[20]: 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income[21] ("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%

16 In accordance with the proposed Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel.

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

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

19 Under the proposed 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.

20 We consider the base rents and variable rents of the Lease Agreement are within a fair and reasonable range.

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

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.

4. VALUATION RATIONALE

Brief Market Analysis

The average occupancy rates of hotels in Hong Kong have increased steadily from 1998 to 2004, except 2001 and 2003 when the 9/11 event and the outbreak of SARS happened. A marginal decline in occupancy rates was recorded in 2005 due to the increased supply of rooms. In 2005, the average occupancy rate was 86% and the number of rooms occupied was 31,348. On the demand side, with the exception of 2003, the number of visitors has been rising from 13.7 million in 2001 to 23.4 million in 2005. According to the Hong Kong Tourism Board, the number of visitors in 2006 was about 25.3 million. It is observed that the number of visitors has been soaring at a faster pace than the new supply of hotel rooms.

In 2006, there were 126 hotels providing 47,128 rooms in Hong Kong. According to the Hong Kong Tourism Board, 34 new hotels (including conversion of industrial sites into hotels) are scheduled for completion between 2007 and 2010. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 58,922 in 2010.

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

Discounted Cash Flow Method — "With AEP" scenario

		Assumptions/ Adoptions	Remarks
(a)	**Annual Growth in Daily Room Rate (per room)**	2004: 15.9% 2005: 18.4% 2006: 12.8% 2007: 13.8% 2008: 8.4% 2009: 7.8% 2010: 7.3%	Being a hotel focused in providing quality accommodation to business and leisure travelers, Regal Hongkong Hotel will directly enjoy the benefits of the increasing arrival numbers of such kind of travelers. The average daily rate per room and occupancy are estimated to be about HK$1,236 and 91.5% respectively in 2007. Increment is expected on average daily rate for the years onwards, whilst occupancy is anticipated to maintain at around 90%.
(b)	**Occupancy (on available room basis)**	2004: 92.1% 2005: 89.9% 2006: 90.1% 2007: 91.5% 2008: 91.0% 2009: 91.0% 2010: 91.0%	Looking ahead, the daily rate of Regal Hongkong Hotel will be supported by 50 new deluxe guest rooms, which lead to higher overall average room rate. Also, the completion of extension works of HKCEC should attract more business travelers to Wanchai/Causeway Bay area.
(c)	**Incomes under Proposed Lease Agreement**	Under the Proposed Lease Agreement	As mentioned in Section 3 of this report, Regal Hongkong Hotel will be subject to the proposed Lease Agreement with rental guarantee agreement. The surpluses over the fixed rents are based on the estimated future results.
(d)	**Provision for Furniture, Fixtures and Equipment ("FF&E")**	2% on Total Hotel Revenue	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.
(e)	**Discount Rate for the Period from the Listing Date until December 2010**	8.5% p.a.	The proposed Lease Agreement has captured most of the operational risk during the Period from the Listing Date until December 2010. After considering the market risk, business risk, credit risk, counter-party risk as well as other remaining risks, we have adopted a discount rate of 8.5%.
(f)	**Income as at 2011**	Room Rate Growth of 5% Occupancy of 89.0%	The hotel income at 2011 is based a room rate growth of 5% from 2010 whilst the occupancy rate being the same as 2010.
(g)	**Terminal Capitalization Rate and Discount Rate**	Terminal Capitalization Rate: 5.50% Discount Rate: 8.50%	The income at 2011 is capitalized and discounted to arrive at the resale price in today's value.[22]

22 Consideration has been made for the minimum rental guarantee for years 2011 to 2015.

Direct Comparison Method — "With AEP" scenario

	Hotel	Transacted price	Price per guestroom	Transaction Date	Description and Remarks
1	Regent Hotel Hong Kong (currently known as Inter-Continental Hong Kong)	About HK$2,750 million	About HK$5.350 million	May 2001	Regent Hotel, completed in 1980, was a High Tariff A hotel located in Tsim Sha Tsui. It is contained within a large, multi-use commercial complex namely New World Centre. The hotel offers some 514 guestrooms.
2	Kowloon Hotel	HK$1,930 million	About HK$2.622 million	December 2004	Kowloon Hotel, completed in 1985, is a High Tariff B hotel located in Tsim Sha Tsui. It is situated at the junction of Nathan Road and Middle Road. The hotel offers some 736 guestrooms. The hotel has a particularly small typical room size of 194 sq ft, inclusive of bay window area.
3	Novotel Century Harbourview Hotel	HK$588.384 million	About HK$2.147 million	June 2006	Novotel Century Harbourview Hotel, completed in 1999, is a Medium Tariff hotel located in Western. The hotel offers some 274 guestrooms.

We have considered several transactions of hotels having size and location as comparable as possible to Regal Hongkong Hotel in our valuation using the direct comparison method. Comparable 1 is considered to be a better comparable, particularly in terms of scale and quality of the hotel. Appropriate adjustments on time, location, view, property quality, management, facilities, room configuration, etc. have been applied to derive the value of Regal Hongkong Hotel. In addition, the risk element of the AEP has also been considered and reflected. The assessed value for Regal Hongkong Hotel is HK$3.170 billion. For indication, it reflects unit rates of HK$6.688 million per room, HK$11,745 per sq ft of GFA or HK$9,219 per sq ft of Covered Floor Area.

Reconciliation of Two Methods — "With AEP" scenario

Valuation Method	Value Indication
Primary Method: Discounted Cash Flow Method	HK$3,220,000,000
Secondary Method: Direct Comparison Method	HK$3,170,000,000

The results of the two valuation methods are reasonably close and therefore provide some degree of mutual support.

Market Value — "Without AEP" scenario

If there is no AEP, in view of the difference in number of rooms available and their potential impact on hotel operations, we have considered the income and expenses would have correspondingly changed. Applying the Discount Cash Flow method, we assessed the market value of Regal Hongkong Hotel under the "Without AEP" scenario to be HK$2,940 million based on the same conditions of the abovementioned proposed Lease Agreement and Management Agreement.

Implied Value of the AEP

Based on the mathematical difference between our assessed values under the "Without AEP" and "With AEP" scenarios, the implied value of the AEP is estimated to be HK$280 million.

5. CONCLUSION

We adopted the result of the DCF Method as the value conclusion, which was, as at December 31, 2006, in the sum of **HK$3,220,000,000 (HONG KONG DOLLARS THREE BILLION TWO HUNDRED TWENTY MILLION)** assuming a sale subject to the existing license agreements as well as the abovementioned proposed Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost being fully paid by the Vendor.

VALUATION FOR REGAL KOWLOON HOTEL

1. VALUATION ABSTRACT

Property	**Regal Kowloon Hotel** 71 Mody Road Tsim Sha Tsui East, Kowloon, Hong Kong Kowloon Inland Lot No. 10474
Site Area	27,556 sq ft (2,560 sq m)
Town Planning Zoning	"Commercial" under the current Tsim Sha Tsui Outline Zoning Plan No. S/K1/22 dated October 17, 2006
Land Lease Expiry	December 27, 2051 (with an option to renew for 75 years)
Annual Government Rent	HK$1,000
Registered Owner	Ricobem Limited
Hotel Manager	Regal Hotels International Limited
Description	Regal Kowloon Hotel, 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 the Centenary Garden or the Mody Square.
F & B Outlets	A coffee shop, a western restaurant, an Italian restaurant, a bar, a cake shop and a lobby lounge
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)
Valuation Methods	Primary: Discounted Cash Flow Method Secondary: Direct Comparison Method
Date of Valuation	December 31, 2006
Assessed Value	HK$3,310,000,000 (HONG KONG DOLLARS THREE BILLION THREE HUNDRED TEN MILLION)
Estimated Initial Net Yield	5.1%

2. PROPERTY DESCRIPTION

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.
- Mortgage in favor of the Hongkong and Shanghai Banking Corporation Limited via Memorial No. UB9455776 dated December 31, 2004.

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	83	Regal Class Superior	17	Regal Suite	10
Superior	159	Regal Club Deluxe	52	Royal Suite	8
Deluxe	189	Regal Club Superior	30	Presidential Suite	1
Regal Class Deluxe	31	Deluxe Suite	20		
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
Zeffirino Ristorante	3/F	Italian	373
Café Allegro	1/B	Coffee Shop	349
Regala Café & Dessert Bar	G/F	Lobby Lounge	151 (Indoor) 44 (Outside Seating)
Regal Patisserie	G/F	Cake Shop	—
Basso Bar	1/F	Bar	233
Mezzo Grill	1/F	Western	197
Golden Delight Seafood Restaurant (leased to and operated by a third party)	2/F	Chinese	574
Nishiki (leased to and operated by a third party)	1/F	Japanese	53

Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Meeting Room	2/B	1	1,679	156
Meeting Rooms	2/F	6	3,563	331
Ballroom	3/F	1	3,500	350
Meeting Rooms	3/F	5	2,512	234

Other Facilities

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

Tenancies/Licences[23]

Retail Spaces

Total Retail area (lettable):	56,002 sq ft (5,203 sq m)
Occupied area (lettable):	53,787 sq ft (4,997 sq m)
Vacant Space (net):	2,215 sq ft (206 sq m)
Occupancy:	96.0%
Monthly base rent:	HK$1,196,302.60
Range of terms (excluding monthly tenancies):	1 year to 3 years

Tenancy Expiry Profile:	Lettable Area (sq ft)
Monthly Tenancies	3,306
2007	13,997
2008	22,873
2009	13,611

Latest expiry date:	21 November, 2009
Option to Renew:	4 tenancies having options to renew for 1 to 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 Spaces, Mobile Phone Base Stations, Antennae, etc.

Number of Licences:	9
Monthly licence fee:	HK$46,700
Latest expiry date:	November 30, 2008

23 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.

3. HOTEL OPERATION

Proposed 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[24]
	In any other cases:	2% of the Gross Revenues
Annual Incentive Fee:	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP[25] over the Base Fee[26] and the Fixed Charges[27]
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

Proposed Lease Agreement

Lessor: Ricobem Limited

Lessee: Favour Link International Limited

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

Rental[28]: 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income[29] ("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.

24 In accordance with the proposed Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel.

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

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

27 Under the proposed 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.

28 We consider the base rents and variable rents of the Lease Agreement are within a fair and reasonable range.

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

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.

4. VALUATION RATIONALE

Brief Market Analysis

The average occupancy rates of hotels in Hong Kong have increased steadily from 1998 to 2004, except 2001 and 2003 when the 9/11 event and the outbreak of SARS happened. A marginal decline in occupancy rates was recorded in 2005 due to the increased supply of rooms. In 2005, the average occupancy rate was 86% and the number of rooms occupied was 31,348. On the demand side, with the exception of 2003, the number of visitors has been rising from 13.7 million in 2001 to 23.4 million in 2005. According to the Hong Kong Tourism Board, the number of visitors in 2006 was about 25.3 million. It is observed that the number of visitors has been soaring at a faster pace than the new supply of hotel rooms.

In 2006, there were 126 hotels providing 47,128 rooms in Hong Kong. According to the Hong Kong Tourism Board, 34 new hotels (including conversion of industrial sites into hotels) are scheduled for completion between 2007 and 2010. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 58,922 in 2010.

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

Discounted Cash Flow Method

		Assumptions/ Adoptions	Remarks
(a)	**Annual Growth in Daily Room Rate (per room)**	2004: 12.5% 2005: 17.3% 2006: 15.7% 2007: 15.9% 2008: 7.7% 2009: 7.7% 2010: 7.1%	Located within Tsim Sha Tsui which is a popular commercial and tourism area, Regal Kowloon Hotel will directly enjoy the benefits of the increase of the tourist/ business traveler arrivals. The average daily rate per room and occupancy are estimated to be about HK$1,031 and 88.6% respectively in 2007. Increment is expected on average daily rate for the years onwards, whilst occupancy is anticipated to maintain at around 90%.
(b)	**Occupancy (on available room basis)**	2004: 84.2% 2005: 84.2% 2006: 85.6% 2007: 88.6% 2008: 89.0% 2009: 89.0% 2010: 89.0%	The room rate of Regal Kowloon Hotel will be benefited from the completion of its recent renovation works, the closure of Hyatt Regency Hong Kong and the opening of KCR East Tsim Sha Tsui Station (a 5-minute walk from Regal Kowloon Hotel).
(c)	**Incomes under Proposed Lease Agreement**	Under the Proposed Lease Agreement	As mentioned in Section 3 of this report, Regal Kowloon Hotel will be subject to the proposed Lease Agreement with rental guarantee agreement. The surpluses over the fixed rents are based on the estimated future results.
(d)	**Provision for Furniture, Fixtures and Equipment ("FF&E")**	2% on Total Hotel Revenue	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.
(e)	**Discount Rate for the Period from the Listing Date until December 2010**	8.5% p.a.	The proposed Lease Agreement has captured most of the operational risk during the Period from the Listing Date until December 2010. After considering the market risk, business risk, credit risk, counter-party risk as well as other remaining risks, we have adopted a discount rate of 8.5%.
(f)	**Income as at 2011**	Room Rate Growth of 5% Occupancy of 89.0%	The hotel income at 2011 is based on a room rate growth rate of 5% from 2010 whilst the occupancy rate being the same as 2010.
(g)	**Terminal Capitalization Rate and Discount Rate**	Terminal Capitalization Rate: 5.50% Discount Rate: 8.50%	The income at 2011 is capitalized and discounted to arrive at the resale price in today's value.

Direct Comparison Method

	Hotel	Transacted price	Price per guestroom	Transaction Date	Description and Remarks
1	Regent Hotel Hong Kong (currently known as Inter-Continental Hong Kong)	About HK$2,750 million	About HK$5.350 million	May 2001	Regent Hotel, completed in 1980, was a High Tariff A hotel located in Tsim Sha Tsui. It is contained within a large, multi-use commercial complex namely New World Centre. The hotel offers some 514 guestrooms.
2	Kowloon Hotel	HK$1,930 million	About HK$2.622 million	December 2004	Kowloon Hotel, completed in 1985, is a High Tariff B hotel located in Tsim Sha Tsui. It is situated at the junction of Nathan Road and Middle Road. The hotel offers some 736 guestrooms. The hotel has a particularly small typical room size of 194 sq ft, inclusive of bay window area.
3	Novotel Century Harbourview Hotel	HK$588.384 million	About HK$2.147 million	June 2006	Novotel Century Harbourview Hotel, completed in 1999, is a Medium Tariff hotel located in Western. The hotel offers some 274 guestrooms.

We have considered several transactions of hotels having size and location as comparable as possible to Regal Kowloon Hotel in our valuation using the direct comparison method. Comparable 1 is considered to be a better comparable, particularly in terms of scale and quality of the hotel. Appropriate adjustments on time, location, view, property quality, management, facilities, room configuration, etc. have been applied to derive the value of Regal Kowloon Hotel. The assessed value for Regal Kowloon Hotel is HK$3.270 billion. For indication, it reflects unit rates of HK$5.450 million per room, HK$9,569 per sq ft of GFA or HK$6,982 per sq ft of Covered Floor Area.

Reconciliation of Two Methods

Valuation Method	Value Indication
Primary Method: Discounted Cash Flow Method	HK$3,310,000,000
Secondary Method: Direct Comparison Method	HK$3,270,000,000

The results of the two valuation methods are reasonably close and therefore provide some degree of mutual support.

5. CONCLUSION

We adopted the result of the DCF Method as the value conclusion, which was, as at December 31, 2006, was in the sum of **HK$3,310,000,000 (HONG KONG DOLLARS THREE BILLION THREE HUNDRED TEN MILLION)** assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned proposed Lease Agreement and Management Agreement.

VALUATION FOR REGAL ORIENTAL HOTEL

1. VALUATION ABSTRACT

Property	**Regal Oriental Hotel**, 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and Whole 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong Whole of New Kowloon Inland Lot No. 5754 and 41/180 undivided shares of and in New Kowloon Inland Lot No. 4917
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 current Ma Tau Kok Outline Zoning Plan No. S/K10/18 dated June 8, 2004
Land Lease Expiry	June 30, 2047
Annual Government Rent	3% of the rateable value of the property for the time being
Registered Owner	Gala Hotels Limited
Hotel Manager	Regal Hotels International Limited
Description	Regal Oriental Hotel, opened in 1982, is a 17-story (including two basement floors) High Tariff B hotel with 390 rooms. The property also comprises part of the Ground and 1st Floors in an adjacent 14-story building (Po Sing Court) completed in 1967 mainly for back-of-the-house uses. The hotel is facing the demolished old Hong Kong International Airport. After the completion of the Asset Enhancement Program scheduled to be completed by September 30, 2007, the number of hotel rooms will become 439.
F & B Outlets	A Chinese restaurant, a Western restaurant, a coffee shop, two bars and a cake shop
Floor Areas (Before AEP)	Gross Floor Area: 228,967 sq ft (21,271.54 sq m) plus two floors in Po Sing Court of 14,200 sq ft (1,319.21 sq m), totally 243,167 sq ft (22,590.75 sq m) or Total Covered Floor Area: 294,154 sq ft (27,327.57 sq m)

Floor Areas (After AEP)	Gross Floor Area: 229,003 sq ft (21,274.94 sq m) and 14,200 sq ft (1,319.21 sq m) in Po Sing Court, totally 243,203 sq ft (22,594.15 sq m) or Total Covered Floor Area: 294,154 sq ft (27,327.57 sq m)
Valuation Methods	Primary: Discounted Cash Flow Method Secondary: Direct Comparison Method
Date of Valuation	December 31, 2006
Assessed Value (as if AEP is completed)	HK$1,240,000,000 (HONG KONG DOLLARS ONE BILLION TWO HUNDRED FORTY MILLION)
Estimated Initial Net Yield	4.3%

2. PROPERTY DESCRIPTION

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.
- Mortgage in favor of The Hongkong and Shanghai Banking Corporation Limited "The Security Agent" via Memorial No. UB9455775 dated December 31, 2004.
- Demolition of pedestrian footbridge connecting Regal Oriental Hotel and the former Hong Kong International Airport Terminal as required by the Lands Department.

  (Note: we were advised that the cost for the demolition work will be borne by the Vendor. The demolition work has been completed.)

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/K/03/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 Vendor.)

- Mortgage in favor of The Hongkong and Shanghai Banking Corporation Limited "The Security Agent" via Memorial No. UB9455775 dated December 31, 2004.

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	56	Regal Class	71	Regal Suite	1
Superior	99	Theme Suite	10	Presidential Suite	2
Deluxe	136	Deluxe Suite	15		
Size Range	237 sq ft	(22 sq m) to 431 sq ft (40 sq m)		**TOTAL**	390

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
La Plantation Coffee Shop	1/B	Coffee Shop	361
China Coast Pub	G/F	Bar	328
Regal Patisserie	G/F	Cake Shop	—
Regal Seafood Restaurant	2/F	Chinese	384
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	3,400	340
Meeting Rooms	1/F	3	1,076	100
Meeting Rooms	2/F	10	4,273	397

Other Facilities

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

Tenancy/Licence[30]

Retail Spaces

Total Retail area (lettable):	30,250 sq ft (2,810 sq m)
Tenanted area (lettable):	1,660 sq ft (154 sq m)
Vacant Space (lettable):	28,590 sq ft (2,656 sq m)
Occupancy:	5.5%
Monthly base rent:	HK$18,000
Duration of term:	2 years
Tenancy Expiry Profile:	
	Lettable Area (sq ft)
2006	1,660
Date of expiry:	November 14, 2006
Option to Renew:	An option to renew for 1 year at Market Rent but new tenancy has not yet committed.
Summary of Terms:	The landlord is responsible for structural maintenance and payment of Government Rent.

Licence for Mobile Phone Base Station and Antennae

Number of Licence:	1
Monthly licence fee:	HK$18,000
Date of expiry:	December 31, 2007

Asset Enhancement Program ("AEP")

- 49 additional rooms to be completed by September 30, 2007, the number of rooms will increase to 439.
- Conversion of a portion of 3/F into a lounge area to be completed by September 30, 2007.
- Refurnishing works to guest room floors from 4/F to 8/F are scheduled to be completed on September 30, 2007. Refurnishing works to the remaining guest room floors have been completed.
- Total cost involved is estimated to be about HK$30 million.
- GFA will change to 229,003 sq ft (21,274.94 sq m) excluding Po Sing Court.

Change in Room Configuration due to AEP

Room Type	Change	Room Type	Change	Room Type	Change
Standard	Unchanged	Regal Class	Unchanged	Regal Suite	Unchanged
Superior	Unchanged	Theme Suite	Unchanged	Presidential Suite	Unchanged
Deluxe	+49	Deluxe Suite	Unchanged		
				TOTAL	+49

30 In accordance with the standard terms and conditions of tenancy agreement 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.

3. HOTEL OPERATION

Proposed 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[31]
	In any other cases:	2% of the Gross Revenues
Annual Incentive Fee:	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP[32] over the Base Fee[33] and the Fixed Charges[34]
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

Proposed Lease Agreement

Lessor: Gala Hotels Limited

Lessee: Favour Link International Limited

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

Rental[35]: 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income[36] ("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.

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31 In accordance with the proposed Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

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

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

34 Under the proposed 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.

35 We consider the base rents and variable rents of the Lease Agreement are within a fair and reasonable range.

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

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.

4. VALUATION RATIONALE

Brief Market Analysis

The average occupancy rates of hotels in Hong Kong have increased steadily from 1998 to 2004, except 2001 and 2003 when the 9/11 event and the outbreak of SARS happened. A marginal decline in occupancy rates was recorded in 2005 due to the increased supply of rooms. In 2005, the average occupancy rate was 86% and the number of rooms occupied was 31,348. On the demand side, with the exception of 2003, the number of visitors has been rising from 13.7 million in 2001 to 23.4 million in 2005. According to the Hong Kong Tourism Board, the number of visitors in 2006 was about 25.3 million. It is observed that the number of visitors has been soaring at a faster pace than the new supply of hotel rooms.

In 2006, there were 126 hotels providing 47,128 rooms in Hong Kong. According to the Hong Kong Tourism Board, 34 new hotels (including conversion of industrial sites into hotels) are scheduled for completion between 2007 and 2010. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 58,922 in 2010.

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the commencement of Kai Tak redevelopment project, the occupancy for hotel rooms is expected to be steady.

Discounted Cash Flow Method — "With AEP" scenario

		Assumptions/ Adoptions	Remarks
(a)	**Annual Growth in Daily Room Rate (per room)**	2004: 29.9% 2005: 6.6% 2006: 12.0% 2007: 21.3% 2008: 14.5% 2009: 11.8% 2010: 10.6%	Regal Oriental Hotel will directly enjoy the benefits of the increasing of the tourist/ business traveler arrivals. The average daily rate per room and occupancy are estimated to be about HK$629 and 92.8% respectively in 2007. Increment is expected on average daily rate for the years onwards, whilst occupancy is anticipated to maintain at around 92% upon the completion of the proposed enhancement program.
(b)	**Occupancy (on available room basis)**	2004: 91.1% 2005: 91.6% 2006: 90.0% 2007: 92.8% 2008: 92.0% 2009: 92.0% 2010: 92.0%	The start of Kai Tak development projects will keep the occupancy of Regal Oriental Hotel at high level. Upon completion of Kai Tak projects, the vicinity around Regal Oriental Hotel will be strengthened significantly as a residential, commercial, recreational and tourism hub.
(c)	**Incomes under Proposed Lease Agreement**	Under the Proposed Lease Agreement	As mentioned in Section 3 of this report, Regal Oriental Hotel will be subject to the proposed Lease Agreement with rental guarantee agreement. The surpluses over the fixed rents are based on the estimated future results.
(d)	**Provision for Furniture, Fixtures and Equipment ("FF&E")**	2% on Total Hotel Revenue	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.
(e)	**Discount Rate for the Period from the Listing Date until December 2010**	8.5% p.a.	The proposed Lease Agreement has captured most of the operational risk during the Period from the Listing Date until December 2010. After considering the market risk, business risk, credit risk, counter-party risk as well as other remaining risks, we have adopted a discount rate of 8.5%.
(f)	**Income as at 2011**	Room Rate Growth of 5% Occupancy of 92.0%	The hotel income at 2011 is based a room rate growth of 5% from 2010 whilst the occupancy rate being the same as 2010.
(g)	**Terminal Capitalization Rate and Discount Rate**	Terminal Capitalization Rate: 5.50% Discount Rate: 8.50%	The income at 2011 is capitalized and discounted to arrive at the resale price in today's value.[37]

37 Consideration has been made for the minimum rental guarantee for years 2011 to 2015.

Direct Comparison Method — "With AEP" scenario

	Hotel	Transacted price	Price per guestroom	Transaction Date	Description and Remarks
1	Regent Hotel Hong Kong (currently known as Inter-Continental Hong Kong)	About HK$2,750 million	About HK$5.350 million	May 2001	Regent Hotel, completed in 1980, was a High Tariff A hotel located in Tsim Sha Tsui. It is contained within a large, multi-use commercial complex namely New World Centre. The hotel offers some 514 guestrooms.
2	Kowloon Hotel	HK$1,930 million	About HK$2.622 million	December 2004	Kowloon Hotel, completed in 1985, is a High Tariff B hotel located in Tsim Sha Tsui. It is situated at the junction of Nathan Road and Middle Road. The hotel offers some 736 guestrooms. The hotel has a particularly small typical room size of 194 sq ft, inclusive of bay window area.
3	Novotel Century Harbourview Hotel	HK$588.384 million	About HK$2.147 million	June 2006	Novotel Century Harbourview Hotel, completed in 1999, is a Medium Tariff hotel located in Western. The hotel offers some 274 guestrooms.

We have considered several transactions of hotels having size and location as comparable as possible to Regal Oriental Hotel in our valuation using the direct comparison method. Comparable 2 is considered to be a better comparable, particularly in term of hotel quality. Appropriate adjustments on time, location, view, property quality, management, facilities, room configuration, etc. have been applied to derive the value of Regal Oriental Hotel. In addition, the risk element of the AEP has also been considered and reflected. The assessed value for Regal Oriental Hotel is HK$1,220 million. For indication, it reflects HK$1,173 million for the hotel building and HK$47 million for the portions at Po Sing Court[38]. The overall unit rates are HK$2.779 million per room, HK$5,016 per sq ft of GFA and HK$4,147 per sq ft of Covered Floor Area.

38 The value of the portions at Po Sing Court was assessed to be HK$47 million by direct comparison method. As most of the areas constitute the back-of-the-house use of Regal Oriental Hotel, it is considered inappropriate to separately assess the value by Discounted Cash Flow Method.

Reconciliation of Two Methods — "With AEP" scenario

Valuation Method	Value Indication
Primary Method: Discounted Cash Flow Method	HK$1,240,000,000
Secondary Method: Direct Comparison Method	HK$1,220,000,000

The results of the two valuation methods are reasonably close and therefore provide some degree of mutual support.

Market Value — "Without AEP" scenario

If there is no AEP, in view of the difference in number of rooms available and their potential impact on hotel operations, we have considered the income and expenses would have correspondingly changed. Applying the Discount Cash Flow method, we assessed the market value of Regal Oriental Hotel under the "Without AEP" scenario to be HK$1,110 million[39] based on the same conditions of the abovementioned proposed Lease Agreement and Management Agreement.

Implied Value of the AEP

Based on the mathematical difference between our assessed values under the "Without AEP" and "With AEP" scenarios, the implied value of the AEP is estimated to be HK$130 million.

5. CONCLUSION

We adopted the result of the DCF Method as the value conclusion, which was, as at December 31, 2006, was in the sum of **HK$1,240,000,000 (HONG KONG DOLLARS ONE BILLION TWO HUNDRED FORTY MILLION)** assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned proposed Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost being fully paid by the Vendor.

39 The value includes the portions of Po Sing Court, which was HK$47 million as at the valuation date assessed by direct comparison method.

VALUATION FOR REGAL RIVERSIDE HOTEL

1. VALUATION ABSTRACT

Property	**Regal Riverside Hotel** 34-36 Tai Chung Kiu Road Shatin, New Territories, Hong Kong Sha Tin Town Lot No. 160
Site Area	53,346 sq ft (4,956 sq m)
Town Planning Zoning	"Commercial" under the current Sha Tin OZP No. S/ST/22 dated September 22, 2006
Land Lease Expiry	June 30, 2047
Annual Government Rent	3% of the rateable value of the property for the time being
Registered Owner	Regal Riverside Hotel Limited
Hotel Manager	Regal Hotels International Limited
Description	Regal Riverside Hotel, opened in 1986, is a 17-story (including two basement floors) High Tariff B hotel with 830 rooms. It is the largest hotel located in Shatin, facing Shing Mun River. After the Asset Enhancement Program scheduled to be completed in full by December 31, 2008, the number of hotel rooms will become 1,132.
F & B Outlets	A Japanese restaurant, two Chinese restaurants, an Italian restaurant, a Western restaurant, two bars and a cake shop.
Floor Areas (Before AEP)	Gross Floor Area: 519,046 sq ft (48,220.59 sq m) or Covered Floor Area: 662,123 sq ft (61,512.73 sq m)
Floor Areas (After AEP)	Gross Floor Area: 639,292 sq ft (59,391.65 sq m) or Covered Floor Area: 743,124 sq ft (69,037.90 sq m)
Valuation Methods	Primary: Discounted Cash Flow Method Secondary: Direct Comparison Method
Date of Valuation	December 31, 2006
Assessed Value (as if AEP is completed)	HK$2,840,000,000 (HONG KONG DOLLARS TWO BILLION EIGHT HUNDRED FORTY MILLION)
Estimated Initial Net Yield	3.7%

2. PROPERTY DESCRIPTION

Encumbrances

- Modification Letter via Memorial No. ST211142 dated April 29, 1982.
- Modification Letter via Memorial No. ST353344 dated August 28, 1986.
- Mortgage in favor of The Hongkong and Shanghai Banking Corporation Limited via Memorial No. ST1399530 dated December 31, 2004.

Room Configuration

Room Type	Number	Room Type	Number	Room Type	Number
Standard	256	Regal Class Superior	32	Triple	50
Superior (4/F -11/F)	69	Regal Class Deluxe	33	Deluxe Suite	40
Superior (12/F -14/F)	120	Family	30	Regal Suite	2
Deluxe	136	Quadruple	60	Presidential Suite	2
Size Range	323 sq ft (30 sq m) to 1,561 sq ft (145 sq m)			**TOTAL**	830

Food and Beverage Outlets

Name	Floor	Style	Maximum Seating Capacity
Scene Bar & Restaurant	G/F	Bar	207
Avanti Ristorante	G/F	Italian	154 (Indoor) 73 (Outside Seating)
Regal Patisserie	G/F	Cake Shop	—
Aji Bou Izakaya	1/F	Japanese	337
Carnival Bar	1/F	Bar	286
Regal Seafood Restaurant	2/F	Chinese	726
Regal Court	2/F	Chinese	206
L'eau Restaurant	3/F	Western	409

Meeting and Banquet Facilities

Room	Floor	Number of Rooms	Total Seating Area (sq ft)	Maximum Seating Capacity
Ballroom	1/F	1	4,750	475
Meeting Rooms	1/F	2	1,163	108
Meeting Rooms	2/F	5	3,434	319
Meeting Rooms	3/F	5	3,821	355

Other Facilities

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

Tenancies/Licences[40]

Retail Spaces

Total Retail area (lettable):	20,966 sq ft (1,948 sq m)
Occupied area (lettable):	13,114 sq ft (1,218 sq m)
Vacant Space (lettable):	7,852 sq ft (729 sq m)
Occupancy:	62.6%
Monthly base rent:	HK$582,746
Range of terms (excluding monthly tenancies):	6 months to 3 years

Tenancy Expiry Profile:	**Lettable Area (sq ft)**
Monthly Tenancies	966
2006	0
2007	9,451
2008	724
2009	1,973

Latest expiry date:	November 14, 2009
Option to Renew:	There is no option to renew for all existing tenancies.
Summary of Terms:	The landlord is responsible for structural maintenance and payment of Government Rent.

Mobile Phone Base Stations/Antennae and Some Arcade Spaces

Number of Licences:	5
Monthly licence fee:	HK$76,500
Latest expiry date:	April 30, 2008

Asset Enhancement Program ("AEP")

- 28 new rooms, which are expected to be completed by September 30, 2007, will be formed by conversion of 27 suites into 55 rooms.
- Further 274 rooms, which are expected to be completed by December 31, 2008, will come from the construction of three additional stories.
- After the AEP, there will be 302 additional rooms and the number of rooms will increase to 1,132.
- Construction cost involved is estimated to be about HK$162 million. The construction cost and the land premium involved are to be paid by the Vendor. Our valuation is based on the latest basic terms of the lease modification available to us and we assume the premium negotiation/appeal processes would not cause delay to the scheduled completion of the enhancement program.
- GFA will increase to 639,292 sq ft (59,391.65 sq m).

40 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.

Change in Room Configuration due to AEP

Room Type	Change	Room Type	Change	Room Type	Change
Economy	+92	Deluxe	+32	Triple	Unch.
Standard (4/F-14/F)	Unch.	Regal Class Superior	+4	Deluxe Suite	-34
Standard (15/F-17/F)	+92	Regal Class Deluxe	+1	Executive Suite	+11
Superior (4/F-11/F)	+16	Family	Unch.	Regal Suite	-1
Superior (12/F-14/F)	Unch.	Quadruple	Unch.	Presidential Suite	-1
Superior (15/F-17/F)	+90				
				TOTAL	+302

3. HOTEL OPERATION

Proposed 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[41]
	In any other cases:	2% of the Gross Revenues
Annual Incentive Fee:	For so long as the Lease is in subsistence:	1% of the excess of the Adjusted GOP[42] over the Base Fee[43] and the Fixed Charges[44]
	In any other cases:	5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges

Proposed Lease Agreement

Lessor: Regal Riverside Hotel Limited
Lessee: Favour Link International Limited
Term: Commencing from the Listing Date and expiring on December 31, 2015

41 In accordance with the proposed Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel, as more particularly described in the Hotel Management Agreement.

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

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

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

Rental[45]: 2007 to 2010: A Base Rent plus a Variable Rent represents 100% to 50% of the excess of the aggregate Net Property Income[46] ("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.

4. VALUATION RATIONALE

Brief Market Analysis

The average occupancy rates of hotels in Hong Kong have increased steadily from 1998 to 2004, except 2001 and 2003 when the 9/11 event and the outbreak of SARS happened. A marginal decline in occupancy rates was recorded in 2005 due to the increased supply of rooms. In 2005, the average occupancy rate was 86% and the number of rooms occupied was 31,348. On the demand side, with the exception of 2003, the number of visitors has been rising from 13.7 million in 2001 to 23.4 million in 2005. According to the Hong Kong Tourism Board, the number of visitors in 2006 was about 25.3 million. It is observed that the number of visitors has been soaring at a faster pace than the new supply of hotel rooms.

In 2006, there were 126 hotels providing 47,128 rooms in Hong Kong. According to the Hong Kong Tourism Board, 34 new hotels (including conversion of industrial sites into hotels) are scheduled for completion between 2007 and 2010. With the new supply coming from the new hotels as well as the extension of the existing hotels, the total number of hotel rooms in Hong Kong is expected to reach 58,922 in 2010.

45 We consider the base rents and variable rents of the Lease Agreement are within a fair and reasonable range.

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

In light of the positive outlook for the number of visitor arrivals and business travelers, as well as the favorable factors including the opening of the new phases of the Science Park, the occupancy for hotel rooms is expected to be steady.

Discounted Cash Flow Method — "With AEP" scenario

		Assumptions/ Adoptions	Remarks
(a)	**Annual Growth in Daily Room Rate (per room)**	2004: 20.6% 2005: 5.3% 2006: 7.1% 2007: 15.7% 2008: 19.1% 2009: 12.3% 2010: 11.0%	Regal Riverside Hotel is expected to enjoy the benefits of the increasing of the tourist/business traveler arrivals. The average daily rate per room and occupancy are estimated to be about HK$546 and 93.0% respectively in 2007. Increment is expected on average daily rate for the years onwards, whilst occupancy is anticipated to maintain at around 90% upon the completion of the proposed enhancement program.
(b)	**Occupancy (on available room basis)**	2004: 90.1% 2005: 91.4% 2006: 92.2% 2007: 93.0% 2008: 93.0% 2009: 89.0% 2010: 89.0%	Shatin Soho is expected to improve the F&B business of Regal Riverside Hotel. Upon the opening of 302 new guest rooms in the beginning of 2009, main arena for the 2008 Olympic Equestrian events and the Science Park Phase II, it is expected that the occupancy levels and room rates of Regal Riverside Hotel will surge.
(c)	**Incomes under Proposed Lease Agreement**	Under the Proposed Lease Agreement	As mentioned in Section 3 of this report, Regal Riverside Hotel will be subject to the proposed Lease Agreement with rental guarantee agreement. The surpluses over the fixed rents are based on the estimated future results.
(d)	**Provision for Furniture, Fixtures and Equipment ("FF&E")**	2% on Total Hotel Revenue	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.
(e)	**Discount Rate for the Period from the Listing Date until December 2010**	8.5% p.a.	The proposed Lease Agreement has captured most of the operational risk during the Period from the Listing Date until December 2010. After considering the market risk, business risk, credit risk, counter-party risk as well as other remaining risks, we have adopted a discount rate of 8.5%.
(f)	**Income as at 2011**	Room Rate Growth of 5% Occupancy of 88.0%	The hotel income at 2011 is based on a room rate growth rate of 5% whilst the occupancy rate being the same as 2010.
(g)	**Terminal Capitalization Rate and Discount Rate**	Terminal Capitalization Rate: 5.50% Discount Rate: 8.50%	The income at 2011 is capitalized and discounted to arrive at the resale price in today's value[47].

47 Consideration has been made for the minimum rental guarantee for years 2011 to 2015.

Direct Comparison Method — "With AEP" scenario

	Hotel	Transacted price	Price per guestroom	Transaction Date	Description and Remarks
1	Regent Hotel Hong Kong (currently known as Inter-Continental Hong Kong)	About HK$2,750 million	About HK$5.350 million	May 2001	Regent Hotel, completed in 1980, was a High Tariff A hotel located in Tsim Sha Tsui. It is contained within a large, multi-use commercial complex namely New World Centre. The hotel offers some 514 guestrooms.
2	Kowloon Hotel	HK$1,930 million	About HK$2.622 million	December 2004	Kowloon Hotel, completed in 1985, is a High Tariff B hotel located in Tsim Sha Tsui. It is situated at the junction of Nathan Road and Middle Road. The hotel offers some 736 guestrooms. The hotel has a particularly small typical room size of 194 sq ft, inclusive of bay window area.
3	Novotel Century Harbourview Hotel	HK$588.384 million	About HK$2.147 million	June 2006	Novotel Century Harbourview Hotel, completed in 1999, is a Medium Tariff hotel located in Western. The hotel offers some 274 guestrooms.

We have considered several transactions of hotels having size and location as comparable as possible to Regal Riverside Hotel in our valuation using the direct comparison method. Comparable 2 is considered to be a better comparable, particularly in terms of hotel quality. Appropriate adjustments on time, location, view, property quality, management, facilities, room configuration, etc. have been applied to derive the value of Regal Riverside Hotel. In addition, the risk element of the AEP has also been considered and reflected. The assessed value for Regal Riverside Hotel is HK$2.890 billion. For indication, it reflects unit rates of HK$2.553 million per room, HK$4,521 per sq ft of GFA and HK$3,889 per sq ft of Covered Floor Area.

Reconciliation of Two Methods — "With AEP" scenario

Valuation Method	Value Indication
Primary Method: Discounted Cash Flow Method	HK$2,840,000,000
Secondary Method: Direct Comparison Method	HK$2,890,000,000

The results of the two valuation methods are reasonably close and therefore provide some degree of mutual support.

Market Value — "Without additional 3 stories" scenario

If the additional 3 stories will not be built but the conversion of 27 suites into 55 rooms still proceeds, in view of the difference in number of rooms available and their potential impact on hotel operations, we have considered the income and expenses would have correspondingly changed. Applying the Discount Cash Flow method, we assessed the market value of Regal Riverside Hotel under the "Without additional 3 stories" scenario to be HK$2,410 million based on the same conditions of the abovementioned proposed Lease Agreement and Management Agreement.

Market Value — "Without AEP" scenario

If there is no any AEP at all, by applying the Discount Cash Flow method, we assessed the market value of Regal Riverside Hotel under the "Without AEP" scenario to be HK$2,380 million based on the same conditions of the abovementioned proposed Lease Agreement and Management Agreement.

Implied Value of the AEP

Based on the mathematical difference between our assessed values under the "Without AEP" and "With AEP" scenarios, the implied value of the AEP is estimated to be HK$460 million.

5. CONCLUSION

We adopted the result of the DCF Method as the value conclusion, which was, as at December 31, 2006, was in the sum of **HK$2,840,000,000 (HONG KONG DOLLARS TWO BILLION EIGHT HUNDRED FORTY MILLION)** assuming a sale subject to the existing tenancy and licence agreements as well as the abovementioned proposed Lease Agreement and Management Agreement, with the Asset Enhancement Program completed on schedule and its cost and the land premium involved being fully paid by the Vendor.

The following is the text of the Hong Kong Hotel Industry Report received from Savills Valuation and Professional Services Limited prepared for the purpose of incorporation in this Offering Circular.

savills
第一太平戴維斯

Savills Valuation and Professional
Services Limited

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

March 19, 2007

DB Trustees (Hong Kong) Limited
Level 55, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

Regal Portfolio Management Limited
Unit No. 1504, 15/F
68 Yee Wo Street
Causeway Bay
Hong Kong

Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

Re: Market Study Report Summary — Macro Hotel Sector Study and Individual Asset Analysis

MACRO HOTEL SECTOR STUDY

Executive Summary

Introduction

Tourism is one of the major pillars of the Hong Kong economy and contributed 12.5% to Gross Domestic Product ("**GDP**") in 2005. Tourism expenditure totaled approximately HK$117.3 billion in 2006. A record number of over 25 million international visitor arrivals was recorded in 2006. The sector is also a major employer in Hong Kong.

As a result of the Individual Visit Scheme ("**IVS**") significantly increasing Mainland Chinese visitor arrivals, as well as growth in arrivals from most other major overseas markets (including the traditional long-haul markets), Hong Kong has witnessed a particularly dramatic 63% increase in international visitors since 2003. New tourist attractions such as Disneyland, new commercial facilities such as AsiaWorld Expo and improvements to Hong Kong's world-class transport infrastructure are all expected to support this growth in the future.

Rising numbers of tourists has resulted in a sharp increase in hotel occupancy rates from 70% in 2003 to 87% in 2006. Average room rates have risen in parallel, from HK$674 in 2003 to HK$1,091 in 2006.

Even though hotel developers will attempt to keep pace with this unprecedented rise in the numbers of vacationers and business travelers, future demand for hotel rooms is expected to exceed supply. Due to land supply constraints in core areas, many new hotels will be located in areas not traditionally associated with tourism. This is expected to push up occupancy rates, and hence room rates, in core locations.

Given high forecast visitor arrivals numbers to 2010, hotel demand is expected to remain under sustained upward pressure and average hotel room rates are projected to rise by 10% in 2007 and by between 6% and 8% per annum from 2008 to 2010.

Economic Overview

Hong Kong's economy is open and internationally-oriented and functions as a trading and service center, benefiting from its exposure to overseas markets and its close relationship with Mainland China. It was ranked the freest economy among 157 economies in 2007 by The Heritage Foundation[1] and second in the World Competitiveness Scorecard[2] in 2006, compiled by the Swiss based International Institute for Management and Development ("**IMD**").

Hong Kong's economy has more than doubled in size over the past two decades with GDP growing at an average annual rate of 5% in real terms. Growth in 2004 was approximately 8.6%, the fastest rise since 2000 and this momentum continued into 2005 which recorded a healthy growth rate of 7.3%. Long term real GDP growth is expected to remain reasonably high, averaging approximately 5.1% per annum between 2006 and 2010[3], compared with 4.3% per annum between 2001 and 2005. This anticipated growth between 2006 and 2010 is expected to be supported by a steady improvement in unemployment rates, rising nominal incomes, strong tourism spending and an upswing in investment.

Hong Kong's unemployment rate has fallen sharply to stand at 4.4% for the three months ended December 2006, compared with an historic high of 8.6% recorded for the three months ended August 2003. Persons engaged in the retail, restaurant and hotels and boarding house industries increased by 7% from June 2004 to June 2006, accounting for approximately 19% of total employment in Hong Kong in June 2006[4].

1 2007 Index of Economic Freedom The Heritage Foundation
2 World Competitiveness Yearbook 2006 International Institute for Management and Development
3 Source: Consensus Economics, October 2006
4 Source: Census and Statistics Department

According to the Government, the Composite Consumer Price Index ("**CPI**") growth rates have remained positive since July 2004 except for a temporary decline in January 2005. The rate of change in the Composite CPI for 2005 as a whole stood at approximately 1.1%, while 2006 saw Composite CPI rose by another 2.0%. Average domestic wage growth turned positive in 2005 after three years of decline providing further stimulus to the retail economy and the property markets.

The total value and volume of retail sales both recorded positive increases for 30 consecutive months to January 2006. More encouraging is that values have been rising faster than volumes since December 2003, a situation last seen in 1997, indicating that retailers are in a stronger position to increase the prices of their products. In 2006, retail sales values and volumes increased by 7.3% and 5.8% respectively over the same period a year ago. The growth in retail sales has been strongly supported by visitor spending and total visitor spending on shopping had risen to account for 17.8% of total retail sales value by 2005, compared with 10.4% in 2000.

The property market in Hong Kong has fully recovered with solid growth recorded in both rents and prices since 2003. While rates of increase have varied between different property sectors, property values have generally risen ahead of rents causing yields to fall. Interest rate rises combined with rapid capital growth caused prices to moderate over the latter half of 2005 as well as the first nine months of 2006, but market sentiment did pick up towards the end of 2006 with stabilizing interest rates. Given a generally healthy outlook for the sector, we expect property values to be supported by continued economic growth, improving consumer confidence and investment sentiment.

Widely regarded as a key factor in the future success of Hong Kong, the continuous integration of the Mainland China and Hong Kong economies has been advanced by the Closer Economic Partnership Arrangement ("**CEPA**"), which liberalizes trade between the two. CEPA underpins Hong Kong's importance to, and increasing reliance on, China. It also recognizes Hong Kong as the gateway into China for foreign companies, through trade or foreign direct investment. Strengthening relationship between Hong Kong and Mainland China has the potential to further support the growth of the financial services, logistics and tourism sectors in Hong Kong.

In his latest duty visit to Mainland China, Chief Executive Donald Tsang said that the Government of the People's Republic of China ("**Central Government**") would help Hong Kong to consolidate its position as a world trade, logistics and finance hub in three respects: 1) the Ministry of Foreign Affairs of the Central Government and the Government of the Hong Kong Special Administrative Region ("**HKSAR**") will work together to encourage more international events to be held in Hong Kong so as to strengthen Hong Kong's position as an international exhibition and conference centre; 2) The Central Government would also help Guangdong and Hong Kong study ways to become more efficient in aviation management by tackling the problem of limited air space over the Pearl River Delta ("**PRD**") region; and 3) Renminbi business could also be expanded by granting permission to Mainland financial institutions to issue Renminbi bonds.

Tourism has proved vital to the Hong Kong economy over recent years and the travel and tourism economy is expected to contribute around 17.1% of GDP in 2006[5]. According to the World Tourism Organization, Hong Kong received 14.8 million international visitors in 2006[6], the fifteenth highest in the world and the third highest in Asia behind China and Malaysia. As an international business, aviation and information hub, Hong Kong has developed extensive experience in tourism management, promotion and services.

5 The 2006 Travel & Tourism Economic Research, World Travel & Tourism Council in association with Accenture

6 International visitors at frontier (excluding same-day visitors). Source: Tourism Highlights 2006 Edition, World Tourism Organization

Recognizing the importance of tourism to the Hong Kong economy, the government established the Hong Kong Tourism Board ("**HKTB**") in April 2001[7] to promote Hong Kong as a tourist destination. In its marketing and promotional roles, the HKTB works closely with the Tourism Commission (a Government department), travel trade partners, and other partners directly and indirectly related to tourism, to position Hong Kong as one of the world's leading tourism destinations.

The Tourism Industry

Visitor Arrivals

Hong Kong ranked highest in Asia and 6th in the world in terms of travel and tourism competitiveness, according to the first over Travel & Tourism Competitiveness Index ("**TTCI**") 2007 complied by the World Economic Forum, covering 124 countries. Out of the 13 factors taken into consideration in determining the ranking of TTCI, Hong Kong ranked highest under 'Policy Rules and Regulations' as well as 'Health and Hygiene', while the city also ranked high in the areas of 'Safety and Security', 'Air Transport Infrastructure', 'Ground Transport Infrastructure' as well as 'Human Capital'.

In 2005, the city was ranked second in Asia (after Tokyo) and 10th in the world in terms of Revenue per Available Room ("**RevPAR**")[8]. A short flight from most of Asia's major cities, Hong Kong's easy accessibility makes it especially attractive as a tourist destination. Almost one third of the world's population lives within five hours flying time.

Flight Times to Hong Kong from Major Cities in Asia

City	Flight Time (Hours)
Bangkok	2.75
Beijing	3.25
Kuala Lumpur	3.75
Manila	2.00
Seoul	3.25
Shanghai	2.25
Singapore	3.75
Taipei	1.50
Tokyo	3.75

Source: Cathay Pacific, Dragonair

According to the HKTB, visitor arrivals grew by a remarkable 40% in 2004, primarily due to a significant increase of Mainland Chinese visitors (a 45% year-on-year growth). The number of visitors from elsewhere in Asia grew by 29% over the same period. Growth has also been marked from traditional long-haul markets such as Europe, North America, Australia and New Zealand which grew by 51% from 2003 to 2004. A more moderate 7% increase in total visitor arrivals was recorded from 2004 to 2005 and the compounded annual growth rate of visitor arrivals between 2000 and 2005 was approximately 12% per annum.

7 Replacing the Hong Kong Tourist Association, established under Government Ordinance in 1957
8 Source: HotelBenchmark™ Global Performance Review Spring 2006, Deloitte

Visitor Arrivals, 2000 — 2006

Year	Visitor Arrivals (Year on Year Change)		
	Mainland Chinese	Non-Mainland Chinese	Total
2000	3,785,845 (+23%)	9,273,632 (+21%)	13,059,477 (+22%)
2001	4,448,583 (+18%)	9,276,749 (0)	13,725,332 (+5%)
2002	6,825,199 (+53%)	9,741,183 (+5%)	16,566,382 (+21%)
2003	8,467,211 (+24%)	7,069,628 (-27%)	15,536,839 (-6%)
2004	12,245,862 (+45%)	9,564,768 (+35%)	21,810,630 (+40%)
2005	12,541,400 (+2%)	10,818,017 (+13%)	23,359,417 (+7%)
2006	13,591,342 (+8%)	11,659,782 (+8%)	25,251,124 (+8%)

Source: HKTB, Savills Research & Consultancy

The strong increase in the number of non-Mainland Chinese visitors recorded in 2004 and 2005 partly reflected a strong international economy, but also a recovery in some of Asia's key markets, as well as the popularity of Hong Kong as both a business and leisure destination.

Mainland Chinese visitor arrival growth rebounded strongly in 2006. According to the HKTB, the number of Mainland Chinese visitors in 2006 totaled approximately 13.6 million, up 8% from 2005 when arrivals from this key source market increased by a modest 2%.

The slowdown in 2005 can be attributed to a number of factors. The opening of Hong Kong Disneyland in September may have led some visitors to defer travel plans until the end of 2005 or into 2006. The high base of comparison in 2004 (when a 45% increase to 12,245,862 arrivals was recorded) also helps explains the modest 2% growth rate. Other factors may include the relatively poor weather experienced by Hong Kong in 2005 as well as growing competition from other destinations.

Hong Kong was the most visited destination in Asia by Mainland Chinese in 2004 followed by Macau and the two cities combined absorbed 85% of all Mainland tourists in that year. In 2004, Hong Kong was also popular among short haul visitors and ranked second most attractive destination for Taiwanese and fourth most attractive for Koreans. For visitors from the US and Canada, Hong Kong was the second most preferred destination after Mainland China[9].

Hong Kong's principal appeal as part of the 'Sino-sphere', lies in its cultural and linguistic familiarity to mainland Chinese. For the inexperienced outbound PRC traveler, this provides a high level of comfort. It is also China's most cosmopolitan and prosperous city and as an historical anomaly, attracts considerable interest. Golden Bauhinia Square, the site of the 1997 handover, attracts 20% of all Mainland Chinese visitors[10]. For other nationalities, Hong Kong offers a wide range of diversions including a well-developed retail sector, a range of fine dining, theme parks such as Disneyland and Ocean Park and a spectacular harbor setting.

9 Source: HKTB

10 Source: Visitor Profile Report — 2005, HKTB

Looking ahead, we believe Hong Kong will maintain its leadership position despite potential regional competition. Mainland cities are expected to become more competitive as air access is improved and tourism infrastructure is developed further. Macau is developing quickly and aims to transform itself into the 'Las Vegas of Asia' with ample hotel rooms, conference and exhibition space, entertainment retailing, concert venues and casinos. The stock of hotel rooms there is set to rise threefold to 2010, many classified as High Tariff. Meanwhile in Singapore, a number of initiatives have been launched including the development of Integrated Resorts, to strengthen the Lion City as a tourist destination.

Despite this competition, these tourist centers are small compared with Hong Kong and are likely to become a part of multi-destination travel itineraries which will include Hong Kong, helping to support long haul demand. According to the World Tourism Organization, East Asia and the Pacific will enjoy a 19% market share of worldwide tourist arrivals by 2010, compared with 14% in 1995. This is supported by increasing long haul travel to the region as well as intra-Asian travel which will be underpinned by rising incomes and easier access to overseas destinations. As a leading destination within the region, Hong Kong will benefit from this trend.

Visitor Arrivals by Region, 1995 and 2010

	1995		2010	
	No. of Arrivals (Million)	**Market Share**	**No. of Arrivals (Million)**	**Market Share**
Africa	20	3.6%	47	4.7%
Americas	110	19.3%	190	18.9%
East Asia and the Pacific	81	14.4%	195	19.4%
Europe	336	59.8%	527	52.4%
Middle East	14	2.2%	36	3.6%
South Asia	4	0.7%	11	1.1%
World Total	565	100%	1,006	100%

Source: <Tourism 2020 Vision> World Tourism Organization

Visitor Profile

According to HKTB, 50% of total overnight visitor arrivals in 2005 came to Hong Kong for a vacation while the percentage of arrivals visiting friends/relatives has shown an increasing trend, largely driven by Mainland Chinese visitors. The total number of high-spending business overnight travelers recorded a healthy increase of 33% from 2001 to 3.5 million in 2005, reflecting Hong Kong's role as a global center for trade, finance, business and communications.

Purpose of Visit — All Overnight Visitors, 2001 to 2005[11]

Year	Vacation	Visiting Friends/ Relatives	Business/ Meetings	En Route	Others
2001	4,439,100	887,820	2,663,460	799,038	177,564
2002	5,023,689	1,496,418	3,420,384	748,209	0
2003	4,354,200	1,741,680	2,999,560	580,560	96,760
2004	6,827,300	2,730,920	3,413,650	682,730	136,546
2005	7,386,500	2,806,889	3,545,544	738,655	147,731

Source: HKTB, Savills Research & Consultancy

The number of non-Mainland Chinese overnight business/meeting travelers, who represented 64% of all overnight business/meeting travelers in 2005, has increased by 14% from 2001 to 2005, while the number of vacation travelers from these countries increased by 17% over the same period. This trend shows that Hong Kong is becoming increasingly attractive to overseas (non-Mainland Chinese) businessmen, likely due to its unique role within the PRD Region as a provider of logistics, management, finance and high-level business services such as law and accounting.

Purpose of Visit — Non-Mainland Chinese Visitors, 2001 to 2005[12]

Year	Vacation	Visiting Friends/ Relatives	Business/ Meetings	En Route	Others
2001	2,814,173	550,571	1,988,962	431,130	146,905
2002	3,120,769	449,812	1,898,048	462,771	0
2003	1,735,650	375,480	1,519,510	295,935	96,760
2004	2,852,411	548,628	2,166,626	370,974	58,607
2005	3,291,403	478,276	2,260,792	497,764	67,434

Source: HKTB, Savills Research & Consultancy

A majority of overnight visitors (70%) come to Hong Kong for short trips, staying for three nights or less. A decrease in the average length of stay, from 4.1 nights in 2003 to 3.7 nights in 2005 may be attributable to the changing travel patterns of Mainland Chinese.

Mainland Chinese Visitor Characteristics

The robust growth in Mainland Chinese visitors to Hong Kong has made them the single most important source of tourists to Hong Kong and in 2006, they totaled approximately 13.6 million, representing approximately 53.8% of that year's arrivals. Arrivals from the Greater PRD region and China's prosperous east coast cities are particularly prominent as rapid economic growth, rising income levels and more leisure time have encouraged wealthier residents to travel outside of China

11 These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB, 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of "others" in 2002 is marked as "less than 0.5%" in the said report and is assumed to be zero as percentages of other categories add up to 100%

12 These figures are derived by multiplying the percentage of each category as provided by the Visitor Profile Report (Source: HKTB, 2001-2005) with the total overnight visitor numbers of the relevant year. The percentage of "others" in 2002 is marked as "less than 0.5%" in the said report and is assumed to be zero as percentages of other categories add up to 100%

in greater numbers over recent years. It is noteworthy that the average disposable income of urban residents in China increased by 67% between 2000 and 2005[13]. Forecasts are for a further 28% rise to 2010[14]. Mainland China's middle class population is also growing quickly due to the rapidly rising economy. According to HSBC, there were approximately 130 million middle class, whose incomes were roughly 6 times the average household income in urban areas in 2004, and this number is expected to grow to 170 million by 2015[15]. With the increasing incomes of Mainland Chinese, and changing consumer behavior, their demand for outbound travel and quality hotels is expected to increase over time. In 2005, per capita overnight visitor spending on hotel bills by Mainland Chinese visitors in Hong Kong increased by 11% year-on-year[16]. Affordability of this key demand group is also expected to improve along with the gradual increase in the value of the RMB.

A series of measures introduced from 2001 onwards to relax restrictions on travel by Mainland Chinese to Hong Kong (application procedures as well as currency controls) has made travelling to Hong Kong easier and more convenient for PRC residents, boosting arrivals numbers significantly and increasing hotel room occupancy. The IVS introduced in July 2003, which allows travelers from selected Mainland cities to visit Hong Kong independently instead of coming in tour groups only, has now been extended to 49 cities in China (including the 5 new cities incorporated into the scheme since January 2007), representing more than 260 million people.

In 2006, approximately 6.6 million Mainland Chinese visited Hong Kong under the IVS, an increase of around 1.1 million visitors (+20%) over the same period last year, though slightly lower than the increase from 2004 to 2005 of 1.24 million visitors (+29%). Nevertheless, the 20% growth was already much higher than the overall Mainland visitors growth over 2006 (+8%), and the 29% growth recorded in 2005 was off a lower base (2.96 million IVS visitors in 2004) and smaller IVS coverage (IVS covered 32 cities with 158 million residents in 2004). As the Hong Kong Government continues in its efforts to include more cities into the IVS, the number of Mainland Chinese visitors to Hong Kong is expected to increase.

The M.I.C.E. Market in Hong Kong

Hong Kong has developed into a center for conventions and exhibitions in Asia, and the M.I.C.E. (meeting, incentive, convention and exhibition) market is developing rapidly. In 2005, approximately 1.4 million M.I.C.E. visitors came to Hong Kong, an 8% increase from 2004 and a 193% increase when compared with 2001. The proportion of M.I.C.E. visitors to total visitor arrivals also increased from 3.4% in 2001 to 5.8% in 2005. In 2004, each M.I.C.E. visitor intended to spend on average HK$10,000 during his/her stay in Hong Kong, more than double the overall per capita visitor spending (HK$4,478) in the same year[17].

13 Source: National Bureau of Statistics of China
14 According to the 11th Five-Year (2006 — 2010) Plan announced in the National People's Congress, urban per capita disposable in 2010 would be RMB13,390, compared with RMB10,493 in 2005
15 Source: China Economic Insight Vol. 20 (10 March 2005), HSBC
16 Source: HKTB, A Statistical Review of Hong Kong Tourism 2005
17 Source: Hong Kong Trade Development Council

The Trade Development Council has succeeded in organizing a large number of popular and recurrent international/local events, including the Hong Kong International Jewellery Show, Hong Kong Watch and Clock Fair, Hong Kong International Film and TV Market and Hong Kong Book Fair, attracting numerous foreign business visitors. A number of well-known international events have also been held in Hong Kong, such as the Annual Meetings of the World Bank Group and the International Monetary Fund (1997), the Forbes Global CEO Conference (2002), the Business Week Annual CEO Forum (2003), and the latest round of the World Trade Organization Ministerial Conference (2005). The closer collaboration of the Central Government and the Government of HKSAR will attract more international events to Hong Kong, which should help further develop this sector.

The recently completed AsiaWorld-Expo convention center at Hong Kong Airport (at 753,000 sq.ft., Asia's largest), as well as the plan to expand the existing Hong Kong Convention and Exhibition Centre ("**HKCEC**") in Wanchai by 200,000 sq.ft., should further increase Hong Kong's draw as a major M.I.C.E. market in Asia, in turn attracting more business travelers to Hong Kong.

Tourism and Transport Infrastructure

While new attractions including the opening of the Tung Chung Cable Car (Ngong Ping 360) (opened in September 2006) and Hong Kong Wetland Park (opened in May 2006) and the construction of the Tsim Sha Tsui Promenade Beautification Project and the Ocean Park Redevelopment Project are underway, other initiatives aimed at enhancing Hong Kong's appeal to tourists are under study such as the Aberdeen Tourism Project, Hong Kong Disneyland Phase 2, a new cruise terminal and various tourism and recreation proposals on Lantau Island including the development of spa and resort facilities.

Besides local tourism infrastructure proposals, there are also a number of transport projects underway/under planning to further enhance the integration of Hong Kong and southern China, in turn making it easier for southern Chinese residents to visit Hong Kong. In 2005, 64% of Mainland Chinese visitors to Hong Kong came from southern Guangdong Province, one of China's wealthiest regions[18].

Major New Transport Infrastructure

Project	Status	Completion
Hong Kong Shenzhen Western Corridor linking Shekou of Shenzhen and Deep Bay of Hong Kong	In progress	2007
Kowloon Canton Railway's (KCR) Lok Ma Chau Spur Line providing the existing Lok Ma Chau border crossing with a rail link	In progress	2007
Hong Kong — Zhuhai — Macao Bridge connecting Hong Kong with the western part of the PRD	Under planning — Construction expected to commence in 2008	Beyond 2010
Guangzhou — Shenzhen — Hong Kong Express Rail Link providing Hong Kong with a high speed rail link with Guangdong Province	Under planning	2013

Source: HK Government, Savills Research & Consultancy

18 Source: HKTB

Hong Kong International Airport's passenger traffic increased dramatically from 30.4 million persons in 1999 to 44.5 million persons in 2006. A plan to upgrade and expand Hong Kong International Airport should also serve to facilitate more efficient passenger handling, which should be beneficial to the local tourist industry. By 2010, it is anticipated that the airport will be capable of handling 50 million visitors a year[19], securing Hong Kong's position as the PRD's major hub and gateway.

The Hotel Sector

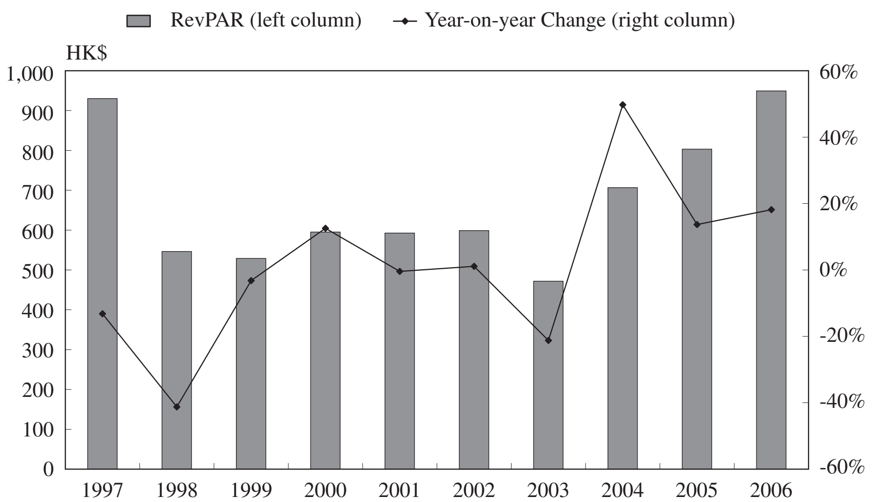
Introduction

At the end of 2006, there were 126 hotels in Hong Kong representing some 47,128 rooms. HKTB classifies hotels[20] into High Tariff A, High Tariff B, Medium Tariff and unclassified[21]. At the end of 2005, in terms of number of rooms (total number of hotel rooms in 2005 stood at 43,866 rooms), approximately 25% were classed as High Tariff A, 42% were High Tariff B (the largest market share) and Medium Tariff represented 26%.

High Tariff hotels receive more business travelers while the Medium Tariff hotels are more popular among individual tourists and tour groups. Meanwhile, visitors from western countries are generally more willing to stay in High Tariff hotels while Mainland Chinese visitors have tended to choose more economic options.

RevPAR fell from 1997 to 1999, due mainly to the Asian Financial Crisis and falling visitor arrivals in 1997 and 1998. As visitor arrivals in 2000 increased by 21% year-on-year while a net increase of only 12% was recorded in the number of hotel rooms, RevPAR increased by 13% that year. RevPAR in 2001 and 2002 was reduced by 9/11 and dropped sharply in 2003 when the economy was hard hit by the outbreak of Severe Acute Respiratory Syndrome ("**SARS**") and the second Iraq war. A marked increase in revenue was recorded for 2004 following the surge in visitor numbers that year. The growth momentum continued and at the end of 2006, RevPAR reached HK$949, the highest level since 1997.

Revenue per Available Room (RevPAR) of All Hotels, 1997 to 2006



Source: HKTB, Savills Research & Consultancy

19 Source: Hong Kong Airport Authority

20 Based on facilities, location, staff to room ratio, achieved room rate and business mix of hotels

21 In 2006, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK$1,906, HK$831 and HK$537 respectively. Source: HKTB

Room sales have been the most important source of income for hotels, accounting for more than 50% of total revenue from 2000 to 2005. Food and beverage has been the second major source of income, representing between 30% and 40% of total income over the period from 2000 to 2005. As Hong Kong residents are very accustomed to hotel dining, an improving domestic economy and rising incomes are expected to provide a further boost to food and beverage revenues.

The rising number of Mainland Chinese tourists and their increasing wealth are expected to remain a strong support to the hotel sector. In addition, as the number of non-Mainland Chinese tourists, wealthy long-haul visitors and business traveler numbers continue to increase from 2005, demand for High Tariff hotels is also expected to increase.

According to Euromonitor[22], The Hong Kong and Shanghai Hotel Group, Shangri-la Hotels and Resorts, Mandarin Oriental Hotel Group and Regal Hotels International Holdings Ltd. were the top four companies in terms of market share in 2004[23], and in aggregate represent approximately 30% of the hotel industry[24]. The ranking and market share of Regal from 2001 to 2004 are listed below.

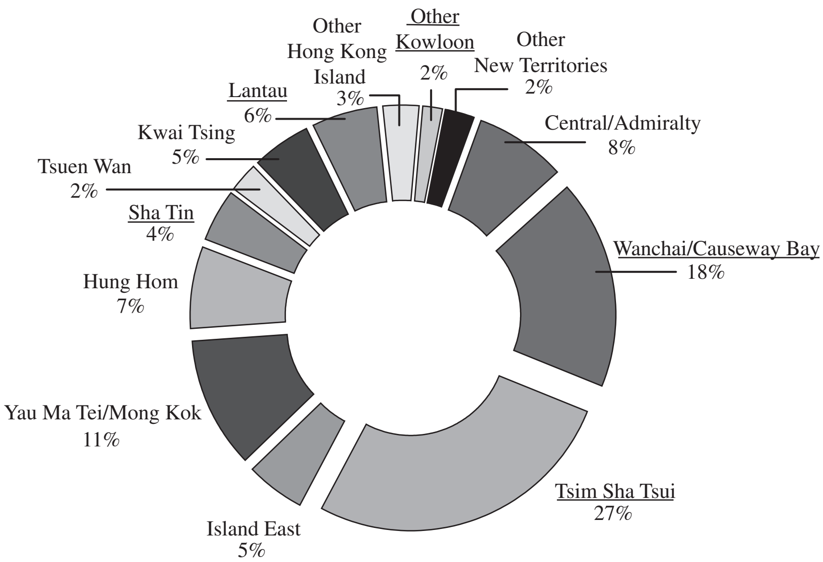
Regal Market Share and Ranking, 2001 to 2004

	2001	2002	2003	2004
Ranking	2*	3	4	3
Market Share	7.3%	6.8%	7.6%	7.3%

Source: Euromonitor
** Tied with The Hong Kong and Shanghai Hotel Group in second place with 7.3% market share each*

Supply of Hotel Rooms

Distribution of Hotel Stock, 2006



Source: HKTB, Savills Research & Consultancy
N.B. Districts where the Regal Hotels located are underlined

22 Travel and Tourism in Hong Kong, China (May 2005), Euromonitor International, Global Market Information Database for Hong Kong Trade Development Council
23 Note that the Hong Kong and Shanghai Hotel Group sold The Kowloon Hotel in February 2005 which could affect its market share ranking from that year
24 Based on companies' consumer values sales

According to HKTB, Tsim Sha Tsui is the most concentrated hotel district in Hong Kong as it has more than 12,500 rooms, or 27% of the total number of rooms available in Hong Kong in 2006. The next most concentrated hotel district is Wanchai/Causeway Bay which comprised approximately 8,400 rooms, or 18% of the total stock of rooms.

Map of Hong Kong

Note: Core Areas in Red
Source: Savills Research & Consultancy

With visitor arrivals hitting new highs, the hotel market, in terms of both number of hotel rooms and revenue generated, has expanded rapidly over the past few years. In 2006, approximately 4,002 new rooms were completed[25], most of them in Kowloon.

According to HKTB, thirty-four new hotels and four extension projects of existing hotels comprising 11,794 rooms are scheduled for completion between 2007 and 2010 taking the total number of hotel rooms in Hong Kong to 58,922 by 2010. Of the 34 new hotels scheduled for completion over the next four years from 2007, construction of 28 has started, involving around 10,238 rooms. Together with the four extension projects under construction representing a further 468 rooms, approximately 91% of forecast new hotel rooms are under construction with a substantial number of rooms expected to be completed by the end of 2007 (net increase of 7,083 rooms in 2007).

25 Excludes three hotels reopened after renovation (881 rooms). Accordingly to the HKTB, 13 hotels with 5,088 hotel rooms were opened in 2006. Savills adjusted the number of new hotel rooms in 2006 to 4,002 rooms as 1) according to the HKTB, 3 hotels (881 rooms) out of the 13 new hotels were existing hotels closed for renovation earlier in 2006 (deducted from hotel stock calculation) and were subsequently reopened in 2006 (added back to hotel stock calculation), and thus should not be counted towards new hotel room supply in 2006; and 2) according to the HKTB, Caritas Oswald Cheung International House (324 rooms) was opened in September 2006 with 119 rooms in operation only, and therefore only 119 rooms (instead of 324 rooms) should be counted towards new hotel room supply in 2006.

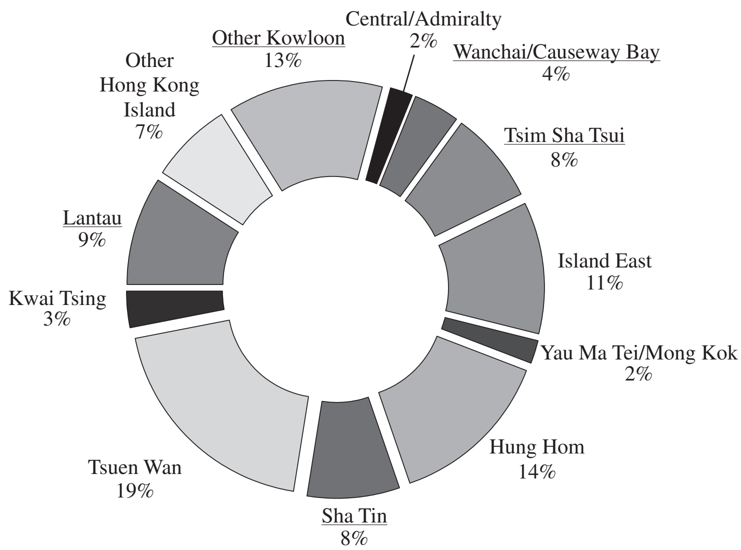
Total Number of Hotels/Hotel Rooms, 2000-2010E

	No. of Hotels	No. of Rooms	YoY Change (%)
2000	95	36,749	+11.8%
2001	98	37,132	+1.0%
2002	98	38,949	+4.9%
2003	96	38,133	-2.1%
2004	101	39,128	+2.6%
2005	118	43,866[26]	+12.1%
2006	126	47,128[27]	+7.4%
2007E	145	54,211	+15.0%
2008E	152	56,348	+3.9%
2009E	159	58,822	+4.4%
2010E	160	58,922	+0.2%

Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

A majority (86% or 10,188 rooms) of the supply of new hotel rooms will be located in non-traditional tourist areas such as Island East, Kwai Tsing, Tsuen Wan and Hunghom and room availability in core areas is therefore expected to remain more restricted.

Supply of New Hotel Rooms by Location, 2007E-2010E



Source: HKTB, Savills Research & Consultancy

N.B. Districts where the Regal Hotels located are underlined

Hotels in core locations such as Central, Tsim Sha Tsui and Wanchai/Causeway Bay face a limited number of new rooms in the future, a factor which should help to support occupancy levels and room rates. Development in traditional districts is often constrained by problems of multiple-ownership of sites, infrastructure capacity, high environmental standards, limited scope for harbor reclamation and problems of overcrowdedness.

26 Includes a net decrease of 2 existing rooms

27 Includes a net increase of 17 existing rooms and the closure of Hyatt Regency Hotel (net decrease of 723 rooms)

Total Number of Hotel Rooms by Core and Non-Core Areas

	Core Areas	Non-Core Areas	Total
2006	24,555	22,573	47,128
2010	26,161	32,761	58,922
Net Increase	1,606 (+7%)	10,188 (+45%)	11,794 (+25%)

Source: HKTB, Regal Hotel International Ltd., Savills Research & Consultancy

The influx of tourists since mid-2003 due to the gradual implementation of the Individual Visit Scheme has induced many developers to utilize the new zoning regulations to transform their industrial properties into hotel developments. From 2003 onwards, a total of 38 projects were approved by the Town Planning Board for change from industrial to hotel use, with a total GFA of nearly 10 million sq.ft. gross and approximately 20,500 hotel rooms. Nevertheless, only five of these hotel projects have land premiums (a fee paid to the Government for change of use of the land and which is a pre-requisite for construction to begin) agreed.

In view of the robust recovery of the office market and a slowdown in the rapid growth of Mainland visitor arrivals, some developers changed their plans since their original application. For example, Sun Hung Kai Properties will now develop Millennium City VI, 932 Kwun Tong Road and 909 Cheung Sha Wan Road into office buildings. Five approved projects will be changed to office use while three others will be developed into industrial premises.

Average Occupancy Rates

Supply of new hotel rooms over the past few years has failed to keep pace with the rapidly rising numbers of visitors, driving occupancy rates up since 1998 with exceptions noted in 2001, the year of 9/11, and 2003, the year of SARS.

Average Hotel Occupancy Rates, 2000 — 2006

	All Hotels	High Tariff A	High Tariff B
	Rooms Occupied (Occupancy Rate[28])		
2000	27,466 (83%)	7,894 (82%)	11,476 (84%)
2001	26,580 (79%)	6,923 (74%)	11,618 (81%)
2002	29,003 (84%)	6,844 (80%)	13,105 (86%)
2003	23,126 (70%)	5,307 (67%)	10,457 (72%)
2004	30,109 (88%)	7,506 (84%)	13,484 (89%)
2005	31,348 (86%)	7,915 (84%)	14,575 (86%)
2006	n/a[29] (87%[30])	n/a[29] (85%[30])	n/a[29] (88%[30])

Source: HKTB, Savills Research & Consultancy

28 According to HKTB, occupancy rates are estimated by Total Rooms Occupied divided by Total Rooms Available for Sale per Day. It is noteworthy that Total Rooms Available for Sale per Day is different from total number of rooms shown in the previous table on the previous page. While the total number of rooms captures all rooms comprised in all hotels, Total Rooms Available for Sale per Day excluded rooms closed for renovation and thus not available for sale.

29 Actual figure is not available at the time of Latest Practicable Date.

30 According to HKTB, the occupancy rate is calculated based on daily rooms occupied against daily rooms available for sale, rooms under repair or being refurnished are excluded. HKTB only releases the daily rooms occupied figures on an annual basis.

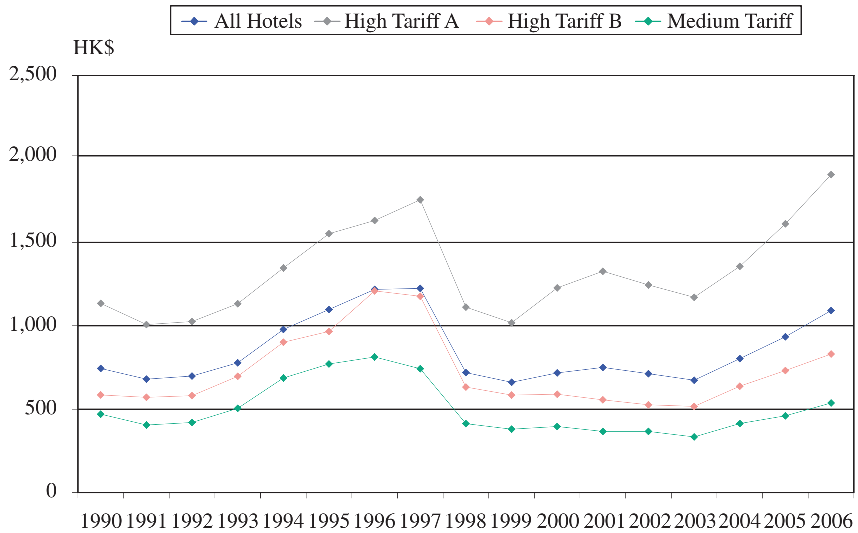
The number of rooms occupied in 2005 was at 31,348, higher than 2004 (30,109) and higher than 2000 by approximately 14%, reflecting a rise in actual demand for rooms despite the marginal decline of occupancy rate from 88% in 2004 to 86% in 2005.

Strong demand for hotel rooms has continued in 2006. The average occupancy rate of all hotels in 2006 was 87%, compared with 86% recorded for the same period of 2005. The average occupancy rates of High Tariff A and High Tariff B hotels in 2006 reached 85% (compared with 84% in 2005) and 88% (compared with 86% in 2005) respectively.

Average Room Rates

The average hotel room rate (all hotels) rose by 31% from 2002 to 2005 while the average room rate of High Tariff B hotels, recorded a higher than average growth rate of 39%. Average room rates (all hotels) at the end of 2005 were still 24% below the peak levels recorded in 1997.

Average Room Rates by Category, 1990-2006



Source: HKTB, Savills Research & Consultancy

Average Room Rates by Category (HK$ per night), 2000-2006

	All Hotels	High Tariff A	High Tariff B
2000	717	1,227	590
2001	750	1,327	556
2002	713	1,245	526
2003	674	1,171	517
2004	803	1,356	638
2005	934	1,611	732
2006	1,091	1,906	831

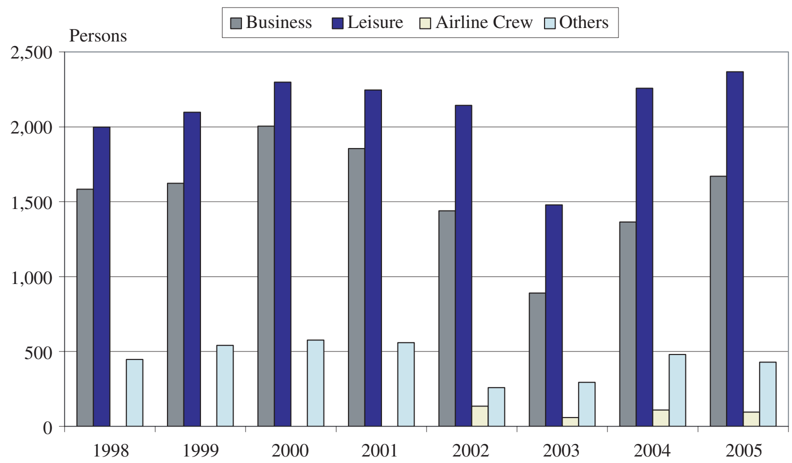
Source: HKTB, Savills Research & Consultancy

Average room rates have continued to rise rapidly in 2006 in view of the strong demand. According to the HKTB, the average room rates of overall, High Tariff A and High Tariff B hotels in 2006 have increased by 17%, 18% and 14% respectively compared with the same period in 2005. RevPARs of Overall, High Tariff A and High Tariff B hotels in 2006 have risen in parallel by 18%, 20% and 16% respectively.

Market Segmentation

There were approximately 4.5 million hotel guests in 2005. According to HKTB, in 2005, business travelers[31] accounted for approximately 37% of guests received by all hotels, while leisure travelers[32] represented approximately 52% of the market. Airline crew[33], meanwhile, shared approximately 2% of the market.

Estimated number of Hotel Guests by Segment, 1998 to 2005



Source: HKTB, Savills Research & Consultancy

The pattern of market share was broadly stable from 1997 to 2001 but the share of leisure travelers started to increase from 2002, coinciding with the sharp increase of Mainland Chinese visitors to Hong Kong in that year (53% year-on-year growth). The dramatic increase of Mainland Chinese visitors for vacation and visiting friends/relatives (218% from 2001 to 2005), largely boosted by IVS, was the key reason behind the increasing market share of leisure travelers.

In contrast, the market share of business travelers has edged down slightly due to the rapidly increasing number of leisure visitors. Nevertheless, in absolute terms, the estimated number of business hotel guests increased sharply from approximately 1.4 million in 2002 to approximately 1.7 million in 2005, in line with the increasing number of overnight business travelers (from all countries) over the past few years (by 33% from 2001 to 2005). Although the rate of increase has been less dramatic compared with the growth of Mainland Chinese leisure travelers, demand for hotel rooms from this high yielding group has been growing steadily.

Demand sources differ among different classes of hotel. Leisure travelers, particularly those in tour groups, tend to stay in more economic accommodation while business travelers tend to be more generous with hotel budgets and stay in High Tariff A hotels. In 2005, business travelers accounted for 54% and 36% of the High Tariff A and High Tariff B hotel markets respectively, meanwhile, leisure travelers represented approximately 37% and 51% of the High Tariff A and B hotels market respectively.

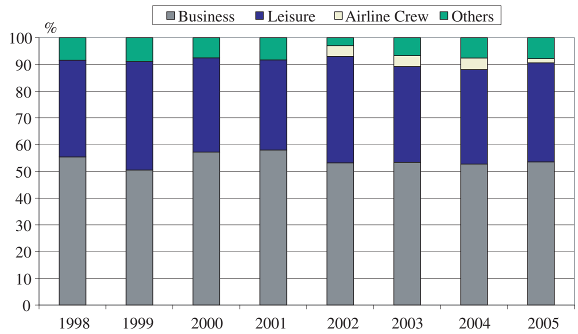
31 Including Government Officials, Business Travelers, In-house Meeting and Other M.I.C.E. according to HKTB's classification

32 Including Individual Tourists and Group Tour

33 Data started from 2002, grouped under others before

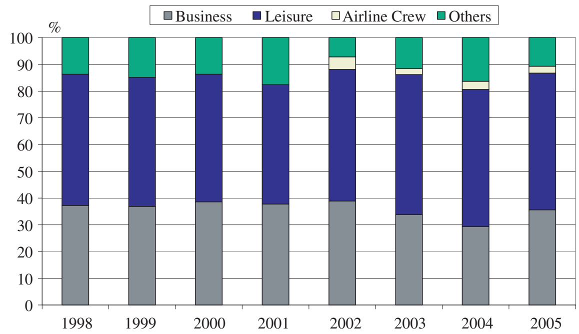
Composition of Market, 1998 to 2005

High Tariff A Hotels



Source: HKTB, Savills Research & Consultancy

High Tariff B Hotels



Source: HKTB, Savills Research & Consultancy

The pattern of demand for High Tariff A hotels has been broadly stable and business travelers have been the most important demand group for High Tariff A hotels, representing more than 50% of this top end of the market since 1998. In 2005, business travelers represented approximately 54% of the High Tariff A market. The developing M.I.C.E. market in Hong Kong as well as the role of Hong Kong as a gateway to China will continue to attract business travelers, providing strong support to High Tariff A room rates.

High Tariff B hotels have traditionally been more popular among leisure travelers who have consistently represented more than 45% of demand for this hotel class since 1997 and in 2005, leisure travelers accounted for 51% of High Tariff B market. This hotel class is expected to benefit strongly from the future expansion of Disneyland and other tourist attractions opening from 2006. Meanwhile, the continued expansion of IVS should also prove to be a strong support for High Tariff B hotels as Mainland Chinese visitors make up almost 25% of this class of hotel.

Outlook

Planned tourist infrastructure as well as further development of the M.I.C.E. market should attract more vacation and business overnight visitors to Hong Kong. The completion of various transport infrastructure projects providing further linkages between Hong Kong and southern China will also serve to increase Mainland China visitor arrivals, while the airport enhancement project should facilitate the more efficient handling of international visitors.

In the competitive Asian tourism market, Hong Kong has put in place a number of initiatives to secure and enhance its position as one of the world's leading tourist destinations and a wide range of marketing strategies complement the construction of new attractions and transport infrastructure improvements.

On a broader front, HKTB is working closely with Mainland China and other Asian tourism bodies to promote Hong Kong as part of a multi-destination itinerary for tourists. In this respect the profile of the PRD Region will be raised by the rapid development of Macau as the Las Vegas of Asia and Hong Kong is well positioned to benefit. Macau welcomed 22.0 million tourists in 2006[34], 3.4 million of whom departed for the city from Hong Kong[35].

The steady appreciation of Renminbi is also expected to encourage more Mainland Chinese to visit Hong Kong. The average spending by Mainland visitors is also expected to rise as goods and services denominated in Hong Kong dollars become relatively cheaper due to expected appreciation. Over 2006 the Renminbi appreciated by approximately 4% against the Hong Kong dollar and on January 11, 2007 stood at slightly above parity for the first time in 13 years.

Visitor Arrivals Forecast, 2007E-2010E

	Total	Year-on-Year % Change
2007*	27,800,000	+10.1%
2008*	29,400,000	+5.7%
2009**	32,000,000	+8.8%
2010***	34,800,000	+8.8%

*Source: * Pacific Asia Travel Association ("**PATA**")* [36], ** Interpolation of 2008 and 2010 figures, *** Hong Kong 2030 Study[37]

The total number of visitor arrivals by 2010, estimated to be 34.8 million, seemed dramatic when compared with the 2005 figure of approximately 23.4 million. However, comparing the estimated average annual growth rate ("**AAGR**") between 2007 and 2010 of approximately 8.4% and the historic AAGR between 1997 and 2006 of 9.0%, the forecast does not appear particularly aggressive, especially when factors including the closer integration between Hong Kong and China as well as the imminent opening of various tourists infrastructure are considered.

Hotel Room Demand Forecast

According to HKTB, in 2005, 31,348 rooms were occupied daily, producing approximately 11.4 million paid room nights for the year as a whole. In the same year, the average number of guests per room was 1.43 and the average length of stay of all visitors in that year was 3.66. Based on this data, approximately 4.5 million visitors were estimated to have stayed in hotels in 2005, representing approximately 30% of total overnight visitors.

34 Source: Macau Statistics and Census Services ("**DSEC**")

35 Source: HKTB, excludes the number of Hong Kong residents as data was unavailable from HKTB.

36 Founded in 1951, the Pacific Asia Travel Association ("**PATA**") is an authority, advocate and catalyst for the development of Asia Pacific's travel and tourism industry. It provides leadership and advocacy to the collective efforts of nearly 100 government, state and city tourism bodies, more than 55 airlines and cruise lines, and hundreds of travel industry companies. The methodology of forecasting visitor arrivals adopted by PATA is termed structural integrated time-series econometric analysis ("**SITEA**") and details of this forecasting is described in its publication Asia Pacific Tourism Forecast, 2005 to 2007.

37 Hong Kong 2030: Planning Vision and Strategy is a Government initiative in 2001 which is intended to provide a long-term planning framework to guide the development of Hong Kong over the next 30 years. Autoregressive integrated moving average ("**ARIMA**") analysis is adopted as the estimation and forecasting approach and details of the methodology is described in Information Note No. 14 — Technical Note on the Assumptions on Visitor Arrivals.

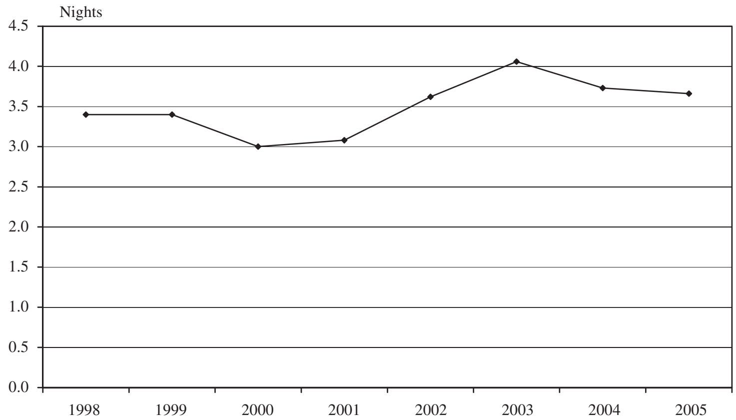
This analysis can be used to project future demand for hotel rooms by adopting the visitor arrivals forecast by the PATA, which projects visitor arrivals to Hong Kong to reach 29.4 million by 2008, and assumptions on the future ratio of hotel guests to total overnight visitors, average number of guests per room and average lengths of stay.

There are a few observations worth making:

1. Due to the enormous rise in visitor arrivals figures from Mainland China in absolute terms, numbers of overnight visitors using hotels and other forms of serviced accommodation or staying with friends and relatives rose from approximately 7.1 million in 1998 to 9.7 million in 2003. By 2005, in absolute terms, numbers of overnight visitors reached a record 14.8 million and the number of overnight visitors as a percentage of total visitor numbers rose again from 2004 (62.3% in 2003, 62.6% in 2004 and 63.2% in 2005). However, with gradually relaxing entry barriers for Mainland Chinese visitors to Hong Kong, a greater share of those visitors have chosen to make shorter trips to Hong Kong. For visitors coming from Guangdong Province, given the easy access and the relatively high costs of accommodation in Hong Kong, same day visits have become increasingly common[38].

2. The average length of stay started rising from 2002. Although the average length of stay in 2005 of 3.66 nights was slightly lower than in 2003, it was still significantly higher than the numbers recorded from 1998 to 2002.

Average Length of Stay, 1998 to 2005



Source: HKTB, Savills Research & Consultancy

We reason that the sharp increase in non-Mainland Chinese visitor arrivals in 2004 and 2005 (by 35% and 13% over these two years respectively), many from long-haul markets such as the Americas, Europe and Australia helped raise the number of overnight visitors. In addition, from 2004, more Mainland Chinese cities located further from Hong Kong were included in IVS and visitors from these cities tend to stay longer in Hong Kong and therefore require hotel accommodation. The increase in average length of stay also coincided with an even more rapid growth in the number of Mainland Chinese visitors travelling to Hong Kong to visit friends and relatives.

Looking ahead, the increasing number of visitors from long haul markets as well as the inclusion of more cities in other parts of China more remote from Hong Kong is likely to further drive growth in hotel room demand in Hong Kong.

38 Source: HKTB

Occupancy Rate Projections

A summary of historic and projected demand and supply of hotel rooms is shown in the table below:

Demand and Supply of Hotel Rooms, 1998-2008E[39]

	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E
(1) Total Visitor Arrivals ('000 persons)	9,575	10,728	13,059	13,725	16,566	15,537	21,811	23,359	25,251	*27,800*	*29,400*
(2) Overnight Visitors ('000 persons) *(1) x 0.65 from 2007*[39-1]	7,137	7,837	8,814	8,878	10,689	9,676	13,655	14,763	*15,832*	*18,130*	*19,173*
(3) Average Length of Stay (Nights) *Average between 1998 and 2005 from 2006*[39-2]	3.4	3.4	3.0	3.08	3.62	4.06	3.73	3.66	*3.49*	*3.49*	*3.49*
(4) Average No. of Guest per Room *Average between 1998 and 2005 from 2006*[39-3]	1.61	1.56	1.46	1.48	1.36	1.31	1.43	1.43	*1.46*	*1.46*	*1.46*
(5) Hotel Rooms Occupied	23,318	25,454	27,466	26,580	29,003	23,126	30,109	31,348	*36,727*	*42,694*	*45,152*
(6) Estimated No. of Hotel Guests (5) x (4) ÷ (3) x 365 before 2005 *(2) x (7) from 2006*[39-4]	4,030	4,263	4,879	4,662	3,977	2,724	4,213	4,471	*5,583*	*6,490*	*6,863*
(7) As % of Overnight Guest (6) ÷ (2) *Average between 2001 and 2005 from 2006*	57%	54%	55%	53%	37%	28%	31%	30%	*35%*	*36%*	*36%*
(8) Total Hotel Rooms	32,714	32,871	36,749	37,132	38,949	38,133	39,128	43,866	47,128	*54,211*	*56,348*
(9) Total Number of Rooms Available for Sale per Day[40]	30,676	31,954	32,923	33,630	34,395	32,928	34,256	36,522	*42,215*	*48,560*	*50,474*
(10) Occupancy Rate[41]	76%	80%	83%	79%	84%	70%	88%	86%	87%	*88%*	*89%*

Note: Projected numbers in Italics
Source: HKTB, PATA, Savills Research & Consultancy

39 Key Assumptions on Projections:
Due to the limitations of data availability, our projections were made based on historic findings from 1998. Data from this post-handover period, when Mainland Chinese visitors started to dominate the tourism industry in Hong Kong, should be of greater relevance.
In projecting demand, we have adopted the total visitor arrivals numbers forecast to 2008 by PATA and assume:
1. 65% of all visitors are overnight visitors from 2007 to 2008, the average ratio between 1998 and 2005.
2. The average length of stay is assumed to be 3.49 nights from 2006 to 2008, the average between 1998 and 2005. This assumed figure is lower than the figures for 2002 to 2005, commensurate with the changing travel patterns of Mainland Chinese visitors. A shorter average length of stay will also yield a more conservative occupancy projection.
3. The average number of guests per room to be 1.46 from 2006 to 2008, the average between 1998 and 2005. It is noteworthy that this figure fell from 1998 to 2003 but rose again in 2004 and 2005 and the assumed figure of 1.46 represents another rise from 2005. This higher figure assumes that more visitors would be willing to share rooms in view of the expected tightening availability and higher accommodation costs. A higher number of average guests per room will also yield a more conservative occupancy projection.
4. 36% of overnight visitors to be hotel guests from 2006 to 2008, the average between 2001 and 2005. For this assumption, we purposely shorten the length of historic reference as this ratio prior to 2001 was a lot higher and did not reflect the increasing number of travelers visiting friends and relatives in Hong Kong.

40 Total number of Rooms Available for Sale per Day equals Total Hotel Rooms excluding those under repair or being refurnished. 90% of Total Hotel Rooms are assumed to be Rooms Available for Sale per Day from 2006, based on the average between 1998 and 2005.

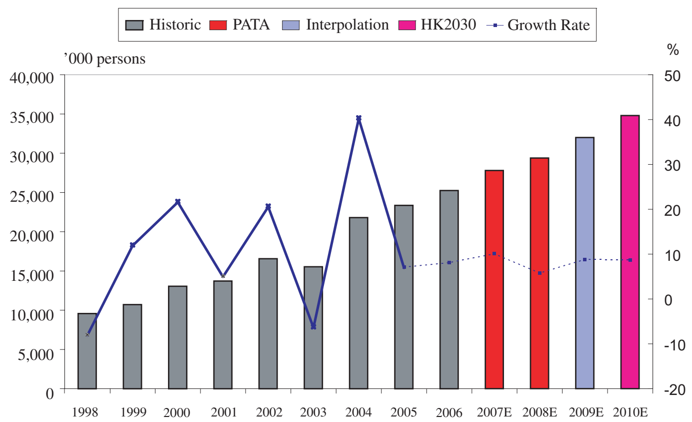
41 Calculation of occupancy rate is based on rooms occupied against rooms Available for Sale per Day.

Projections of the estimated number of hotel guests are made based on PATA forecasts of visitors arrivals and the assumptions on overnight visitors and hotel guests as a percentage of the number of overnight visitors listed above. For example, in 2007, hotel guests are projected to reach approximately 6.5 million. With this projected number of hotel guests and the assumptions on average length of stay and average number of guests per room, the number of rooms occupied can be projected and approximately 42,700 rooms are projected to be occupied by the expected 6.5 million hotel guests daily.

Based on this projected number of rooms occupied of 42,694 and the projected number of rooms Available for Sale per Day of 48,560, the occupancy rate in 2007 is estimated to be 88%, higher than 2006 levels. The same methodology is applied to forecast occupancy rates in 2008.

The same methodology can also be applied to generate longer term occupancy forecasts for 2009 and 2010 by adopting longer term visitor arrivals forecasts provided by the Hong Kong 2030 Study.

Long Term Visitor Arrivals Forecast, 1998 to 2010E



Source: HKTB, PATA, HK2030, Savills Research & Consultancy

However, the resulting projected occupancy rates of 93% in 2009 and 101% in 2010 do not appear realistic. This exceptional forecast result, nevertheless, implies that longer term supply of new rooms (2009 and 2010) known today will fall short of future demand. Under this scenario, operators of existing hotels may delay room renovation work so as to fully utilize their stock on hand. Developers and investors, in view of the tight availability situation, will be encouraged to either speed up their current hotel development plans (if any) or initiate more hotel development. For analysis purposes, we assume occupancy rates in 2009 and 2010 to be 89%, the same as the projected level for 2008.

Although future new supply cannot be broken down by class, projections of occupancy rate by hotel class can still be made by referencing the historic relationship (1991 to 2006) between occupancy rates of hotel classes and the market overall.

Summary of Average Occupancy Rate Projections, 2007E to 2010E

Year	All Hotels	High Tariff A	High Tariff B
2007	88%	86%	90%
2008 to 2010	89%	87%	91%

Source: Savills Research & Consultancy

Again, 91%[42] occupancy levels for High Tariff B hotels in 2008 to 2010 appears high. Nevertheless, these high occupancy levels remain in our forecast summary to highlight that High Tariff B hotels occupancy rates are generally higher than the market as a whole.

Average Room Rate Forecast

In the hotel industry, occupancy and average room rates typically move in a cyclical fashion in response to various factors. Perhaps the most important is the relatively inelastic nature of hotel room supply either during an up-cycle or a down-cycle. Development activity is triggered once recovering room rates reach levels at which new rooms become economically viable and gathers momentum until the peak of the up-cycle. Once the peak has passed, there is little or no incentive to initiate new projects while some existing projects may overrun. In Hong Kong, we observe relatively stable supply conditions from 1991 to 2004 while arguably, higher than average levels of new supply in 2000 and 2002, especially in the High Tariff B and Medium Tariff markets, may have slowed down average room rate growth in those years.

Occupancy and average room rates can also be affected by exogenous events which have a significant impact on tourism demand. Over the past decade or so, such events have included the Gulf War in 1991, the Asian Financial Crisis in 1998, 9/11 and the start of the Iraq War in 2001 and SARS in 2003. Those years witnessed steep falls in occupancy levels and lower room rates. On the other hand, the relaxation of travel restrictions on Mainland Chinese from 2003 has had a powerful positive impact on the market and resulted in rising occupancy and rising room rates.

Hong Kong's hotel industry's room rates have reflected these demand and supply dynamics. From 1997 to 2006, ten year average occupancy stood at 81% for all hotels and 78% for High Tariff A hotels. Once these levels are breached, in either a rising or falling market, room rates are adjusted to maximize returns as demand rises or support occupancy as demand falls. Room rate rises during an up-cycle typically dominate RevPAR growth. The turning points of these cycles are very difficult to predict - either the occurrence of external shocks or the point at which over-supply becomes critical.

42 The highest monthly occupancy rate achieved

We believe that the projected strong demand for and tight availability of rooms provides a solid foundation for further room rate rises over the next few years. The expected rise in room rates is supported by the rising number of long-haul market visitors, business travelers and more affluent Mainland Chinese arrivals. The impact of substantially increased numbers of Mainlanders may well be to prolong the current cycle beyond historic averages.

Visitors from long-haul markets have traditionally tended to spend more on accommodation. Despite their smaller market share, visitors from Europe, North America, Australia and New Zealand have increased at faster rates compared with Mainland Chinese visitors over 2004 and 2005 and both were growing at similar rate in 2006.

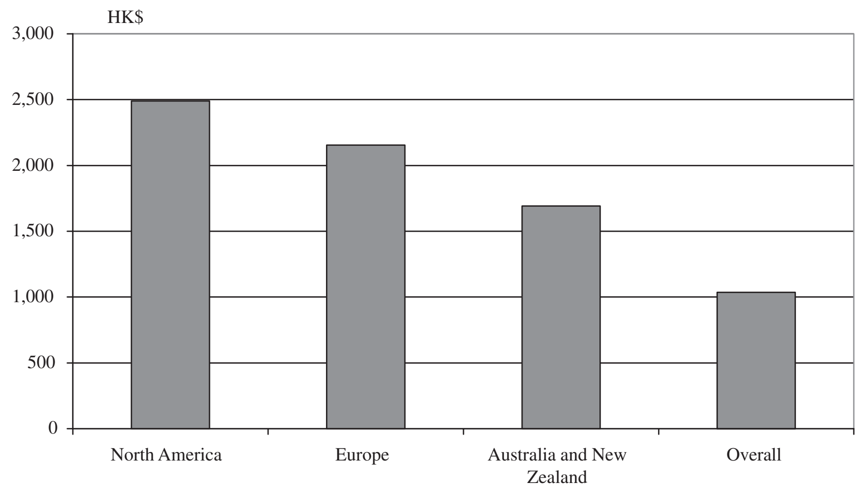
Growth Rates of Visitor Arrivals by Country of Residence, 2004 to 2006

	All Countries	Mainland China	Europe, North America, Australia and New Zealand
2004	+40%	+45%	+51%
2005	+7%	+2%	+17%
2006	+8%	+8%	+7%

Source: HKTB, Savills Research & Consultancy

As per capita spending on hotels by these visitors has been significantly higher than other markets, arrivals from these countries should offer strong support to future room rates at the top end.

Per Capita Spending on Hotels by Country of Residence, 2005



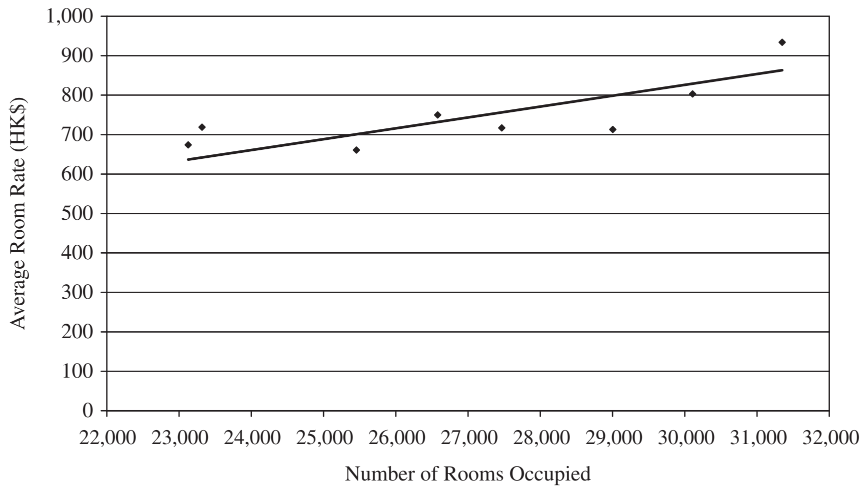
Source: HKTB, Savills Research & Consultancy

According to HKTB, the number of overnight business travelers (from all countries) has also increased sharply (by 33% from 2001 to 2005) and the per capita spending on hotels of these travelers increased from approximately HK$2,241 in 2001 to approximately HK$2,267 in 2005, which is significantly higher than the HK$831 spent by vacation travelers in 2005. In view of the developing M.I.C.E. market in Hong Kong as well as the increasing significance of the China economy in a global context, the number of business travelers to Hong Kong is expected to continue to increase, supporting hotel demand as well as room rates.

Meanwhile, the growing wealth of Mainland Chinese as well as their familiarity of outbound travel is expected to have an effect on spending patterns. As urban Mainland Chinese incomes are expected to increase, by a further 28% to 2010[43], alongside the generally positive economic outlook for the PRC economy, a trend to higher quality accommodation is expected and hence, the expected increasing number of Mainland Chinese visitors should not only benefit lower end hotels, but also, increasingly, the High Tariff hotels segment.

The movement of average room rates has been highly positively correlated with the number of rooms occupied between 1998 and 2005[44]. Assuming this relationship holds in future, the average room rate is projected to rise by 10% in 2007 and between 6% and 8% per annum between 2008 and 2010. Based on this model, the average room rates will reach the previous peak levels in 1997 again by 2008.

Number of Rooms Occupied vs Average Room Rates, 1998 to 2005



Source: HKTB, Savills Research & Consultancy

43 According to the 11th Five-Year (2006-2010) Plan announced in the National People's Congress, urban per capita disposable in 2010 would be RMB13,390, compared with RMB10,493 in 2005

44 This historic time frame was chosen so as to match the occupancy rate analysis which starts from 1998, due to limited availability of data

High Tariff hotels are therefore supported by the patronage of high spending business travelers and western tourists, who are less price sensitive, as well as wealthier Mainland Chinese. Looking at the historic relationship between room rates (All Hotels) and High Tariff hotel rates, the latter have tended to rise more than average in good years[45], especially High Tariff B rates[46]. High Tariff B hotel rates also declined slower than average in bad years[47] over the same period[48].

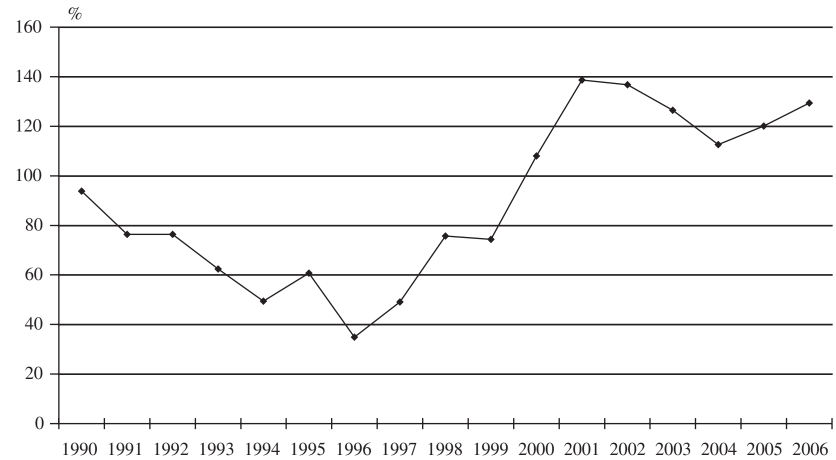
Summary of Average Room Rate Projections, 2007E to 2010E

	All Hotels	High Tariff A Hotels	High Tariff B Hotels
2007	+8% — 10%	+8% — 10%	+8% — 12%
2008-2010	+6% — 8% per annum	+6% — 8% per annum	+6% — 11% per annum

Source: Savills Research & Consultancy

As the average High Tariff A hotel room rate surpassed its 1997 peak in 2006, more prospective High Tariff A guests may choose to stay in High Tariff B hotels in view of the rising costs. Comparing the average room rates of High Tariff A and High Tariff B hotels, the latter are cheap in historic terms, as shown in the chart below. Given that average occupancy rates are already high (88% in 2006), by receiving more spill over guests from High Tariff A hotels, the average room rates of High Tariff B hotels are therefore expected to enjoy stronger growth prospects. The premium of High Tariff A hotel room rates over High Tariff B hotels is expected to close gradually, a trend similar to the early to mid 1990's when the hotel market was in a strong up-cycle.

High Tariff A Hotels Average Room Rate Premiums over High Tariff B Hotels, 1990 to 2006



Source: HKTB, Savills Research & Consultancy

45 Good years mean years when average room rates recorded positive growth over the year before

46 Data from 1992 to 2006 showed that the average increment of High Tariff A hotels was 1 percentage point higher than All Hotels during rising years and the average increment of High Tariff B hotels was 3 percentage points higher than All Hotels during rising years

47 Bad years mean years when average room rates recorded negative growth over the year before

48 Data from 1992 to 2006 showed that the average decline of High Tariff B hotels was 3 percentage points lower than All Hotels during declining years

RevPAR of all hotels is expected to increase by an average annual growth rate of 8% per annum from 2007 to 2010, while RevPAR of High Tariff A and B hotels is projected to increase by rates of 9% and 10% per annum respectively. Since occupancy rates are already at high levels, RevPAR is expected to be largely driven by room rate growth, commensurate with our discussion on hotel industry cycles.

These projected growth rates are not particularly robust when compared with historic figures. RevPAR of all hotels in 10 of the past 15 years (1992 to 2006) has increased. Exogenous events such as the Gulf War (1991), the Asian Financial Crisis (1997-8) and SARS (2003) have caused some severe drops in RevPAR. While any future exogenous factors are not possible to predict and the outlook for the hotel industry is generally positive, we can compare the projected RevPAR growth rates with previous growth rates achieved during up-cycles.

RevPAR Growth Rates Summary, 1992 to 2010E

	All Hotels	High Tariff A	High Tariff B
1. 15 years (1992 to 2006) historic average	6% per annum	8% per annum	6% per annum
2. 10 years (1997 to 2006) historic average	2% per annum	4% per annum	-1% per annum
3. 5 years (2002 to 2006) historic average	12% per annum	13% per annum	13% per annum
4. Rising Years Average (1992 — 1996, 2000, 2002, 2004 — 2006)	18% per annum	19% per annum	18% per annum
5. Rising Years Average Except 2004 to moderate the exceptional bounce back effect from SARS	14% per annum	16% per annum	15% per annum
6. Pre 1997 Rising Years Average (1992 — 1996)	16% per annum	14% per annum	20% per annum
7. Post 1997 Rising Years Average (2000, 2002, 2004-6)	19% per annum	23% per annum	17% per annum
8. Declining Years Average (1997 — 1999, 2001, 2003)	-16% per annum	-15% per annum	-19% per annum
9. Projected Average Growth Rates for 2007 to 2010	8% per annum	9% per annum	10% per annum

Source: HKTB, Savills Research & Consultancy

In absolute terms, RevPAR of all hotels is expected to surpass the peak levels recorded in 1996 (HK$1,072) by 2008 and based on the assumptions of 89% occupancy rates in 2009 and 2010, RevPAR of all hotels will be 22% higher than 1996 by 2010. RevPAR of High Tariff A hotels already returned to levels close to the 1996 peak (HK$1,403) in 2005 and by 2010, is projected to exceed this peak by 62%. RevPAR of High Tariff B hotels, although expected to rise faster, in absolute terms, will only return to 1996 peak levels (HK$1,100) by 2010. The higher RevPAR reflects strong forecast growth in the total number of visitor arrivals (197% from 1996 to 2010) ahead of hotel supply (86% from 1996 to 2010).

It is noteworthy that RevPAR could be affected by exogenous factors such as global financial shocks, bird flu, terrorist attacks or similar events which would have a direct impact on Hong Kong's hospitality sector. The probability, timing and impact of such events is very difficult to measure with any certainty.

The above projections are broad industry averages and the performance of individual hotels will deviate from the mean due to specific micro-market factors. Hotels facing less competition within their surrounding areas, offering superior amenities, or in close proximity to improved infrastructure are therefore expected to outperform the market as a whole.

INDIVIDUAL ASSET ANALYSIS

The assets of the portfolio comprise five hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Riverside Hotel and Regal Oriental Hotel.

Regal Hotels International Ltd. is in partnership with Preferred Hotel Group[49], a multi-brand organization which delivers sales, marketing and technology solutions to luxury hotels around the world, extending its hotels' reservation network to worldwide travelers and helping increase their exposure overseas and to different market sectors.

Serving as 'Hotel Partners' of AsiaWorld-Expo for all their events, and Trade Development Council for most of their events, these hotels receive direct bookings for major trade events[50].

Provided by the Regal Hotels Group ("**the Group**"), there are shuttle services linking all these hotels with both Hong Kong Disneyland and the Hong Kong International Airport.

These hotels also enjoy cross selling opportunities by sister hotels, the Group's corporate office, and a network of worldwide sales and reservation offices.

Regal Hotels International Ltd., is spending approximately HK$320 million to implement Asset Enhancement Works at four of these five hotels in order to increase revenue and enhance competitiveness.

Regal Airport Hotel

Located at Hong Kong's International Airport, Regal Airport Hotel ("**RAH**") benefits from a comprehensive transport infrastructure as well as its proximity to some of Hong Kong's most important tourist attractions. Disneyland is a 15-minute shuttle bus journey from the airport. Further development phases of the airport 'SkyCity' include AsiaWorld-Expo, SkyPier, Terminal 2 and SkyPlaza which are all expected to generate greater demand for hotel rooms at RAH. A second hotel at the airport, the Hong Kong SkyCity Marriott Hotel, is planned to be built with phase 1 (658 rooms) having an estimated completion in 2009[51].

Location

RAH is located at 9 Cheong Tat Road, Chek Lap Kok on Lantau Island. It is the only hotel with direct access to the Passenger Terminal Building of the Hong Kong International Airport ("**the Airport**").

Its location enables RAH to benefit from certain unique business opportunities, including emergency layovers due to delays/cancellations of flights, long-staying guests working on airport-related projects and the training programs/conferences/seminars/meetings organized by airlines.

49 Source: Regal Hotels International Ltd

50 Source: Regal Hotels International Ltd

51 completion date estimated by Savills

The Property

RAH, a 13-story building (plus one basement floor) opened in 1999, has a total gross floor area of approximately 774,445 sq.ft. RAH comprises 1,104 guest rooms, 5 restaurants, 1 lounge, 1 10,333 sq.ft. ballroom (one of the largest pillarless hotel ballroom in Hong Kong with a capacity of 960 persons) and 12 meeting rooms. It also provides a range of recreational facilities including one outdoor and one indoor swimming pool, a health club and a shopping arcade of approximately 48,000 sq.ft.

RAH is classified as a High Tariff B Hotel by the HKTB.

RAH is well known in a regional context as it has been awarded "The Best Airport Hotel Asia-Pacific" for six consecutive years from 2001 to 2006 by the Business Traveller Asia-Pacific Readers' Poll.

Asset Enhancement Works

The enhancement works, after completion, will provide 67 new guest rooms and 9 new meeting rooms (which can be subdivided into 13). Details of the works include:

1) converting a portion of 2/F and 9/F into 67 guest rooms (expected to be completed in Q3/2007);

2) renovating 21 guestrooms on 3/F to include spa facilities (completed in September 2006);

3) converting a portion of the basement floor into 13 new meeting rooms (completed in September 2006)

The works areas are localized in the unoccupied space on 2/F and 9/F, which accounts for only 3.8% of the total covered area of the hotel. The addition of guestrooms involves no major structural alteration works, only block wall erection, plastering, laying of tiles and carpet, as well as the installation of sanitary fitments. Noisy carpentry work will be kept to a minimum by off-site prefabrication.

Together with the existing meeting rooms, RAH will provide a premium conference/meeting center for Hong Kong's growing M.I.C.E market. The enlarged meeting facilities will strengthen RAH's capacity to handle more and larger business meetings and conferences which is expected to positively impact its room rates.

Transportation and Vicinity

RAH benefits from a highly efficient and comprehensive transportation network centered on the Airport. The Ground Transportation Centre at the Airport which connects to the Passenger Terminal Building houses the station for the Mass Transit Railway ("**MTR**") Airport Express Line (the travel time between the Airport and Central is approximately 24 minutes) and an extensive public transport interchange with facilities for taxis and franchised buses.

RAH is situated next to a public multi-story car park providing 1,733 car parking spaces.

RAH is close to major tourist attractions. Hong Kong Disneyland is approximately 15 minutes from RAH via the hotel shuttle bus[52]. The Po Lin Monastery ("**Big Buddha**"), the picturesque Tai O Village and Ngong Ping 360 Cable Car are all on Lantau Island.

Phase 1 of Hong Kong Disneyland was opened in September 2005. The park will continue to expand with the opening of a new Tomorrowland attraction scheduled in mid/late 2006 while more attractions are expected to be completed from 2007, although no detailed plan is currently available.

The population of Tung Chung, a new town situated a 5-minute drive from the Airport, stood at 47,200 in 2003 and is projected to increase to 90,700 by 2013[53]. The continued development of this new town is expected to benefit the food and beverages ("**F&B**") business of RAH.

Construction of the Hong Kong-Zhuhai-Macao Bridge is planned to start in 2008 and will provide Hong Kong with a direct road link to the western part of the PRD Region when completed. The landing point in Hong Kong is planned to be at San Shek Wan, near Chek Lap Kok, enhancing the accessibility of the Airport and RAH from elsewhere in the region.

As the world's fifth busiest international passenger airport and the most active worldwide air cargo operation, the Airport sees an average of 750 aircraft take off and land every day. Nearly 85 scheduled passenger carriers and 15 all-cargo operators link Hong Kong with more than 150 locations worldwide[54].

With regular flights to about 40 destinations in Mainland China, the Airport is a major transfer point for international travelers to and from the Mainland.

Some 200 coach trips are made every day by five bus companies to link the Airport with 40 towns and cities in the PRD Region[55].

Hong Kong Airport Authority ("**HKAA**") has earmarked HK$4.5 billion for a series of facility and capacity enhancement projects to the Passenger Terminal Building and airfield to cope with the expected increase in passenger and cargo flow.

The airport capacity for passengers and cargo is expected to increase to 50 million and 4.3 million tons per year upon completion of the enhancement projects in 2010, a 22.7% and 26.5% increase from current annual figures respectively.

SkyCity is one of the key infrastructure projects under the master plan for future development of the Airport. Phase 1 of SkyCity includes the extension of the existing SkyPier, AsiaWorld-Expo, Terminal 2, SkyPlaza and the SkyCity Nine Eagles Golf Course. Future phases will consist of the Hong Kong SkyCity Marriott Hotel, a business park, and leisure and entertainment facilities.

52 Source: Regal Hotels International Ltd.
53 Source: Projections of Population Distribution, 2004 - 2013, Planning Department
54 Source: Hong Kong Airport Authority
55 Source: Hong Kong Airport Authority

In operation since September 2003, the SkyPier is a cross boundary ferry terminal currently providing high-speed ferries to shuttle passengers from five ports in the PRD Region — Shenzhen Shekou, Shenzhen Fuyong, Macao, Zhongshan and Humen in Dongguan. The SkyPier, after extension, will provide ferry services for air passengers and visitors to both AsiaWorld-Expo and Disneyland.

The recently completed AsiaWorld-Expo is a world class exhibition and event venue offering over 700,000 sq.ft. of rentable space for exhibitions, conventions, concerts, sports and entertainment events. It is situated to the northeast of the Airport Passenger Terminal Building and is approximately 15-minute walk from RAH. Concert performers/goers and exhibition/convention participants are likely to choose RAH as their first priority hotel. AsiaWorld-Expo has already secured some major international trade shows and exhibitions, including the China Sourcing Fair organized by Global Sources (first time held in Hong Kong) in April and October 2006, PATA Travel Mart in September 2006, ITU Telecom World 2006 (first time held outside Geneva since its inception in 1971, with a total of 62,000 participants according to the International Telecommunications Union) in December 2006 and Asian Aerospace International Expo and Congress (first time held in Hong Kong) in September 2007. The initial success of AsiaWorld-Expo has initiated discussions about the early commencement of Phase II of the project, which would add another 320,000 sq.ft. rental space for this unique venue.

Terminal 2 (“**T2**”), the extended passenger facility at the Airport, was completed in late 2006 and has begun operation in phases since February 2007. Connected to Terminal 1 by an automated people mover, T2 comprises a second passenger terminal and a retail and entertainment center (SkyPlaza) of approximately 400,000 sq.ft. which includes an IMAX 3D theatre. T2 will cater for tour groups and other passengers, meeters and greeters, exhibition visitors, local residents and airport workers.

Two office towers with a total floor area of approximately 320,000 sq.ft. will be developed in two phases (HKIA Tower was completed in 2006 while Airport World Trade Centre is scheduled for completion in 2007) to support demand for Grade ‘A’ office accommodation from HKAA, AsiaWorld-Expo related businesses, airlines and other airport-related businesses as well as corporations requiring easy access to the PRD Region.

The SkyCity Nine Eagles Golf Course is aimed at strengthening the entertainment/recreational element of SkyCity while complementing other uses and is estimated to be completed in the first half of 2007.

The completion of the SkyCity project will transform the Airport into a comprehensive, service-oriented business, offering a unique airport experience to customers and stakeholders. It is also part of a global trend where businesses, entertainment and residential developments cluster around airports to take advantage of their accessibility and facilities, and the Airport is well positioned to become one of these airport cities or an “aerotropolis”[56]. Together with the development of nearby tourist attractions, RAH’s guest profile will be expanded from highly airport oriented to also cover concert/show performers and audiences, exhibition/conference participants and leisure travellers.

Competition

Currently, RAH faces no direct competition as it is the only airport hotel. At Hong Kong Disneyland, there are currently two hotels comprising 1,000 rooms and there is capacity for a further 1,100 rooms. However, no plans have been finalized.

56 The word “aerotropolis” literally means an air city and was coined by Dr. John Kasarda in 2000

The 460-room Novotel Citygate Hong Kong at the MTR Tung Chung Station was opened in April 2006. According to a press interview[57] given by the president of Accor Asia Pacific, Novotel Citygate achieved 40% occupancy at an average room rate of HK$900 after 6 weeks of operations. Given its proximity to RAH (approximately a 5-minute drive), and although much smaller in scale and with more limited facilities, Novotel is still considered potential competition.

The 370-room Discovery Bay Hotel & Conference Centre is scheduled to open in 2007[58]. This hotel, however, is not comparable to RAH in terms of scale, services, amenities and facilities.

The hotel development planned in SkyCity situated close to SkyPier has now been confirmed with Shun Tak Holdings Limited and Dragages Hong Kong Limited as the joint investors, and Marriott International, Inc the operator. Named the Hong Kong SkyCity Marriott Hotel, the 1,000-room hotel is proposed to be constructed in two phases, with the first phase scheduled for completion in 2009 with 658 rooms. The new hotel is expected to comprise three restaurants plus a lounge, an indoor swimming pool and a health club and spa featuring a gym, treatment rooms, saunas, steam rooms and whirlpools. No development details of phase 2 are currently available[59].

Though this new hotel is in close proximity to RAH, it may not compete directly with RAH because of the following:

- RAH is situated in the immediate neighborhood of the Passenger Terminal Building, whereas the Hong Kong SkyCity Marriott Hotel is closer to AsiaWorld-Expo, which is a 15 to 20-minute walk from the Passenger Terminal Building;
- The operator of the new hotel, Marriott International, is renowned for operating premium grade hotels worldwide and planned as a 5-star class hotel, the new hotel's target market and pricing may differ from that of RAH;
- The proximity of the new hotel to AsiaWorld-Expo means the new hotel may target senior executives attending exhibitions and conferences there, while the niche market of RAH of emergency layovers due to delays/cancellations of flights, long-staying guests working on airport-related projects and the training programs/conferences/seminars/meetings organized by airlines may largely remain untouched;
- According to the management of RAH, RAH experienced very high occupancy rates when events were being held at AsiaWorld-Expo in 2006 and needed to redirect guests to other Regal hotels in downtown locations The opening of SkyCity Marriott Hotel may attract some of these spill over clients, but should not affect RAH business greatly.

57 South China Morning Post, 24th May 2006

58 Source: HKTB

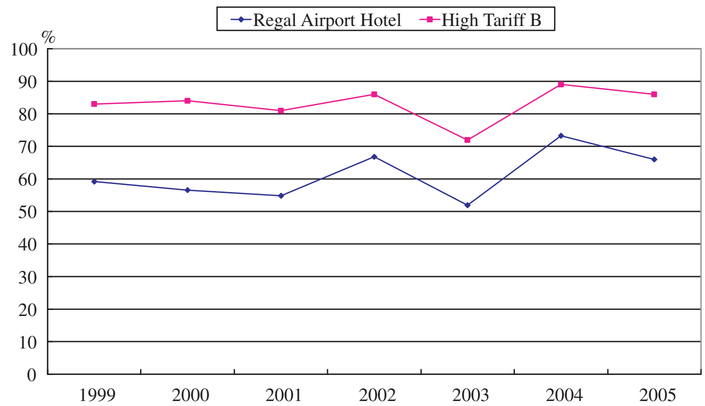
59 All development details of the Hong Kong SkyCity Marriott Hotel is sourced from HKAA, while the completion date of Phase 1 is Savills' estimate

Nevertheless, the ability of RAH to increase room rates ahead of the market from 2009 onwards will inevitably be affected by the pricing strategy of this new hotel, which may offer discount packages in its lease up stage, though we believe they are unlikely to enter into a price war as the target markets of the two hotels are slightly different.

A non-competition clause in the sub-lease executed between RAH and the HKAA states that any second hotel on the Airport Site will not open for business until a date at least two years and six months after December 31, 2003, which has just lapsed at the end of June 2006. In addition, HKAA will not market, permit, authorize or grant any rights to design or construct any third or subsequent hotel within the Airport Site unless the average aggregate occupancy rate of the first two hotels, i.e., RAH and Hong Kong SkyCity Marriott Hotel, in respect of any continuous period of 24 months exceeds 80%.

Performance

Average Occupancy Rates of RAH and High Tariff B Hotels, 1999-2005



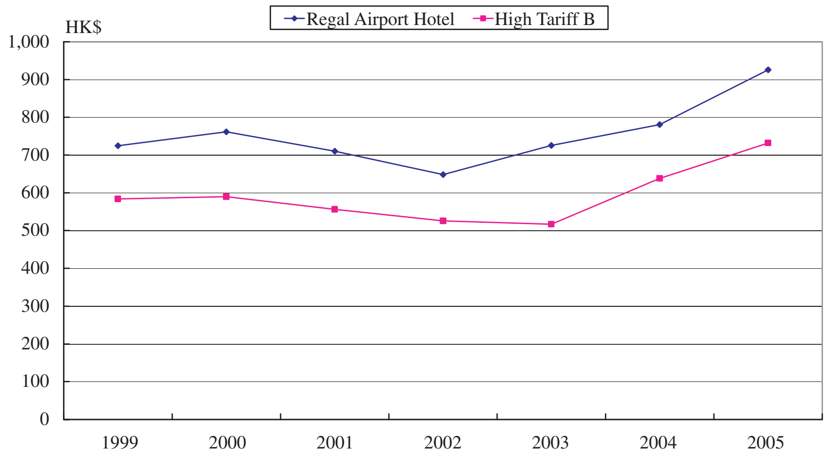
Source: Regal Hotels International Ltd., HKTB, Savills Research & Consultancy

Occupancy trends of RAH have followed movements of the High Tariff B average since 1999. Occupancy rates edged down from 1999 to 2003 despite a short-lived rebound in 2002. A strong upswing in visitor arrival numbers pushed occupancy rates up in 2004. The occupancy rate dropped in 2005, following the general market trend.

Since its opening, the occupancy rates of RAH have been lower than the High Tariff B average, reflecting its limited exposure to mainly airport related business travelers and the time taken to establish itself as a relatively new hotel.

It is noteworthy that RAH was not in full operation until 2001 and the average number of available rooms in 1999 and 2000 stood at 576 and 881[60] respectively, compared with a current total of 1,104. As such, although the average occupancy rate of the hotel fell from 1999 to 2001, the number of rooms actually occupied rose significantly from 341 in 1999 to 603 in 2001.

Average Room Rates of RAH and High Tariff B Hotels, 1999-2005

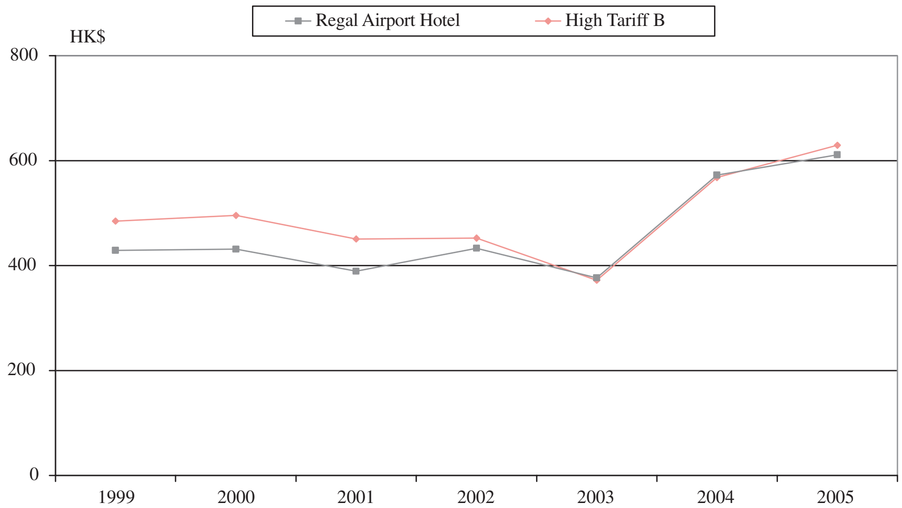


Source: Regal Hotels International Ltd., HKTB, Savills Research & Consultancy

Despite the lagging occupancy rates, the average room rates of RAH have been above the High Tariff B average since 1999, reflecting its unique location.

Whereas the market reached a nadir in 2003, RAH's room rate turned around 1 year in advance, rising by 12% in 2003, and has been rising since. The aggregate growth between 1999 and 2005 of RAH's average room rate (28%) was higher than that of the High Tariff B hotel average (25%).

RevPAR of RAH and High Tariff B Hotels, 1999 to 2005



Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

60 Source: Regal Hotels International Ltd.

RevPAR of RAH was dampened by exogenous factors such as SARS (2003) but reacted strongly to favorable market conditions such as the implementation and expansion of IVS (2003/2004). It is noteworthy that RevPAR of RAH has outperformed the High Tariff B hotel average since it opened. The compound annual growth rate of RevPAR of RAH between 1999 and 2005 was 6% per annum, compared with the High Tariff B hotel of 4% per annum over the same period. It is noteworthy that in 2005, since occupancy rates were at high levels, operators have been more aggressive on charging room rates and RAH was no exception. RevPAR in 2005 was therefore driven largely by room rate rises.

The average room rate of RAH of 2006 increased by 11% compared with the same period in 2005. Meanwhile, the average occupancy rate edged down to 64%, compared 66% over the same period last year. RevPAR over this period increased by approximately 8%. It is noteworthy that RAH's performance in April was particularly strong, primarily reflecting the influence of the China Sourcing Fair held by Global Sources at AsiaWorld-Expo, with the average room rate rising by 18% compared with the same month last year and the average occupancy rate increasing by 0.4 percentage points to approximately 71%. RevPAR during the month increased by 19% compared with 2005. The 62,000 visitors to the 5-day ITU Telecom World 2006 in December should also boost both room rates and occupancy rates of RAH over the period.

While the location premium remains, the anticipated new facilities at SkyCity and the tourist attractions on Lantau Island as well as the limited new competition are expected to drive RevPAR of RAH ahead of the market.

Outlook

Longer term risks to RAH's business include the possible competition from the Hong Kong SkyCity Marriott Hotel and the increasing number of hotel rooms at Hong Kong Disneyland (with a capacity of 2,100 rooms compared with 1,000 rooms currently). In a broader context, as the China economy grows, so will its air transport needs. More countries are expected to establish direct flights to China which may weaken the Airport's role as a gateway to China and consequently, may reduce RAH's business from transit visitors.

The opening of SkyPlaza (retail, entertainment and office), AsiaWorld-Expo, Ngong Ping 360 and the expansion of Hong Kong Disneyland in 2006/2007 are expected to have a profound but measured impact on the hotel's performance. The impact of the opening of AsiaWorld-Expo was softer than expected in 2006 and given that there will be no big events organised at the venue in 2007 of a size comparable to ITU Telecom World 2006, its effect on RAH will remain modest in 2007. The same would apply to the effect of new facilities at SkyCity in 2007. It is also the strategy of the management of RAH to fill vacant rooms in RAH during low seasons with layovers, airline packages and tour groups in 2007. RAH has also signed contracts with the ground handling unit of Cathay Pacific Airways Limited and Hong Kong International Airport Services Limited ("**HIAS**") (a ground handling company for all emergency layovers of flights for almost all airlines except Cathay Pacific, British Airways and airlines of China), granting RAH the exclusive rights to accommodate all layover guests handled by these two companies in 2007, therefore guaranteeing high occupancy rates. The occupancy rate of RAH is thus expected to increase to between 74% and 78%, but a more moderate rise in room rates is also expected in 2007.

Occupancy rates will continue to rise and the average room rate of RAH is projected to grow in the order of 15% to 20% in 2008, as the facilities of SkyCity mature. Consultants and engineers involved in the design and construction stage of the Hong Kong-Zhuhai-Macao Bridge are also expected to utilize both the accommodation and F&B facilities of RAH. The relatively low room rate base in 2007 should also make the above-market room rate growth attainable.

The opening of these facilities is also expected to have a strong positive impact on RAH's F&B sales because of the anticipated increasing number of visitors and workers in the surrounding area. The population growth of Tung Chung from 47,200 in 2003 to 90,700 in 2013 will also expand the local resident catchment of RAH's F&B business.

Higher-than-market average room rates are also expected from 2009 to 2010 when other projects including the Hong Kong Disneyland expansions and further phases of SkyPlaza are completed and the construction of Hong Kong-Zhuhai-Macao Bridge starts, while completion of phase 1 of the Hong Kong SkyCity Marriott Hotel in 2009 may slow the growth in room rates to 11% to 16% per annum over 2009 and 2010. The gradual establishment of SkyCity as an aviation, business as well as entertainment hub, i.e. an aerotropolis, should help attract not only more business and transit visitors but also more leisure and individual travellers to the Airport, helping to boost RAH occupancy rates further in those years.

Average Occupancy Rate and Room Rate Projections, 2007E to 2010E

	Average Occupancy Rate		Average Room Rate		
	High Tariff B Hotels	RAH	High Tariff B Hotels	RAH	Events Related to RAH
2007	90%	74% — 78%	8% — 12%	+0% — 5%	Completion of asset enhancement works, new attractions at Hong Kong Disneyland, strategy of RAH to build up occupancy ahead of increasing room rates
2008	91%	75% — 80%	+6% — 11%	+15% — 20%	Smooth running of SkyPlaza and phase 2 offices of SkyCity, golf course, construction of Hong Kong-Zhuhai-Macao Bridge in 2008
2009 - 2010	91% per annum	78% — 83% per annum	+6% — 11% per annum	+11% — 16% per annum	Completion of phase 1 of the Hong Kong SkyCity Marriott Hotel, gradual establishment of SkyCity and AsiaWorld-Expo

Source: Savills Research & Consultancy

RevPAR of RAH is expected to rise along with the High Tariff B market. The development plans in the surrounding area are expected to drive both business and leisure travelers and represent an extended catchment for RAH. Competition from the Hong Kong SkyCity Marriott Hotel may not be direct, except for customers visiting AsiaWorld-Expo from 2009 onwards. RevPAR growth for RAH from 2006 to 2010 is therefore expected to increase by 15% to 20% per annum, higher than the 13% per annum anticipated for the High Tariff B market overall.

Regal Hongkong Hotel

Regal Hongkong Hotel ("**RHK**") is located in one of Hong Kong's most popular tourism and retail destinations and benefits from extensive transport links with the rest of the territory. Nearby HKCEC is Hong Kong's landmark conference and exhibition center and attracts large number of international visitors to its trade fairs each year. The 40,000-seat Hong Kong Stadium and Victoria Park are also within a 10 minute walk of RHK.

Location

RHK is located in Causeway Bay, one of the busiest commercial, shopping and entertainment districts in Hong Kong.

The Property

RHK, a 33-story building (plus four basement floors) opened in 1993, has a total gross floor area of approximately 215,736 sq.ft. RHK comprises 424 guest rooms, 3 restaurants, 1 bar, 1 lounge, 1 cake shop, 1 ballroom of approximately 2,300 sq.ft. and 10 meeting rooms. It also provides a range of recreational facilities including a swimming pool and a health club.

RHK is classified as a High Tariff A Hotel by the HKTB.

RHK has only a few harbor view rooms, limiting its ability to charge high rates. Nevertheless, RHK is well-known for its high standard of decoration and its spacious guestrooms.

RHK is a medium size hotel, hindering its ability to accommodate large convention/conference groups. Nevertheless, the range of facilities provided by RHK is ample compared with similar hotels in the district. Outdoor swimming pools, for example, are not available at The Park Lane Hong Kong or the Excelsior Hotel Hong Kong also located in Causeway Bay.

Asset Enhancement Works

The enhancement works, after completion in Q3/2007, will provide 50 new super-deluxe guest rooms on top of the existing hotel. 2 additional stories will be added to the building and RHK's total gross floor area will increase to approximately 269,911 sq.ft. Renovation work carried out recently at the RHK has included renovation of the coffee shop and Chinese restaurant.

To avoid excessive noise generated during construction, main structural elements like columns and beams will be made of steel. Concrete floor slabs will be prefabricated off-site. Noisy works such as in-situ concreting, formwork fabrication and steel bending are therefore avoided. The western restaurant on 31/F will be vacated during the construction period, together with the mechanical floor on 30/F; and this will act as a noise buffer to the guestrooms below. The noisy interior carpentry works will be kept to a minimum by off-site prefabrication. Construction materials delivery will be by tower crane erected on the rooftop. The vertical movement of workers will be restricted to fire exit staircases so as to avoid any disturbance to the hotel's normal operations.

The higher room rates expected from these new deluxe rooms will lead to higher overall average room rates for RHK.

Transportation and Vicinity

Located in Causeway Bay, RHK is well served by various modes of transport, including MTR, buses, mini buses and trams.

The MTR Causeway Bay Station is just 3 minutes walk from RHK. All major business districts in Hong Kong, including Central, Wanchai, Quarry Bay and Tsim Sha Tsui, are within 10 minutes by MTR and the Airport is around 38 minutes[61] travel time, also by MTR.

Causeway Bay is also connected to other areas of Hong Kong by its extensive road network. The area is linked to Kowloon via the Cross-Harbour Tunnel and to the western part of Hong Kong Island via Gloucester Road and the eastern region via the Eastern Corridor.

Two major infrastructure projects are expected to improve the overall accessibility of the Causeway Bay area, namely, the Shatin to Central Link and the Central — Wanchai Bypass. Nevertheless, these projects are long term and will not be completed before 2010.

RHK is close to a variety of developments and facilities, including shopping/entertainment developments such as Times Square, Lee Garden, Lee Theatre and SOGO Department Store, business facilities such as Hong Kong Convention and Exhibition Centre ("**HKCEC**"), and recreational facilities such as Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course.

HKCEC is regarded as one of the most efficient and functional meeting and exhibition centers in the region comprising around 700,000 sq.ft. of exhibition and meeting space. Each year, HKCEC hosts more than 45 international trade fairs including the world's largest leather fair and watch and clock fair. The regular international fairs for giftware, toys, fashion, jewelry, electronics and optical products are Asia's largest. The exhibitions and fairs generate strong demand for hotels in the Wanchai/Causeway Bay area.

In view of the growing M.I.C.E. market, the Trade Development Council proposes to extend HKCEC by adding approximately 200,000 sq.ft. of additional convention and exhibition space. With a scheduled completion in 2009, the larger center is expected to draw more business travelers to Hong Kong.

The 40,000-seat Hong Kong Stadium is the largest outdoor multi-purpose entertainment and sports venue in Hong Kong. Located within a 10-minute walk of RHK, the Stadium hosts a number of high profile international events such as the Rugby Sevens and the Lunar New Year soccer tournament.

Victoria Park is within a 5-minute walk of RHK and has a site area of over 17 hectares. The Park has been chosen as the venue for a number of international tennis tournaments including the Champions Challenge and the Davis Cup.

The easy accessibility of RHK and its proximity to major retail, exhibition and recreational facilities in Hong Kong helps diversify RHK's guest profile to capture leisure travelers, businessmen, trade show/exhibition participants and organizers and sports groups.

61 Source: MTRC

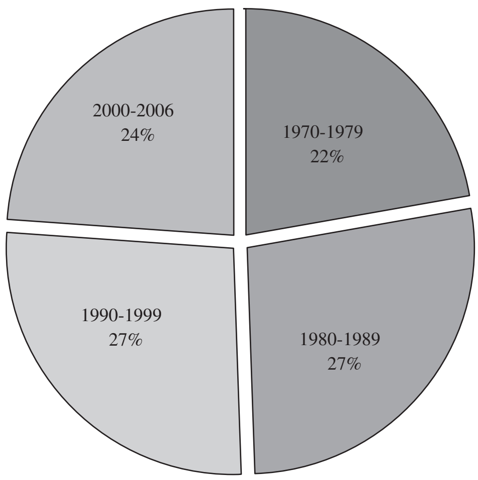
The Pedestrian Plan for Causeway Bay includes the 24-hour pedestrianization of Kai Chiu Road, the construction of an underground pedestrian-cum-retail link across Hennessy Road, and the provision of public transport interchanges. Although detailed development schedules have not yet been drawn up, once completed, these schemes should enhance the overall accessibility of Causeway Bay and further strengthen its role as a major retail/entertainment center in Hong Kong.

Complementing facilities are also in the pipeline within the neighborhood. Hysan Development Limited's plans to redevelop its Hennessy Centre into an office and retail complex, which will comprise approximately 700,000 sq.ft. of commercial space with a heavy retail element, to be completed in late 2009 or early 2010.

Competition

According to the HKTB, there were twenty hotels located in the Wanchai/Causeway Bay area, comprising approximately 8,400 rooms, or 18% of the territory total in 2005.

Hotel Stock Distribution by Year of Completion in Wanchai/Causeway Bay, 1970-2006



Source: HKTB, Savills Research & Consultancy

Hotel completions have occurred consistently throughout the past three decades with 20% to 30% of stock completed in each decade (70s, 80s and 90s). Significant hotel supply during the period includes The Excelsior (883 rooms, 1972), The Park Lane (803 rooms, 1973), Grand Hyatt (556 rooms, 1988), Renaissance Harbour View Hotel (860 rooms, 1988), Novotel Century Hong Kong (511 rooms, 1991) and Regal Hongkong Hotel (424 rooms, 1993). Over the past 7 years with 9 hotels have been completed (1,997 rooms in total), five of them (1,334 rooms) were completed in 2005 alone.

There are two scheduled hotel developments in Wanchai/Causeway Bay, the 366 Lockhart Road hotel project and the 6-20 Leighton Road hotel project, for completion in 2007 and 2008 respectively. This may provide competition to RHK although their operators and grades are yet to be made public.

Besides new hotel development, only two projects where the use of existing properties will be changed to hotels in the Wanchai/Causeway Bay area are scheduled over the next five years.

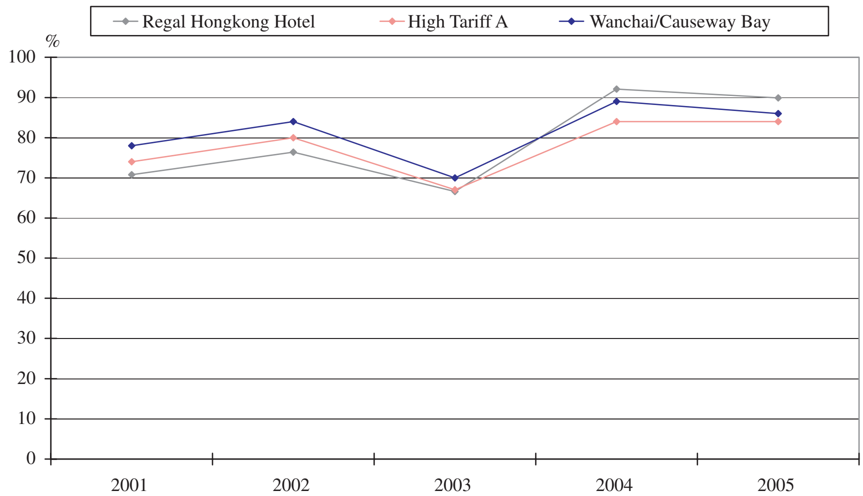
Proposed Hotel Developments in Wanchai/Causeway Bay

Development	No. of Rooms	Expected Completion
Rison Hotel (Change of existing property)	82	2007
366 Lockhart Road (New hotel)	36	2007
17-21 Fenwick Street and 52-58 Jaffe Road (Change of existing property)	96	2008
6 — 20 Leighton Road (New hotel)	206	2008
Total	420	

Source: HKTB, Savills Research & Consultancy

Performance

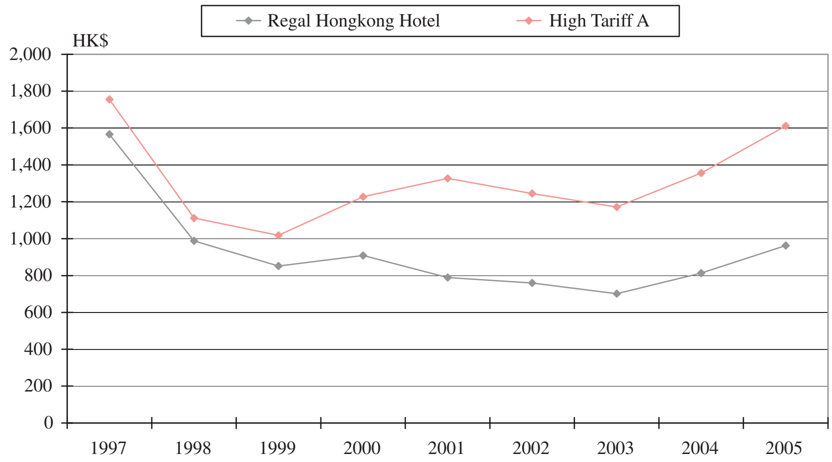
Average Occupancy Rates of RHK, High Tariff A Hotels and Wanchai/ Causeway Bay Hotels, 2001-2005



Source: Regal Hotels International Ltd., HKTB, Savills Research & Consultancy

RHK has performed well compared with the High Tariff A market and the Wanchai/Causeway Bay hotel market in general over the past 2 years with its occupancy rate surpassing 90% in 2004. A slight decline in both RHK and the district occupancy was recorded over 2005, following the overall market trend.

Average Room Rates of RHK and High Tariff A Hotels, 1997-2005



Source: Regal Hotels International Ltd., Mandarin Oriental Hotel Group, HKTB, Savills Research & Consultancy

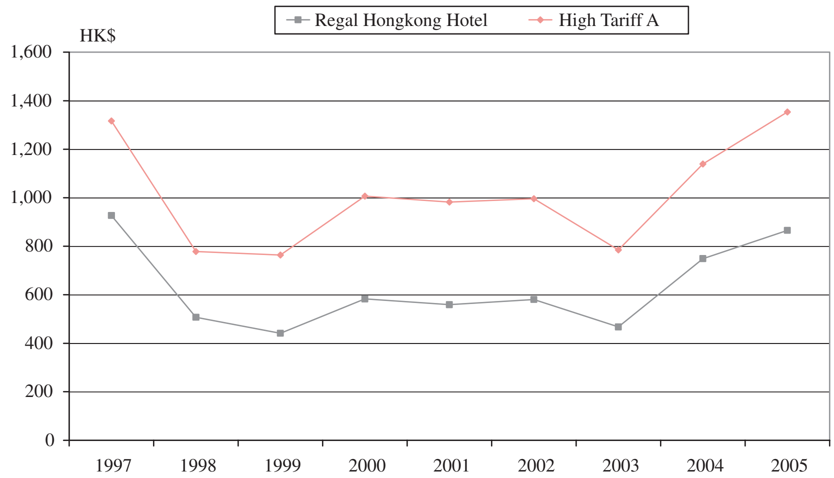
RHK recorded 16% growth in average room rates in 2004, similar to High Tariff A market growth. RHK's rates continued to increase by nearly 20% in 2005, again keeping pace with the market.

Despite outperforming the market over the past 2 years in occupancy terms, the growth of room rates has lagged the overall market, reflecting the management's strategy to drive RevPAR by occupancy over the period. At the end of 2005, the average room rate of High Tariff A Hotels was only 8% below the 1997 peak, whereas RHK's room rate was still 39% behind its 1997 peak. These findings suggest that RHK's room rates have room to increase.

The revenue distribution of RHK was broadly in line with the market average, with around 55% generated from room charges and 40% from F&B sales. The proportion of room revenue increased to 57% in 2005, and is expected to increase to over 60% by the end of 2007 when the 50 additional deluxe rooms are in full operation.

According to Regal Hotels International Ltd., RHK has established solid business relationships with a number of multinational companies which form a sound base of high-yielding frequent individual business travelers. Business travelers accounted for 37% of RHK's business in 2005.

RevPAR of RHK and High Tariff A Hotels, 1997 to 2005



Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

The movement of RHK's RevPAR has generally tracked the High Tariff A hotel average. RevPAR was severely dampened by the Asian Financial Crisis (1997-8) and SARS (2003) but reacted strongly to favorable market conditions such as the I.T. boom (2000), the post SARS recovery and the implementation of IVS (2003). Despite the volatility, the average annual growth rate of the RevPAR of RHK and the High Tariff A hotel average between 1997 and 2005 were almost identical at approximately 4% per annum. It is noteworthy that in 2005, since occupancy rates were at high levels, operators have been more aggressive in raising room rates and RHK was no exception. RevPAR in 2005 was therefore driven largely by room rate rises. As RHK's occupancy rate has been high at approximately 90% over 2004 and 2005, we expect the RevPAR of RHK to continue to be largely driven by room rate rises.

The average room rate of RHK over 2006 increased by 13% compared with the same period in 2005 while the average occupancy rate remained at 90%, same as the same period last year. RevPAR over this period increased by approximately 13%.

Outlook

Looking ahead, the addition of 50 deluxe guest rooms will serve to expand the scale of RHK and more importantly, help to attract more high spending guests. This expansion should coincide with reviving visitor numbers from the Americas, Europe and Australasia (10%-20% growth over 2005), who traditionally spend more on hotel bills (35%-45% of total spending in 2005).

The expansion of exhibition space at HKCEC by 2009, together with the anticipated growth of the M.I.C.E. market in Hong Kong, should help attract more business travelers to the Wanchai/ Causeway Bay area, thus benefiting RHK.

Future supply levels may represent a threat to RHK as 420 new rooms over the next five years will increase hotel room stock (8,393 rooms in 2006) by 5% in Wanchai/Causeway Bay, though the grading of these new hotels are largely unknown. Further competition to RHK is limited as there is very limited land available for hotel development in Causeway Bay over the next 4 years.

The occupancy rate of RHK is expected to remain at high levels between 90% and 91% per annum between 2007 and 2010 while the completion of the HKCEC extension in 2009 are expected to push RHK's occupancy rates up.

Average Occupancy Rate Projections, 2007E to 2010E

	High Tariff A Hotels	RHK	Events Related to RHK
2007-2010	86% — 87% per annum	90% — 91% per annum	Completion of extension works in Q2/2007, Completion of extension of HKCEC

Source: Savills Research & Consultancy

The movements in average room rates at RHK followed the High Tariff A market in the up cycle over 2004 to 2006. Assuming this trend continues to hold, together with the completion of RHK's extension work, the average room rate of RHK is projected to grow in the order of 8% to 15% in 2007, slightly above market average. Above market growth may also be recorded from 2009 onwards with the completion of the HKCEC extension.

Average Room Rate Projections, 2007E to 2010E

	High Tariff A Hotels	RHK	Events Related to RHK
2007	+8% — 10%	+8% — 15%	Completion of extension works in Q2/2007
2008-2010	+6% — 8% per annum	+6% — 9% per annum	Completion of extension of HKCEC

Source: Savills Research & Consultancy

RevPAR of RHK is expected to rise in line with the High Tariff A market in the order of approximately 10% per annum from 2006 to 2010. Besides the generally positive outlook for the hotel industry and a rising trend in business travel, the extension works, which will enhance the profile and capacity of RHK, and the HKCEC extension, which will broaden the high yielding business guest base, will support this growth.

Regal Kowloon Hotel

Regal Kowloon Hotel ("**RKH**") offers access to Hong Kong's extensive rail network via KCR East Tsim Sha Tsui Station, a 5-minute walk away. The proximity of Tsim Sha Tsui as a well established retail, entertainment and commercial center is a significant factor in the attractiveness of the hotel. New developments and scheduled improvements in urban design will ensure the future popularity of the area. Recently completed renovation works are also expected to enhance the appeal of RKH.

Location

RKH is located in Tsim Sha Tsui East, a sub-district of the busy Tsim Sha Tsui district, where accessibility has improved significantly over recent years.

The Property

RKH, a 16-story building (plus four basement levels) opened in 1982, has a total gross floor area of approximately 341,714 sq.ft. The hotel comprises 600 guest rooms, 5 restaurants (2 restaurants are operated by a third party), 1 bar, 1 lounge, 1 cake shop, 1 ballroom of approximately 3,500 sq.ft. and 12 meeting rooms. It also provides a range of recreational facilities including a fitness center, a sauna (operated by a third party), 2 karaoke clubs (operated by a third party) and a shopping arcade of approximately 52,000 sq.ft.

RKH is classified as a High Tariff A Hotel by the HKTB.

RKH is the only hotel in Tsim Sha Tsui East with a full view of "Centenary Garden". Rooms available at RKH are comparatively larger than other hotels of the same class.

Renovation Works

RKH has spent more than HK$15 million to renovate its lobby area, driveway, shop areas, F&B outlets, banquet hall and function rooms between 2003 and 2005. The improved facilities suggest that RKH has the potential to revise room rates upward.

Transportation and Vicinity

Tsim Sha Tsui has developed as a transportation hub. Passengers travelling from Tsim Sha Tsui to other parts of Hong Kong are given a wide range of options, including bus, road and rail links via the Kowloon-Canton Railway ("**KCR**") East Rail and MTR.

As shown in the map below, Tsim Sha Tsui is situated at the intersection of the KCR East Rail and MTR Tsuen Wan Line. The recently opened KCR East Tsim Sha Tsui Station (a 5-minute walk from RKH) means that an extensive rail network with access to all major business areas including Central, Causeway Bay and Mongkok, as well as all major industrial areas including Kowloon Bay, Kwun Tong, Cheung Sha Wan and Kwai Chung is located in the neighborhood of RKH.

Existing Rail Network

Source: Highways Department, Savills Research & Consultancy

The Kowloon Southern Link when complete in 2009/10 will connect KCR East Tsim Sha Tsui Station with West Rail. This will render Tsim Sha Tsui more easily accessible for people living in the western New Territories.

Cross boundary ferry services to Mainland China are available at the China Ferry Terminal in China Hong Kong City. The Hung Hom Cross-Harbour Tunnel, the Western Harbour Crossing and the Star Ferry all link Tsim Sha Tsui to Hong Kong Island.

A proposal by the Economic Development and Labour Bureau has suggested that the existing public transport interchange ("**PTI**") at the Tsim Sha Tsui Star Ferry Pier be developed into an open plaza and a new PTI be constructed in Wing On Plaza Garden in Tsim Sha Tsui East, a 5-minute walk from RKH, as a replacement. This plan, although not confirmed, would further enhance the accessibility of Tsim Sha Tsui East on completion.

Tsim Sha Tsui is well established as a major tourist destination and an important cultural hub in the territory. Historic buildings, museums and unique attractions including Avenue of Stars and Star Ferry have made the district attractive to tourists.

Tsim Sha Tsui is one of the most important retail/entertainment areas of Hong Kong with many modern shopping malls (Harbour City, New World Centre), high street shops (along Canton Road and Nathan Road) and top-quality restaurants and cinemas, attracting both locals and overseas tourists.

Future retail developments including the former Marine Police Headquarters Redevelopment (approximately 78,000 sq.ft., anticipated in 2007), the Hanoi Road Redevelopment (approximately 340,000 sq.ft., anticipated in 2007), Tung Ying Building Redevelopment (approximately 400,000 sq.ft., anticipated in 2009) and Hyatt Regency Hotel Redevelopment (approximately 580,000 sq.ft., anticipated in 2009) are expected to enhance Tsim Sha Tsui's image as a retail destination.

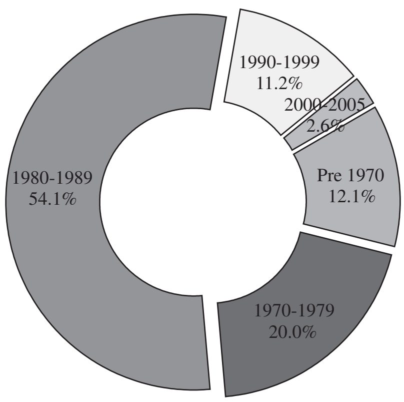
Tsim Sha Tsui is also a key commercial district where many Grade 'A' offices are located. Office tenants in Tsim Sha Tsui are mainly from the trading and manufacturing sectors. Foreign buyers or business associates of these companies represent a strong demand group for hotel rooms in the district, particularly during major trade fairs.

In the longer term, other projects being planned including the mega comprehensive cultural/residential/commercial development of the West Kowloon Cultural District and various pedestrian plans such as urban design and streetscape enhancements on Haiphong Road and footpath widening on Granville Road, are expected to enhance the tourism profile of Tsim Sha Tsui.

Competition

The total stock of hotel rooms in Tsim Sha Tsui stands at approximately 12,500. Over half of the hotels were completed between 1980 and 1989, and around 20% between 1970 and 1979. Around 23% of the total number of hotel rooms in Tsim Sha Tsui are located in Tsim Sha Tsui East. Since The Empire Hotel Kowloon was completed in 2001, there has been no new hotel supply in Tsim Sha Tsui.

Tsim Sha Tsui Hotel Stock Distribution by Year of Completion, 1970-2006



Source: HKTB, Savills Research & Consultancy

A number of hotels including Royal Garden Hotel, InterContinental Grand Stanford, Hotel Nikko Hong Kong and Kowloon Shangri-La Hotel Hong Kong are located in the immediate neighborhood of RKH. This agglomeration of well-known hotels strengthens the area's image as a hospitality node but at the same time creates competition.

RKH has upgraded its facilities to enhance its competitiveness over 2003 to 2005.

5 hotel projects comprising 1,314 rooms are expected to be completed between 2007 and 2010 in Tsim Sha Tsui.

Projects	No. of Hotel Rooms	Completion
Hotel Panorama	324	2007
Hanoi Road Redevelopment	386	2007
21-23A Prat Avenue	112	2007
W Hotel at Kowloon Station	392	2008
Austin Hotel	100	2010
Total	**1,314**	

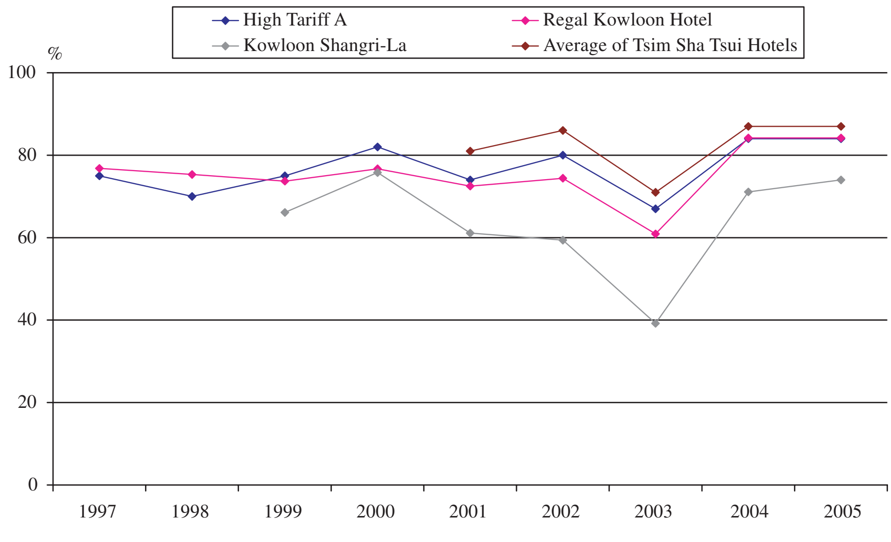
Source: HKTB, Savills Research & Consultancy

The closure of Hyatt Regency at the end of 2005 lowered the stock of Tsim Sha Tsui hotel rooms by 723.

There are two hotels providing a total of 3,642 rooms in Hunghom, one was completed in 2006 and the other one is scheduled to be completed in 2007, both are classified as hotels by the HKTB but are marketed as serviced apartments by the operator. Although Hunghom is close to Tsim Sha Tsui East (approximately a 5-minute drive), the district is not regarded as a traditional tourist/commercial area and hence, the two hotels are expected to attract lower budget travellers, representing limited direct competition to RKH.

Performance

Average Occupancy Rates of RKH and Comparable Hotels, 1997-2005

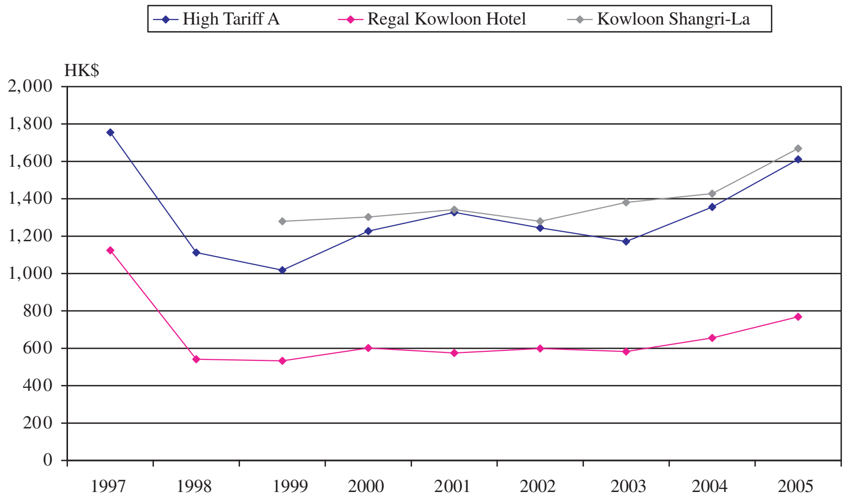


Source: HKTB, Regal Hotels International Ltd., HK & Shanghai Hotel, Shangri-La Asia, Savills Research & Consultancy

RKH occupancy rates were below High Tariff A market rates between 1999 and 2003. We reason that this underperformance was because of the aging hotel facilities. Nevertheless, the recently completed renovation works should improve RKH's performance.

In 2004 and 2005, RKH occupancy rates rose to market levels of around 84%, but remained below the Tsim Sha Tsui district average of 87%. Nevertheless, the occupancy rate of RKH was higher than the Kowloon Shangri-La by 13 percentage points in 2004. Kowloon Shangri-La was chosen as a benchmark because of its proximity to RKH and its availability of public information, although its room rates and RevPAR were higher than RKH.

Average Room Rates of RKH and Comparable Hotels, 1997-2005



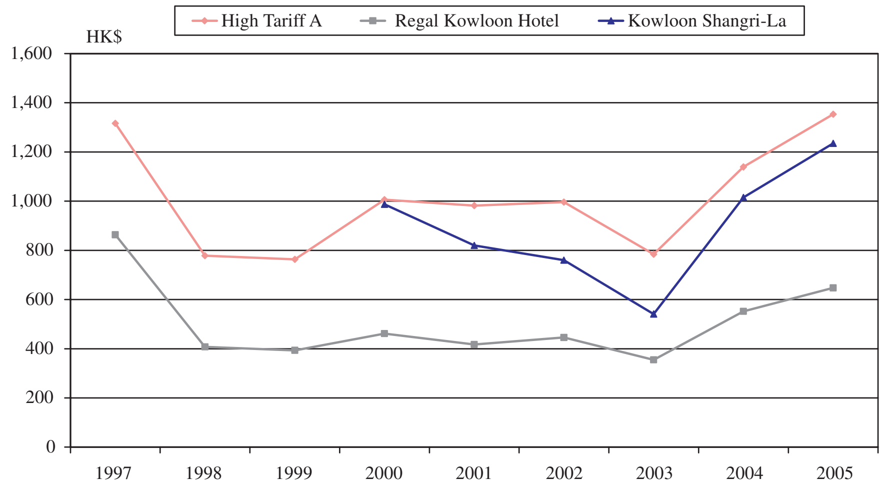
Source: HKTB, Regal Hotels International Ltd., HK & Shanghai Hotel, Shangri-La Asia, Savills Research & Consultancy

The higher occupancy rates of RKH were partly because of a competitive room rate which was well below the market average and other comparable hotels. Nevertheless, RKH achieved a similar growth rate (17.3%) to the High Tariff A market (18.8%) in 2005.

At the end of 2005, the average room rate of High Tariff A Hotels was only 8% below the 1997 peak, whereas RHK's room rate was still 39% behind its 1997 peak. This finding suggests that room rates of RHK have room to increase.

The proportion of High Tariff A revenue from rooms, F&B and other services in 2004 stood at 52.2%, 42.1% and 5.7% respectively. Compared with RKH revenues in 2004, room sales were the most important income source (67.6%), followed by food & beverage (27.1%). The smaller F&B revenue contribution to RKH revenues compared with the High Tariff A market can be attributed to its older F&B facilities. Nevertheless, following the recent renovation of the restaurants and banquet facilities, we expect an increase in the F&B contribution in the future.

RevPAR of RKH and High Tariff A Hotels, 1997 to 2005



Source: HKTB, Regal Hotels International Ltd., Shangri-La Asia Limited, Savills Research & Consultancy

The movement of the RevPAR of RKH has generally tracked the High Tariff A hotel average. RevPAR was affected by the Asian Financial Crises (1997-8) and SARS (2003) but reacted to favorable market conditions such as the I.T. boom (2000), the post SARS recovery and the implementation of IVS (2003). Despite the volatility, the average annual growth rate of the RevPAR of RKH between 1997 and 2005 was 1% per annum, lower than the High Tariff A hotel average of 4% per annum, largely reflecting the negative impact of its aging facilities. It is noteworthy that in 2005, since occupancy rates were at high levels, operators have been more aggressive in raising room rates and RKH was no exception. RevPAR in 2005 was therefore driven largely by room rate rises.

The average room rate of RKH over 2006 recorded a strong increase of 16% compared with the same period in 2005. The average occupancy rate also increased to 86%, compared with 84% recorded over the same period last year, RevPAR over this period increased by approximately 18%.

Outlook

RKH is strategically located in a traditional tourist node and a core business district. The vicinity is served by a comprehensive transportation and road network. Infrastructure projects under construction or under planning, such as The Kowloon Southern Link and The West Kowloon Cultural District, are set to enhance the accessibility and increase the attractiveness of the area.

The strong performance of the import/export trade sector and the growing M.I.C.E. market are expected to continue to support RKH's business.

In Tsim Sha Tsui, 1,314 hotel rooms will be completed over the next 4 years. However, RKH has ample hotel facilities including meeting, F&B and recreational facilities and has been newly renovated to maintain its competitiveness.

Although Hotel Panorama will be completed in early 2007 providing 324 rooms, Hyatt Regency Hong Kong (723 rooms) was closed at the end of 2005 (to be redeveloped into a retail center), resulting in a net decrease of around 400 hotel rooms in Tsim Sha Tsui. Given these factors (and bearing in mind that RKH has been recently renovated), we expect the occupancy rate of RKH to remain high in 2007 and track the market from 2008 to 2010.

Average Occupancy Rate Projections, 2007E to 2010E

	High Tariff A Hotels	RKH	Events Related to RKH
2007-2010	86% — 87% per annum	89% per annum	Completion of renovation works, net decrease of available hotel rooms in the district

Source: Savills Research & Consultancy

Higher-than-market growth of room rates is expected in 2007, as the total stock of hotel rooms in the district will only be replenished to levels prior to the closure of the Hyatt Regency while the number of tourists is expected to continue rising. The growth rate of RKH room rates is then expected to track the market from 2008 to 2010, with a 6% to 8% increment each year.

Average Room Rate Projections, 2007E to 2010E

	High Tariff A Hotels	RKH	Events related to RKH
2007	+8% — 10%	+9% — 16%	Completion of renovation works, net decrease of available hotel rooms in the district
2008-2010	+6% — 8% per annum	+6% — 8% per annum	—

Source: Savills Research & Consultancy

RKH's RevPAR is expected to rise along with the High Tariff A market in view of the generally positive outlook for the hotel industry and a rising trend in business travel. Meanwhile, stronger-than-average growth in RevPAR can be expected for RKH in 2007 as the completion of renovation works should restore its competitiveness and the tighter hotel room availability in Tsim Sha Tsui effectively reduces direct competition. The average annual growth rate of the RevPAR of RKH over 2006 to 2010 is expected to be in the region of 10% to 15% per annum, higher than the overall High Tariff A market of 11% per annum.

Regal Oriental Hotel

The Kai Tak development, although currently under planning review, is anticipated to be one of Hong Kong's most extensive redevelopment projects, and is expected to stimulate demand for both hotel rooms and F&B at Regal Oriental Hotel ("**ROH**") once the scheme is underway. In the vicinity, the districts of Kowloon Bay and Kwun Tong are being transformed into a major decentralized office node. Currently, ROH is the only hotel in Kowloon East and aims to further enhance its competitive position with completion of new guest rooms offering a 'hip hotel' concept to business travelers and tourists.

Location

ROH is the only hotel in Kowloon City, opposite the former Kai Tak Airport.

The Property

ROH, a 15-story building (plus two basement levels) opened in 1982, has a total gross floor area of approximately 243,167 sq.ft. [62] The hotel comprises 390 guest rooms, 3 restaurants, 2 bars, 1 cake shop, 1 banquet hall of approximately 3,400 sq.ft. and 13 meeting rooms. It also provides 6 karaoke rooms including one main hall.

ROH is classified as a High Tariff B Hotel by the HKTB.

ROH is the only hotel offering a full range of meeting and F&B services in Kowloon East[63]. The majority of its guest rooms offer an open harbor view. The guest rooms are spacious and the availability of 'triple' (3 beds) and 'quadruple' (4 beds) rooms are attractive to family travelers.

ROH lacks recreational facilities such as a swimming pool or health club.

Asset Enhancement Works

The enhancement works involve:

1) converting a portion of 3/F into 49 rooms;

2) converting a portion of 3/F into a lounge area;

3) refurnishing the existing guest rooms (refurnishing work to half of the guest rooms has been completed).

62 Including 14,200 sq.ft. of Po Sing Court. Source: Regal Hotels International Ltd.
63 A general description of a larger area comprising Kowloon City, San Po Kong, Kowloon Bay and Kwun Tong

The new guest rooms will be operated as a 'hip hotel' providing stylish, trendy and fashionable decoration and sophisticated services.

The enhancement works are scheduled to be completed in Q3/2007.

The work area is localized on 3/F, which accounts for only 5.9% of the total covered area of the hotel. The addition of guest rooms will involve no major structural alteration works, but only block wall erection, plastering, laying of tiles and carpet, as well as the installation of sanitary fitments. Noise carpentry work will be kept to a minimum by off-site prefabrication.

Recent works have included the renovation of the hotel's F&B outlets together with its main lobby and driveway.

Transportation and Vicinity

Although ROH is not served by rail links, Prince Edward Road East on the door step of ROH is the major trunk road serving Kowloon East and connects the area with major industrial / business districts including Kwun Tong, Kowloon Bay, Tsim Sha Tsui and Mongkok in Kowloon. Quarry Bay and Causeway Bay on Hong Kong Island are approximately a 20 to 25-minute drive from ROH via the Eastern Harbour Crossing and Cross-Harbour Tunnel respectively.

The provision of shuttle bus services from ROH to the Airport provides extra convenience to its guests.

The anticipated KCR Shatin to Central Link is expected to improve the accessibility of ROH. This link is expected to shorten travel times between the immediate locality of ROH and major business districts on Hong Kong Island as well as Mainland China. Although the KCRC targeted the completion of the Shatin to Central Link by 2011, the scheme and implementation program are subject to a final decision by the Government of HKSAR.

The move of the Airport from Kai Tak to Chek Lap Kok in 1998 has weakened the business of Kowloon City, however, the area remains attractive to both locals and visitors for its wide variety of Chinese and Southeast Asian cuisine.

Approximately a 10-minute drive from ROH, Kowloon Bay and Kwun Tong, 2 traditionally industrial areas of Hong Kong, are being transformed into a major decentralized office node. The total Grade 'A' office stock of these 2 areas combined is expected to increase from approximately 1.9 million sq.ft. in 1995 to 9.8 million sq.ft. by 2010, larger than the total Grade 'A' office stock of Tsim Sha Tsui today. These developments, during and after construction, will enhance commercial activity in Kowloon East and ROH.

The Kai Tak development plan, which involves approximately 328 hectares of land, is a long term project and is expected to have a mixed effect on ROH. The Government has recently launched a Stage 2 Public Participation Programme for the Kai Tak Planning Review. There are 3 different draft Outline Concept Plans:

Proposed Land Use	Area (hectares)		
	Concept 1	Concept 2	Concept 3
Office	—	3 (0.9%)	—
Mixed Use (Office, Hotel & Retail)	10 (3.1%)	20 (6.1%)	19 (5.8%)
Mixed Use (Housing & Commercial)	9 (2.7%)	5 (1.5%)	—
High Density Housing	41 (12.5%)	33 (10.1%)	14 (4.2%)
Medium Density Housing	17 (5.2%)	10 (3.1%)	18 (5.5%)
Low Density Housing	—	—	13 (4.0%)
G/IC Other Specified Use	45 (13.7%)	42 (12.8%)	43 (13.1%)
Metro Park, Runway Park & Waterfront Promenade	42 (12.8%)	48 (14.6%)	50 (15.2%)
District & Local Open Space	56 (17.1%)	64 (19.5%)	54 (16.5%)
Proposed Multi-purpose Stadium (Including open space)	24 (7.3%)	24 (7.3%)	24 (7.3%)
Sports/Recreation	—	—	16 (4.9%)
Cruise Terminal	5 (1.5%)	5 (1.5%)	5 (1.5%)
Road Network, Amenity Area & Green Belt	79 (24.1%)	74 (22.6%)	72 (22.0%)
Total	**328**	**328**	**328**

Source: Planning Department, Savills Research & Consultancy

The Kai Tak development is expected to attract overseas consultants, engineers and related parties when the projects commence, with a number of them opting to stay in ROH or utilize ROH's F&B facilities or both.

In addition, Kai Tak is one of the potential locations for a Cruise Terminal. The Study on Cruise Terminal Facilities Development of Hong Kong[64] expects the cruise market to remain a large and growing presence in international tourism, and Hong Kong could welcome between 776,700 and 1.3 million throughput passengers by 2020. A projected throughput of 776,700 passengers could generate HK$2,884.7 million in tourism expenditure and support as many as 6,907 jobs by 2020.

Views from ROH may change as a result, from an open harbor view to views of a dynamic and interesting urban area. However, possible hotel developments on the Kai Tak site may constitute competition in the longer term.

There are a number of residential developments comprising a total gross floor area of approximately 1.6 million sq.ft. or approximately 2,200 units under construction in the close proximity of ROH. These projects are expected to enlarge the resident catchment of ROH's F&B business.

Competition

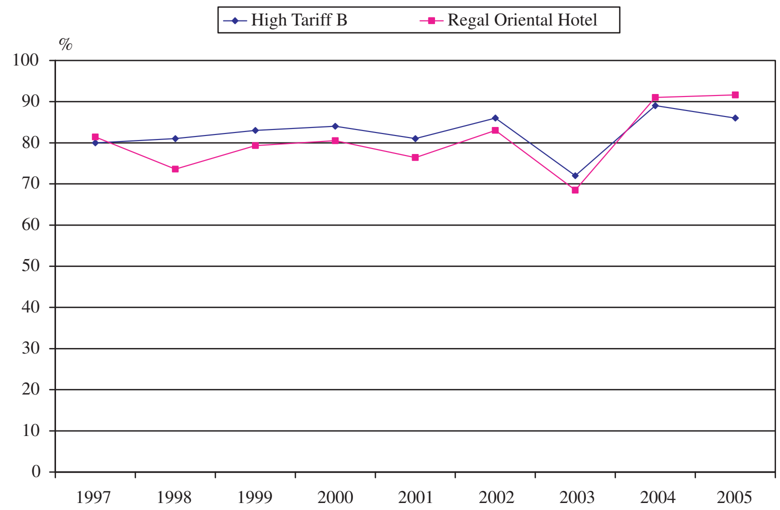
The Harbour Plaza — Tokwawan project, which has a total gross floor area of 226,000 sq.ft. (714 rooms), is the only upcoming hotel project near ROH. Nevertheless, the project is not expected to be completed until at least 2008.

64 2004 Study on Cruise Terminal Facilities Development for Hong Kong by Bermells-Ajamil to Parners, Inc (B&A)

In San Po Kong, 5 hotel projects with a total of 3,186 hotel rooms have been approved by the Town Planning Board to change from industrial use. Only two landlords (representing 990 rooms) have agreed to pay the land premiums, however, no construction work has started on these sites.

Performance

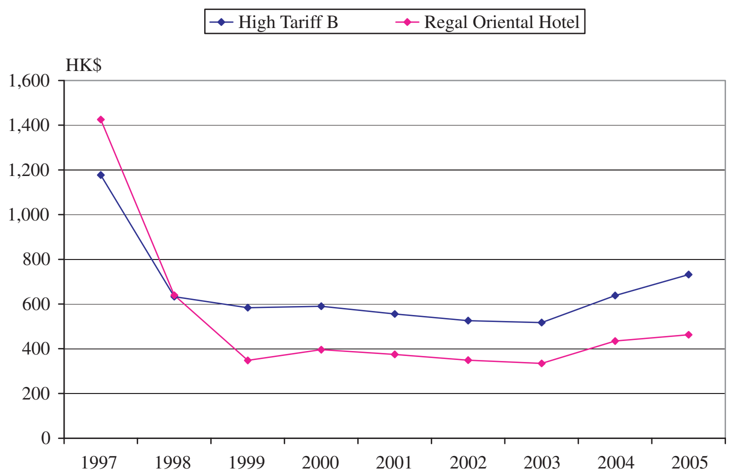
Average Occupancy Rates of ROH and High Tariff B Hotels, 1997-2005



Source: HKTB, Regal Hotels Int'l, Savills Research & Consultancy

ROH room occupancy rates have moved in line with High Tariff B Hotel occupancy rates. However, ROH's occupancy rate was higher than the High Tariff B Hotel average in 2004 and 2005, standing at above 90%. The recent surge in visitor arrivals, induced by a marked increase of individual travelers from Mainland China, has benefited ROH more than the overall market.

Average Room Rates of ROH and High Tariff B Hotels, 1997-2005

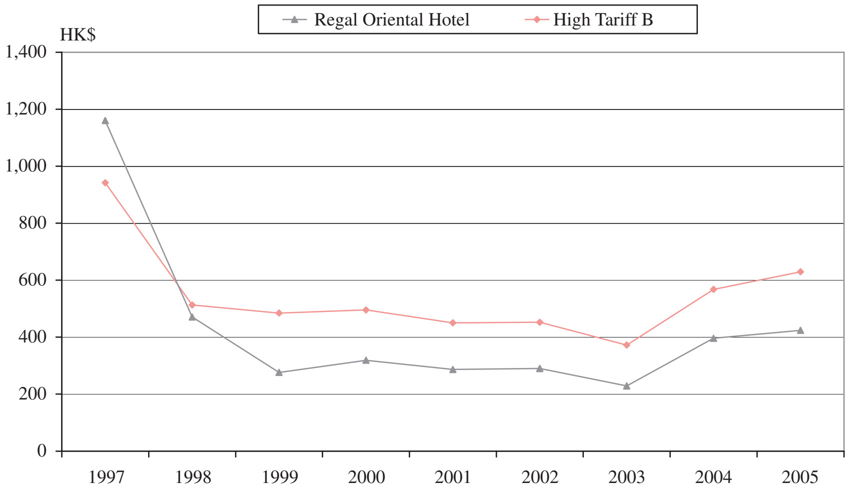


Source: HKTB, Regal Hotel Int'l, Savills Research & Consultancy

Following the airport relocation to Chek Lap Kok and the Asian Financial Crisis, ROH room rates declined sharply by more than 75% from 1997 to 1999. The room rate movement tracked the market thereafter. Between 2002 and 2005 hotel room rates of High Tariff B hotels and ROH increased 39% and 33% respectively.

Despite outperforming the market over the past 2 years in occupancy terms, room rates of ROH have recorded slightly less than market average growth. In addition, at the end of 2005, the average room rate of High Tariff B Hotels was 38% below the 1997 peak, whereas ROH's room rate was 68% behind its 1997 peak, largely reflecting the implication of the relocation of the airport.

RevPAR of ROH and High Tariff B Hotels, 1997 to 2005



Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

The movement of the RevPAR of ROH has generally tracked the High Tariff B hotel average. RevPAR was affected the Asian Financial Crisis (1997-8) and SARS (2003). The relocation of the airport from Kai Tak to Chek Lap Kok in 1998 has also affected ROH, leading to another sharp decline in RevPAR in 1999. Strong RevPAR growths were noted in favorable market conditions such as the I.T. boom (2000), the post SARS recovery and the implementation of IVS (2003).

Average Annual Growth Rates of RevPAR of ROH and High Tariff B Hotels

	ROH	High Tariff B Hotels
Average Annual Growth Rate (1998 to 2005)	-4%	-1%
Average Annual Growth Rate (2000 to 2005)	11%	7%

Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

The average annual growth rate of RevPAR of ROH between 1997 and 2005 was -4% per annum, lower than High Tariff B hotels average of -1% per annum, largely reflecting the negative impact of the airport relocation. To eliminate this one-off effect, comparison of the RevPAR movements of ROH and High Tariff B hotel between 2000 and 2005 was made and the result shows that ROH has outperformed the market over the recent years. It is noteworthy that in 2005, since occupancy rates were at high levels, operators have been more aggressive in raising room rates and ROH was no exception. RevPAR in 2005 was therefore driven largely by room rate rises.

The average room rate of ROH over 2006 recorded an increase of 12% compared with the same period in 2005. Although the average occupancy rate edged down to 90%, compared with 92% recorded over the same period last year, RevPAR over this period increased by approximately 10%.

Outlook

ROH's performance was clearly affected by the airport relocation from Kai Tak to Chek Lap Kok in 1998. However, performance was improved by the Individual Visit Scheme and Hong Kong's recovering economy.

The Shatin to Central Link and Kai Tak development projects will improve the access to ROH when completed. The vicinity will be strengthened significantly as a residential, commercial and tourism hub. If the Individual Visit Scheme continues to expand to other Mainland cities, this will also be beneficial to ROH.

The completion of the extension works in Q2/2007 and the imminent start of the Kai Tak development projects are expected to keep occupancy rates of ROH reasonably high, but only marginally higher than the forecast for the market as a whole from 2007 to 2010 due to the intended optimization of guest mix towards higher yielding guests of the management of ROH.

Average Occupancy Rate Projections, 2007E to 2010E

	High Tariff B Hotels	ROH	Events Related to ROH
2007-2010	90% — 91%	92% — 93%	Completion of extension works in Q3/2007, imminent start of Kai Tak development projects, optimization of guest mix towards higher yielding guests

Source: Savills Research & Consultancy

As ROH is relatively old, its room rate growth is expected to lag behind the market before the enhancement works are completed by Q3/2007. Higher than market growth is expected in 2007 after the enhancement works are finished. We expected room rate movements to run slightly ahead of the High Tariff B Hotel market thereafter, partially because of the intended optimization of guest mix towards higher yielding guests of the management of ROH in spite of slightly lower occupancy rates.

Average Room Rate Projections, 2007E to 2010E

	High Tariff B Hotels	ROH	Events related to ROH
2007	+8% — 12%	+16% — 21%	Completion of extension works in Q2/2007
2008-2010	+6% — 11% per annum	+11% — 15% per annum	Imminent start of Kai Tak development projects, optimization of guest mix towards higher yielding guests

Source: Savills Research & Consultancy

ROH's RevPAR is expected to rise along with the High Tariff B market in the order of approximately 13% per annum from 2006 to 2010 in view of the generally positive outlook of the hotel industry. The completion of extension works and the eventual start of Kai Tak development projects will support this growth.

Regal Riverside Hotel

Located in Shatin, Hong Kong's largest New Town, Regal Riverside Hotel ("**RRH**") offers easy access to both the Mainland Chinese border and Kowloon. Although not a traditional tourist destination, nearby attractions include the Shatin Racecourse and the International Dragon Boat Races in June. The launch of 'Shatin Soho' in 2005 is aimed at promoting RRH as an up-market dining and entertainment destination for residents of the New Territories. Completion of a further 302 guest rooms in 2008 is expected to raise further the profile of RRH. The main arena for the Equestrian events of the 2008 Olympics will be completed nearby in mid-2007.

Location

RRH is located in Shatin by Shing Mun River and enjoys a pleasant river view while being located in close proximity to a major transportation hub and retail facilities.

The Property

RRH, a 15-story building (plus two basement floors) opened in 1986, has a total gross floor area of approximately 519,046 sq.ft. The hotel comprises 830 guest rooms, 5 restaurants, 2 bars, 1 cake shop, 1 ballroom of approximately 4,750 sq.ft. and 12 meeting rooms. It also provides a range of recreational facilities including a swimming pool, a health club and a shopping arcade of approximately 21,000 sq.ft.

RRH is classified as a High Tariff B Hotel by the HKTB.

RRH is the largest hotel in Shatin. It is renowned for its spacious guest rooms which are 30% larger than hotels of the same class with a distinctive supply of 'triple' (3 beds) and 'quadruple' (4 beds) rooms. 20 guest rooms are equipped with pantries so as to meet the needs of long-staying guests. In addition, a majority of rooms enjoy a pleasant river view.

Asset Enhancement Works

The Asset Enhancement Program involves converting certain suites into an additional 28 guest rooms in 2007 and adding 274 new guest rooms on top of the existing hotel in 2008. After completion by the end of 2008, 302 new guest rooms will be available. Three stories will be added to RRH and the total gross floor area of the hotel will increase to approximately 639,292 sq.ft.

The additional rooms (32% increment) are expected to raise the overall average room rate of RRH while the anticipated rise in the number of guests is expected to enhance the F&B business. RRH revenue is therefore expected to rise significantly after 2008.

To avoid excessive noise during construction, some of the structural elements will be made of steel. Noisy works such as in-situ concreting, formwork fabrication and steel bending will be kept to a minimum. The construction methodology will be strategically planned and construction works will be carried out in rotational sequences to reduce the extent and duration of the noise impact to lower guest room floors. The portion of the topmost guest room floor directly below the construction area will be withheld from sale (about 40 rooms each time) and act as a noise buffer to the guest rooms below. The noisy interior carpentry works will be kept to a minimum by off-site prefabrication. Construction materials delivery will be by tower crane erected on the roof, while the vertical movement of workers will be restricted to fire exit staircases so as to avoid disturbance to the hotel's normal operations. The construction works will be carried out from 9:00 a.m. to 6:00 p.m. During such time, all the tour group guests, who form a substantial part of the hotel guests, will have already left the hotel for day tours. Disturbance to them will be minimal.

In 2005, RRH launched a project named "Shatin Soho", with the aim of turning RRH into an up-market dining and entertainment hub comparable to Soho in Central and Knutsford Terrace in Tsim Sha Tsui. Under the project, G/F shop units have been converted into an Italian restaurant, an entertainment bar and other F&B outlets for lease. Also, all the F&B outlets from 1/F to 3/F have been renovated to give a fresh look. Currently, there are seven distinctive restaurants and bars in Shatin Soho, and this number will increase to 15 later. 'Shatin Soho' is targeting hotel guests, Shatin residents of approximately 620,000[65] as well as the huge population in the New Territories.

It is expected that the F&B business of RRH will be much improved due to the 'Shatin Soho' project.

Transportation and Vicinity

RRH is in close proximity to major transportation and retail facilities in Shatin. It is a 20-minute walk from the KCR Shatin Station of East Rail, and a 15-minute walk from both the Shatin Wai Station and City One Station of KCR Ma On Shan Rail.

Although RRH is not situated in a traditional tourist or business district, KCR East Rail provides RRH with easy access to both the mainland border at Lo Wu and to Kowloon. The extension of the KCR East Rail to East Tsim Sha Tsui in 2004 served to further strengthen the connection between Shatin and Kowloon. Ma On Shan Rail which started services in December 2004 links Shatin with Ma On Shan. RRH provides shuttle bus services to the Airport, the Hong Kong Science Park and Tai Po Industrial Zone to cater for the needs of business travelers.

65 Estimated figure for 2005. Source: <Projections of Population Distribution 2004-2013>, Planning Department

Located beside KCR Shatin Station and a 20-minute walk from RRH, New Town Plaza comprises more than 360 shops and 50 restaurants in a development of over 2 million sq.ft. and is the largest shopping mall in Shatin.

There are several tourist attractions in the district. The weekly horse races held at Shatin Racecourse have been a popular social event among locals and tourists since the track's completion in 1978.

The Hong Kong International Dragon Boat Races held on Shing Mun River is the highlight of the Dragon Boat Festival and attract many tourists. Other places of interest include the Che Kung Temple located in Tai Wai which is one of the most famous temples in Hong Kong, and the Hong Kong Heritage Museum with 12 exhibition galleries, is the largest museum in Hong Kong. Shatin Town Hall next to the KCR Shatin Station stages many cultural and community events throughout the year, ranging from concerts to sculpture displays.

Hong Kong Science Park ("**HKSP**") is a 22-hectare project on the Tolo Harbour waterfront in Pak Shek Kok around 15 minutes drive from RRH and provides a knowledge-based and campus-like environment for high-technology enterprises. Upon completion (in three phases), HKSP will provide a total gross floor area of 3.6 million sq.ft. of office, research & development, conference and exhibition and serviced apartment space.

Phase 1 of HKSP was completed in 2004 and current tenants include Philips Electronics, Vtech, On Semiconductor and GP Electronics. Phase 2 is scheduled for completion in 2008. Short-term contract staff working at HKSP will take accommodation in RRH while permanent staff may make use of RRH's F&B and entertainment facilities.

Shatin Trunk Road T4, Route 8, the Shatin to Central Link ("**SCL**") and the main arena for the 2008 Olympic Equestrian events are four key projects planned for Shatin. The first three infrastructure projects are expected to improve the accessibility of Shatin as a whole while the Olympic event is expected to draw a significant number of visitors to Shatin in 2008.

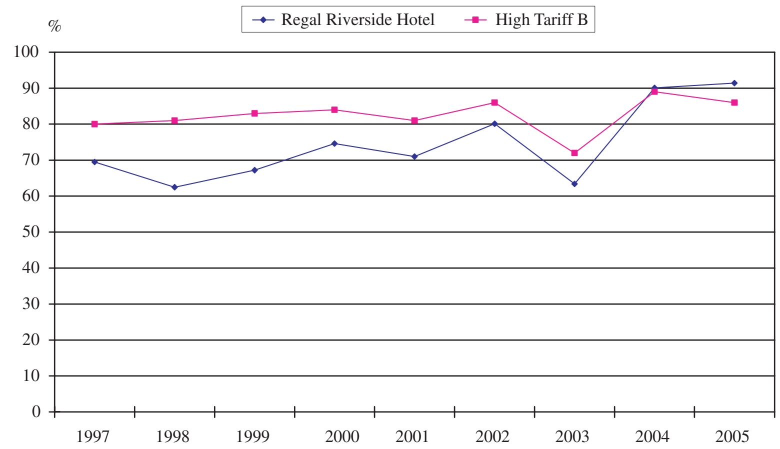
Competition

The hotel stock in Shatin District mainly comprises two hotels, namely Regal Riverside Hotel (830 rooms) and Royal Park Hotel (448 rooms). As the Horizon Suite Hotel at Tolo Harbour (831 rooms) only offers 2-bedroom or 3-bedroom suites, it is considered a serviced apartment and does not constitute direct competition to RRH.

A hotel project is under planning at The Chinese University of Hong Kong. The new hotel, scheduled for completion in 2009, will provide 600 rooms. Nevertheless, its remote location means that this new hotel only represents very indirect competition to RRH.

Performance

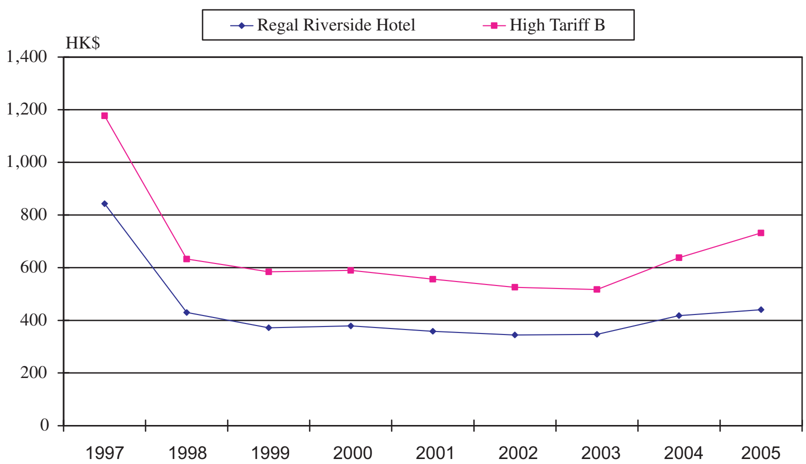
Average Occupancy Rates of RRH and High Tariff B Hotels, 1997-2005



Source: Regal Hotels International Ltd., HKTB, Savills Research & Consultancy

The average occupancy rates of RRH were lower than the High Tariff B hotel average before 2004. Benefiting from the strong rebound in tourist numbers after 2003, occupancy of RRH and High Tariff B hotels reached 90% and 89% respectively in 2004. RRH further outperformed the market average by recording an occupancy rate above 91% in 2005, compared with a High Tariff B hotel average of 86%.

Average Room Rates of RRH and High Tariff B Hotels, 1997-2005



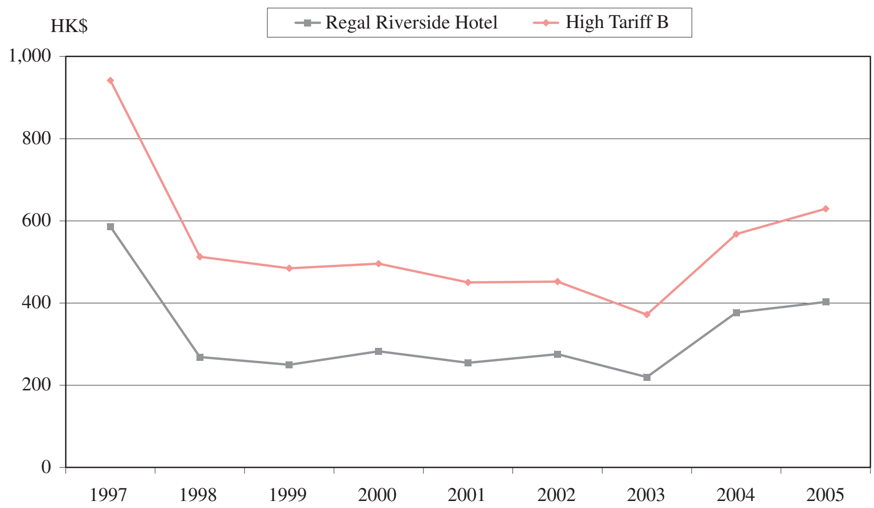
Source: Regal Hotels International Ltd., HKTB, Savills Research & Consultancy

While following a similar trend to the High Tariff B average, the average room rate of RRH has been lower than the market average over the past few years. The lower than average room rate is a result of the hotel's location in a non-core commercial/tourist district, and the management's desire to maintain a high occupancy rate. RRH's room rates describe a downward trend from 1997 to 2003, falling by about 60% over the period. Given a strong recovery in the tourism industry after SARS, RRH's room rates returned to positive growth in 2004. Rates registered growth of 27% between 2003 and 2005, compared with a 42% growth rate for High Tariff B hotels during the same period.

At the end of 2005, the average room rate of High Tariff B Hotels was 38% below the 1997 peak, whereas RRH's room rate was still 48% behind its 1997 peak. This finding suggests that room rates of RRH have room to increase.

In 2004, room revenue and F&B accounted for about 68% and 29% respectively of RRH's total operational revenue, while the High Tariff B hotel figures are 61% and 33.5% respectively. It is noteworthy that the contribution from F&B is likely to show strong growth after the opening of 'Shatin Soho' at the end of 2005.

RevPAR of RRH and High Tariff B Hotels, 1997 to 2005



Source: HKTB, Regal Hotels International Ltd., Savills Research & Consultancy

The movement of RRH's RevPAR has generally tracked the High Tariff B hotel average. RevPAR was severely dampened by the Asian Financial Crises (1997-8) and SARS (2003) but reacted to favorable market conditions such as the I.T. boom (2000), the post SARS recovery and the implementation of IVS (2003). The average annual growth rate of RevPAR of RRH between 1997 and 2005 was 1% per annum, slightly higher than High Tariff B hotels average of -1% per annum. It is noteworthy that in 2005, since occupancy rates were at high levels, operators have been more aggressive in raising room rates and RRH was no exception. RevPAR in 2005 was therefore driven largely by room rate rises.

The average room rate of RRH over 2006 increased by 7% compared with the same period in 2005. The average occupancy rate also edged up to 92%, compared with the 91% recorded over the same period last year, RevPAR over this period increased by approximately 8%.

Outlook

The occupancy rate of RRH is expected to remain high and room rates are expected to continue rising as visitor arrivals to Hong Kong continue on a rising trend.

While the completion of Shatin Soho may start to help improve RRH's F&B business from 2006, more obvious improvements are expected to be realized from 2007 after Shatin Soho is fully leased. In addition, although the Olympic Games are taking place in 2008, part of the construction of the main arena for the equestrian event is expected to finish by mid 2007 and be occupied by all divisions of the Olympic Organizing Committee to trial their organizational capabilities for the Olympic Games. Parties related to these events are expected to utilize RRH's F&B facilities or stay in RRH or both. Notably, the intended optimization of guest mix towards higher yielding guests of the management of RRH from 2009 onwards is expected to reduce the occupancy rate to 89 per cent.

Average Occupancy Rate Projections, 2007E to 2010E

	High Tariff B Hotels	RRH	Events Related to RRH
2007	90%	92% — 94%	Completion of Shatin Soho project
2008-2010	91% per annum	89% — 93%	Completion of the Asset Enhancement Works, Main Arena for Olympic and Science Park Phase II, optimization of guest mix towards higher yielding guests

Source: Savills Research & Consultancy

Higher growth of room rates is expected in 2007, due to the impact from Shatin Soho and the test event described above. Above-market average rises of room rates are expected in 2008, due to the opening of 302 new guest rooms in that year, together with the main arena for the 2008 Olympic and Paralympic equestrian events and the completion of Science Park Phase II. It is anticipated that more tourists and business travelers will choose to stay in Shatin. This will help improve both the occupancy levels and room rates of RRH. The intended optimization of guest mix towards higher yielding guests from 2009 onwards should help maintain an above-market growth in room rates despite lowering occupancy rates.

Although a 600-room hotel is expected to be completed in 2009, its remote location means that this new hotel only represents very indirect competition to RRH.

Average Room Rates Projections, 2007E to 2010E

	High Tariff B Hotels	RRH	Events Related to RRH
2007	+8% — 12%	+11% — 16%	Completion of the Asset Enhancement Works, Main Arena for Olympic and Science Park Phase II
2008	+7% — 11%	+15% — 20%	
2009-2010	+6% — 11% per annum	+9% — 13% per annum	Optimization of guest mix towards higher yielding guests

Source: Savills Research & Consultancy

RRH's RevPAR is expected to rise in line with the High Tariff B market in the order of approximately 13% per annum from 2006 to 2010 in view of the generally positive outlook of the hotel industry. The completion of extension works and the Olympic Games will help support this growth.

Limitations on Report

This report contains forward looking statements which state Savills Valuation and Professional Services Limited's (the Consultant) beliefs, expectations, forecasts or predictions for the future. The Consultant stresses that all such forecasts and statements other than statements of historical facts outlined in this summary report should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forecasts involves assumptions about a considerable number of variables which are very sensitive to changing conditions. Variations of any one may significantly affect outcomes and the Consultant draws your attention to this.

The Consultant therefore can give no assurance that the forecasts outlined in this summary report will be achieved or that such forecasts and forward looking statements will prove to have been correct and you are cautioned not to place undue reliance on such statements. The Consultant undertakes no obligation to publicly update or revise any forward looking statements contained in this summary report, whether as a result of new information, future events or otherwise, except as required by law and all forward looking statements contained in this summary report, is qualified by reference to this cautionary statement. However, if the Consultant becomes aware of material changes affecting the items documented in this report, either a) between the date of the report and the issue of the offering circular, or b) after the issue of the offering circular and before the issue of the securities, then we agree to notify Regal Portfolio Management Limited and Regal Real Estate Investment Trust immediately.

This report was prepared for inclusion in an offering circular for Regal Real Estate Investment Trust dated March 19, 2007 and certain of the information contained herein has been referred to in the preparation of a valuation report prepared by CB Richard Ellis limited in connection with the issue of the offering circular. Whilst reasonable care has been exercised in preparing the report, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract, interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. Whilst the Consultant believes that the information in this report is correct, we cannot guarantee its validity. In producing this report, the Consultant has relied upon external third party information and on statistical models to generate the forward looking statements. It should be noted and it is expressly stated that there is no independent verification of any of the external third party documents or information referred to herein. This report is limited to the matters stated in it and no opinion is implied or may be inferred beyond the matters expressly stated herein.

Yours sincerely,
Savills Valuation and Professional Services Limited
Simon Smith
Deputy Managing Director
Head of Research & Consultancy

The following is the text of a letter, prepared for inclusion in this Offering Circular, from Savills Project Consultancy Limited, in relation to its building survey report.

savills
第一太平戴維斯

Project Consultancy
DL: (852) 2534 1469
F: (852) 2851 1249

805-13 City Plaza 1
1111 King's Road
Taikoo Shing, Hong Kong

T: (852) 2534 1688
savills.com

Regal Portfolio Management Limited
Unit No. 1504, 15/F
68 Yee Wo Street
Causeway Bay
Hong Kong

DB Trustees (Hong Kong) Limited
55/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.

March 19, 2007

Dear Sirs,

RE: DUE DILIGENCE SURVEY TO 5 REGAL HOTEL PROPERTIES
BUILDING CONSULTANCY REVIEW SUMMARY

1. **Introduction**

Savills Project Consultancy Limited was appointed as the Property Consultant to conduct a building consultancy review of the following five Regal Hotels (hereafter referred to as "the Properties").

- Regal Airport Hotel at 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, Lantau Island, New Territories, Hong Kong;
- Regal Hongkong Hotel at 88 Yee Wo Street, Causeway Bay, Hong Kong;
- Regal Kowloon Hotel at 71 Mody Road, Tsim Sha Tsui East, Kowloon, Hong Kong;
- Regal Oriental Hotel at 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;

- Regal Riverside Hotel at 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong.

This letter provides a summary of our approach and findings of the surveys. In our role as the Property Consultant, we:

a. conducted comprehensive building condition surveys to the Properties between January to May 2006 and in February 2007 in order to confirm the structural integrity of the Properties, identify any existing defects;

b. reviewed the current building layouts and usage against the latest approved building plans for identifying any unauthorized building works;

c. reviewed any existing or potential hazards in respect of general building health and safety;

d. inspected all main Electrical and Mechanical plans and systems including Air-Conditioning, Fire Services, Plumbing and Drainage so as to identify any deficiencies or apparent defects; and

e. evaluated the reliability of the information provided to us by the manager for the purposes of this review including plans, schematic diagrams, occupation permit, certificate of compliance, test certificates and maintenance and capital expenditure records and maintenance records.

After completing the above tasks, as the Property Consultant, we:

a. identified irregularities in respect of relevant building and building services regulations and codes of practice, including the costs associated with any necessary upgrading of the means of escape, means of access for firefighting, fire resistance and fire service installations and equipment;

b. compiled a list of apparent defects and proposed remedial works which required attention and items that required long term maintenance; and

c. compiled a 5-Year Forecast of Repair and Maintenance for the Properties.

Any confirmation as to the structural integrity of the Properties is limited to the extent that it can be verified by visual inspection.

2. Conclusion

Based on our building condition surveys, we believed that the Properties are in reasonable condition and that there are no material defects that would affect the operation and usage of the Properties and/or impede the transfer of the Properties.

The defects we identified are of minor in nature, the extent of which is commensurate with properties of similar age and usage.

The repair and maintenance forecasts were calculated on the basis of current local market rates and therefore the future expenditure requirements are comparable with the amounts generally required for properties of similar age and usage.

3. **Survey and Evaluation Conducted**

The comprehensive building condition surveys carried out on the Properties were conducted by a Registered Professional Surveyor (Building Surveying), experienced building services engineers and qualified structural engineer, it included an in-depth review of the Properties, which covered their fabric, structure and building services installation, to verify their present physical conditions.

The surveys comprised a visual inspection of the external facades, roofs and internal common area to establish their overall conditions and states of repair. Particular attention was paid to the existence of defects such as cracks, spalled concrete, bulging, exposed and corroded reinforcement, loose/debonded external finishes, defective roof coverings, corrosion and water leakage. Our findings are as follows:

(i) *Structural Issues*

Regal Airport Hotel and Regal Hongkong Hotel are relatively new, not more than 13 years old while Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel were completed in 80's. All the buildings are of reinforced concrete structure with columns and beams. During our inspections on those buildings, no significant structural defects or deformation were noted on any structural members of the reinforcement concrete structures. There was also no visual evidence of structural movement. As such, we conclude that the building structures in question are structurally sound.

(ii) *Building Plans and Architectural Issues*

After reviewing the latest approved building plans and the relevant occupation permits against the existing site condition, we noted that no unauthorized addition & alteration works were being carried out nor any incompatible use of building were found in these properties. The buildings are therefore in compliance with the approved building plans and the relevant occupation permits. Addition and alteration works at Regal Hongkong Hotel, Regal Oriental Hotel and Regal Airport Hotel had been commenced while the addition and alteration plan for Regal Riverside Hotel had been approved by the Buildings Department, but no work was commenced so far. Refurbishment work at Regal Kowloon Hotel had been completed recently.

(iii) *Dilapidation Issues*

The overall conditions of the building fabrics of the Properties were in a fair condition. We noted a few minor cracks in Regal Kowloon Hotel which were commensurate with the age and usage of these buildings. These defects were insignificant and could be rectified as part of a maintenance and repair program.

(iv) *Environmental, Health & Safety Issues*

In our inspections, we did not detect any non-compliance with the relevant statutory requirements regarding the health and safety aspects except Po Sing Court all the owners of which was received an investigation and repair order (Order No. DR03344/K03/TCW/TE) served by the Buildings Department under section 28(3) of the Buildings Ordinance.

It was because in 2004, the Buildings Department noted that the existing drainage system of Po Sing Court was found to be defective, causing water leakage. Thus, the department issued the order in the year, requesting the owners of Po Sing Court to further investigate and repair the existing drainage system of the building.

However, due to strata title of the building, the work could not be organized by the owners; thus, the order was defaulted. The Buildings Department thus instructed their government contractor to replace the defective drainage system of the building.

So far, the government contractor had completed the investigation work and the repair work is in progress. In particular, the required works at the Manager's area had been 90% completed while the overall work is due for completion at the end of 2007 subject to the progress of the work.

(v) *Building Services Issues*

The building services installations we inspected were: Air-Conditioning System, Fire Services System, Plumbing and Drainage System, Electrical System, Lift and Escalator Systems, Security System, Emergency Generator System and Building Management System. Our inspections revealed that these installations were generally in good condition. However, minor defects such as corrosion and peeling off of paint were noted in our inspection in Regal Kowloon Hotel and Regal Riverside Hotel. These defects were photographed and presented in the survey reports for each property.

4. **Reports Delivered**

Reports were prepared and submitted in relation to the 5 Properties for which our comprehensive building condition surveys were conducted and includes:

- A brief description of the building and our scope;
- A list of drawings, manuals and certificates provided by the Manager of the building;
- Digital photographs of typical defects;
- Recommendations on necessary building repairs/remedial works;
- Estimated costs of recommended repairs/remedial works replacement;
- 5-Year Forecasts of Repair and Maintenance for the Properties.

The reports were also delivered to the Independent Property Valuer, CB Richard Ellis Limited for information and retention.

5. **Cost Estimate for Remedial Works and Routine Maintenance**

After identifying the defects in the Properties and interview with the technical staff and Chief Engineers, we prepared cost estimate for remedial works that required attention or replacement. In the 5-Year Maintenance Rolling Plan, in addition to the routine annual costs, we have allowed for budgets for replacement of certain building elements which, although do not require immediate attention, may need to be carried out in a few years time. The age of the Properties we inspected are varied, ranging from 6 to 24 years of age, but the Manager maintains the conditions in a high standard for accommodation and thus the condition of these buildings is generally good and acceptable. As such, we proposed a moderate amount of money to be spent on remedial works for the repair works that could be under the routine maintenance cost. Although some funding has been allowed for, there is no imminent need for carrying out these works and can be postponed to the year 2008 or beyond if necessary. Details are set out below:

	2007	2008	2009	2010	2011
			(HK$,000)		
Regal Airport Hotel	7,649	8,414	9,255	10,181	11,199
Regal Hongkong Hotel	3,902	4,292	4,721	5,194	5,713
Regal Kowloon Hotel	6,135	5,923	6,516	7,167	7,884
Regal Oriental Hotel	3,304	3,634	3,997	4,397	4,837
Regal Riverside Hotel	6,072	6,613	7,275	8,002	8,802

In establishing the above estimates, the following methodology was adopted:

- The estimated repair costs were based on visual inspections of defects in common and accessible areas of the buildings;

- The estimated routine annual maintenance costs were based on the historical data provided by the management and Chief Engineers, the existing site conditions and our professional judgment in formulating the appropriate maintenance schedules. An annual inspection is recommended to update the dilapidation status;

- The estimated costs were based on the current rates. No allowance has been made for inflation and deflation which might affect the prices.

6. **Limiting Conditions**

In carrying out our Review, we have relied upon the information provided to us by the Manager such as plans, schematic diagrams, test certificates, maintenance and capital expenditure records, which we have supplemented with interviews of Chief Engineers and technical staff, and independently verified through physical site inspections on the age of the Properties. While we believe this information to be accurate, our review, including the comprehensive building condition surveys, was conducted on a purely visual basis, without testing, opening-up or investigation and we cannot accept responsibility for the condition of concealed or inaccessible parts of buildings or for the information provided to us by the Manager.

Yours sincerely
For and on Behalf of
Savills Project Consultancy Limited

Remus Wong
MSc BSc MHKIS MRICS RPS(BS) ACIArb
Associate Director
Authorized Person (List of Surveyors)

The following is the text of the letter received from CB Richard Ellis Limited, the Independent Property Valuer, prepared for the purpose of incorporation in this Offering Circular, in connection with the Lease Agreements and the Hotel Management Agreements in relation to the Initial Hotel Properties.

CBRE
CB RICHARD ELLIS
世邦魏理仕

CB Richard Ellis Limited

34/F. Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三十四樓
電話 852 2820 2800 傳真 852 2810 0830

www.cbre.com.hk

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

March 19, 2007

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

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

Merrill Lynch Far East Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.
(as Joint Global Coordinators, Joint Bookrunners and Joint Lead Underwriters)

Dear Sirs,

Re: Regal Real Estate Investment Trust

We confirm that we have reviewed the Lease Agreements together with the Hotel Management Agreements and have made relevant investigations and enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion.

We, as the independent property valuer of Regal REIT, write to confirm that, in our opinion, the Lease Agreements together with the Hotel Management Agreements, including without limitation, the duration of their respective terms and the requirements regarding rental deposits and termination, are on normal commercial terms and consistent with normal business practice for contracts of the relevant type.

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

Mr Kam-hung Yu FHKIS FRICS RPS(GP)
Senior Managing Director
Valuation & Advisory Services

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

A. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection free of charge at the registered office of the REIT Manager at Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong during normal business hours up to 12:00 noon on Thursday, March 22, 2007, which is the date when the application lists close:

1. Trust Deed, as supplemented by a supplemental trust deed dated March 2, 2007;
2. Lease Agreements;
3. Lease Guarantees;
4. Hotel Management Agreements;
5. Sale and Purchase Agreement;
6. Deed of Tax Indemnity;
7. the Accountants' Report, the text of which is set out in Appendix I to this Offering Circular;
8. Report from Ernst & Young in relation to the unaudited pro forma balance sheets of Regal REIT, the text of which is set out in Appendix II to this Offering Circular;
9. Profit Forecast of Regal REIT, together with the letters from Ernst & Young and the Sole Listing Agent relating thereto, the texts of which are set out in parts B and C respectively of Appendix III to this Offering Circular;
10. Independent Property Valuer's Valuation Report, the text of which is set out in Appendix IV to this Offering Circular;
11. Letter from the Market Consultant in relation to its Hong Kong Hotel Industry Report, the text of which is set out in Appendix V to this Offering Circular;
12. Building Surveying Consultant's building survey report, the text of which is set out in Appendix VI to this Offering Circular;
13. Letter from Independent Property Valuer in relation to Lease Agreements and Hotel Management Agreements, the text of which is set out in Appendix VII to this Offering Circular;
14. Written consents referred to in the section headed "— Qualifications and Consents of Experts" in section B of this Appendix;
15. Public Offer Underwriting Agreement;
16. Subscription Agreement;
17. Distribution Deed;
18. Distributable Income Guarantee Deed;

19. Financing Agreement;

20. Interest Rate Hedging Agreements;

21. Deed of Trade Mark Licence;

22. Deed of Non Competition;

23. AEP Agency Deed; and

24. Trustee's appointment letter of the directors of Holding SPV, the Holding Companies and the Property Companies.

B. QUALIFICATIONS AND CONSENTS OF EXPERTS

The qualifications of the experts who have given opinions in this Offering Circular are as follows:

Merrill Lynch Far East Limited as the Sole Listing Agent	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) as defined under the SFO
Ernst & Young	Certified Public Accountants
CB Richard Ellis Limited	Chartered Surveyors and Valuers
Savills Valuation and Professional Services Limited	Market Consultant
Savills Project Consultancy Limited	Building Surveying Consultant

Each of the Sole Listing Agent, Ernst & Young, CB Richard Ellis Limited, Savills Valuation and Professional Services Limited and Savills Project Consultancy Limited has given and has not withdrawn their respective written consents to the issue of this Offering Circular with the inclusion of their reports and/or letters and/or valuation report and/or the references to their names included herein in the form and context in which they are respectively included.

C. MISCELLANEOUS

Save as disclosed in this Offering Circular, as at the Latest Practicable Date:

(a) none of the Directors nor any of the parties listed in paragraph B of this Appendix is interested in Regal REIT's promotion, or in any assets which have, within the two years immediately preceding the issue of this Offering Circular, been acquired or disposed of by or leased to Regal REIT, or are proposed to be acquired or disposed of by or leased to Regal REIT or any companies controlled by it;

(b) none of the Directors nor any of the parties listed in paragraph B of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Offering Circular which is significant in relation to Regal REIT's business;

(c) save in connection with the Public Offer Underwriting Agreement and the International Purchase Agreement, none of the parties listed in paragraph B of this Appendix:

(i) is interested legally or beneficially in any of the Units or any shares in any of companies controlled by Regal REIT; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Regal REIT's securities;

(d) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this Offering Circular to any of Regal REIT's promoters nor is any such securities or amount to benefit intended to be paid or allotted or given;

(e) other than the interests of Regal (in which Mr. Lo Yuk Sui, Mr. Donald Fan Tung and Mr. Jimmy Lo Chun To are directors), which has an indirect interest in the Lessee (being a wholly-owned subsidiary of Regal), the sole lessee of the Initial Hotel Properties, none of the Directors or their respective associates has any interest in the Lessee of the Initial Hotel Properties;

(f) there are no outstanding loans or guarantees granted or provided by Regal REIT or any companies controlled by it to, or for the benefit of, any of the Directors;

(g) within the two years preceding the date of this Offering Circular, Regal REIT has not issued nor agreed to issue any Units fully or partly paid either for cash or for a consideration other than cash;

(h) save in connection with the Public Offer Underwriting Agreement and the International Purchase Agreement, no outstanding Units of Regal REIT is under option or is agreed conditionally or unconditionally to be put under option;

(i) Regal REIT has not issued nor agreed to issue any founder units, management units or deferred units;

(j) none of the equity and debt securities of Regal REIT is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(k) Regal REIT has no outstanding convertible debt securities;

(l) within the two years immediately preceding the date of this Offering Circular, no commissions, discounts, brokerages or other special items have been granted or paid to any Director, proposed Director, promoter, any of the parties listed in paragraph B of this Appendix nor any other person in connection with the issue or sale of any Units or shares or loan capital of Regal REIT or any of the companies controlled by it;

(m) save for the Distribution Deed, there are no arrangements in existence under which future dividends are to be waived or agreed to be waived; and

(n) there have been no interruptions in the business of the Property Companies or the Vendor which may have or have had a significant effect on the financial position of the Property Companies and the Vendor, taken as a whole, in the last 12 months.