
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Regal REIT Offer, this Composite Offer Document or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your units of Regal Real Estate Investment Trust, you should at once hand this Composite Offer Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Offer Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms and condition of the Regal REIT Offer contained herein.

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Offer Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Offer Document and the accompanying Form of Acceptance.



GLORYMARK INVESTMENTS LIMITED
*(a company incorporated in the British Virgin Islands
with limited liability)*



**COMPOSITE OFFER DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
SUN HUNG KAI INTERNATIONAL LIMITED
FOR AND ON BEHALF OF GLORYMARK INVESTMENTS LIMITED
(AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF PALIBURG HOLDINGS LIMITED)
TO ACQUIRE ALL THE OUTSTANDING UNITS OF
REGAL REAL ESTATE INVESTMENT TRUST
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
PALIBURG HOLDINGS LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

Financial adviser to
Paliburg Holdings Limited and
Glorymark Investments Limited



Independent Financial Adviser to the Independent Board Committee



KBC Bank N.V. Hong Kong Branch

Capitalised terms used in this cover page shall have the same respective meanings as those defined in the section headed "Definitions" in this Composite Offer Document.

A letter from SHK containing, among other things, details of the terms of the Regal REIT Offer, is set out on pages 7 to 16 of this Composite Offer Document. A letter from the Regal REIT Manager Board is set out on pages 17 to 22 of this Composite Offer Document. A letter from the Independent Board Committee to the Independent Regal REIT Unit Holders containing its recommendation in respect of the Regal REIT Offer is set out on pages 23 to 24 of this Composite Offer Document. A letter from KBC Bank N.V. Hong Kong Branch containing its advice to the Independent Board Committee in respect of the Regal REIT Offer is set out on pages 25 to 37 of this Composite Offer Document.

The procedures for acceptance of the Regal REIT Offer and other related information are set out in Appendix I to this Composite Offer Document and in the accompanying Form of Acceptance. Acceptances of the Regal REIT Offer should be received by the Registrar, Computershare Hong Kong Investor Services Limited, by no later than 4:00 p.m. on Monday, 30 July 2012 or such later time and/or date as the Offeror may decide and announce, with the consent of the Executive where necessary, in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to forward this Composite Offer Document and/or the Form of Acceptance to any jurisdiction outside of Hong Kong should read the details in this regard which are contained in the sub-paragraph headed "Independent Regal REIT Unit Holders outside Hong Kong" under the paragraph headed "The Regal REIT Offer" in the "Letter from SHK" on page 11 of this Composite Offer Document and in section headed "Independent Regal REIT Unit Holders outside Hong Kong" of Appendix I to this Composite Offer Document before taking any actions. It is the responsibility of each overseas Regal REIT Unit Holder wishing to accept the Regal REIT Offer to satisfy himself, herself or itself as to full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Regal REIT Unit Holders are advised to seek professional advice on deciding whether or not to accept the Regal REIT Offer.

9 July 2012

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Expected timetable | ii |
| Definitions | 1 |
| Letter from SHK | 7 |
| Letter from the Regal REIT Manager Board | 17 |
| Letter from the Independent Board Committee | 23 |
| Letter from the Independent Financial Adviser | 25 |
| Appendix I — Further terms of the Regal REIT Offer | I-1 |
| Appendix II — Financial information of the Regal REIT Group | II-1 |
| Appendix III — Property valuation reports | III-1 |
| Appendix IV — General information | IV-1 |
| Accompanying document — Form of Acceptance | |

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and any changes to the timetable will be announced by Paliburg, the Offeror and the Regal REIT Manager:

2012

| | |
|---|--|
| Date of despatch of this Composite Offer Document and the accompanying Form of Acceptance and commencement date of the Regal REIT Offer ^(Note 1) | Monday, 9 July |
| Latest time and date for acceptance of the Regal REIT Offer ^(Note 2) | 4:00 p.m. on Monday, 30 July |
| Closing Date ^(Note 2) | Monday, 30 July |
| Announcement of the results of the Regal REIT Offer to be posted on the website of the Stock Exchange ^(Note 2) | not later than 7:00 p.m. on Monday, 30 July |
| Latest date for posting of remittances in respect of valid acceptances received under the Regal REIT Offer ^(Note 3) | Wednesday, 8 August |

Notes:

1. The Regal REIT Offer, which is unconditional, is made on Monday, 9 July 2012, being the date of posting of this Composite Offer Document and the accompanying Form of Acceptance, and is capable of acceptance on and from that date until the Closing Date.
2. The Regal REIT Offer, which is unconditional, will be closed on the Closing Date, and the latest time and date for acceptance is at 4:00 p.m. on Monday, 30 July 2012, unless the Offeror revises or extends the Regal REIT Offer in accordance with the Takeovers Code. An announcement will be issued through the website of the Stock Exchange by 7:00 p.m. on Monday, 30 July 2012 stating whether the Regal REIT Offer has been closed or revised or extended or has expired. In the event that the Offeror decides that the Regal REIT Offer will remain open until further notice, at least 14 days' notice by way of an announcement will be given before the Regal REIT Offer is closed to those Independent Regal REIT Unit Holders who have not accepted the Regal REIT Offer.
3. Remittances in respect of cash consideration (after deducting the seller's ad valorem stamp duty payable for the Regal REIT Offer Units tendered under the Regal REIT Offer) will be made to the accepting Independent Regal REIT Unit Holders by ordinary post at their own risks as soon as possible, but in any event within 7 Business Days following the date on which the relevant documents of title are received by the Registrar to render such acceptance complete and valid in accordance with the terms of the Regal REIT Offer set out herein. Acceptances of the Regal REIT Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in Appendix I to this Composite Offer Document.

Unless otherwise expressly stated, all times and dates contained in this Composite Offer Document and the accompanying Form of Acceptance refer to Hong Kong time and dates.

DEFINITIONS

In this Composite Offer Document, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|----------------------------|--|
| “acting in concert” | has the meaning ascribed to it in the Takeovers Code |
| “associate(s)” | has the meaning ascribed to it in the Listing Rules or the Takeovers Code (as the case may be), unless otherwise specified |
| “Business Day” | a day on which the Stock Exchange is open for the transaction of business |
| “BVI” | the British Virgin Islands |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Century City” | Century City International Holdings Limited (Stock code: 355), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange |
| “Century City Board” | board of directors of Century City |
| “Century City Group” | Century City and its subsidiaries |
| “Closing Date” | Monday, 30 July 2012, being the closing date of the Regal REIT Offer, which is the 21st day after the date of despatch of this Composite Offer Document, or if the Regal REIT Offer is revised or extended, any subsequent closing date of the Regal REIT Offer as determined and announced by the Offeror with the consent of the Executive in accordance with the Takeovers Code |
| “Composite Offer Document” | the composite offer document in relation to the Regal REIT Offer, combining the offer document issued by the Offeror and the offeree board circular issued by the Regal REIT Manager under Rule 8.2 of the Takeovers Code and paragraph 10.8 of the REIT Code |
| “Encumbrances” | includes, without any limitation, any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), equities, hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-purchase or sale-and-leaseback arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same |

DEFINITIONS

| | |
|---------------------------------|---|
| “Executive” | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director |
| “Facility” | a standby loan facility of HK\$424,000,000 at an interest rate of 12% per annum payable monthly in arrears from the date of drawdown of the standby loan facility (which shall only be utilised if and when the bank deposit made by a wholly-owned subsidiary of Paliburg has been fully utilised for financing the Regal REIT Offer) granted by SHKIS to the Offeror and is secured by depositing all Regal REIT Offer Units that are acquired by the Offeror under the Regal REIT Offer pursuant to a facility letter dated 3 May 2012 |
| “First Announcement” | the announcement dated 20 April 2012 jointly issued by the Century City Board, the Paliburg Board, the Regal Hotels Board and the Regal REIT Manager Board in relation to the RH Share Repurchase Programme under the Listing Rules and the Regal REIT Offer under Rule 3.7 of the Takeovers Code |
| “Form of Acceptance” | the form of acceptance and transfer for the Regal REIT Offer, which accompanies this Composite Offer Document |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Independent Board Committee” | the independent board committee of the Regal REIT Manager Board (comprising Mr. Kai Ole RINGENSON, a non-executive Regal REIT Manager Director, and Mr. John William CRAWFORD, JP and Mr. Alvin Leslie LAM Kwing Wai, both independent non-executive Regal REIT Manager Directors, who have no direct or indirect interest in the Regal REIT Offer) which has been established to advise the Independent Regal REIT Unit Holders as to whether or not the terms of the Regal REIT Offer are fair and reasonable so far as the Independent Regal REIT Unit Holders are concerned and whether or not to accept the Regal REIT Offer |
| “Independent Financial Adviser” | KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO, appointed as the independent financial adviser to advise the Independent Board Committee in relation to the Regal REIT Offer |

DEFINITIONS

| | |
|---|---|
| “Independent Regal REIT Unit Holders” | Regal REIT Unit Holders other than the Paliburg Concert Group |
| “Last (First Announcement) Trading Day” | 19 April 2012, being the last trading day of the Regal REIT Units on the Stock Exchange immediately preceding the date of the First Announcement |
| “Last Trading Day” | 7 May 2012, being the last trading day of the Regal REIT Units on the Stock Exchange immediately prior to its suspension in trading on 8 May 2012 pending the release of the Offer Announcement |
| “Latest Practicable Date” | 6 July 2012, being the latest practicable date for the purposes of ascertaining certain information in this Composite Offer Document |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented and otherwise modified from time to time |
| “Mr. LO” | Mr. LO Yuk Sui, who is the Chairman, Chief Executive Officer and executive director of each of Century City, Paliburg and Regal Hotels, and is also the Chairman and a non-executive director of the Regal REIT Manager |
| “NAV” | net asset value |
| “Offer Announcement” | the announcement dated 18 May 2012 jointly issued by the Century City Board, the Paliburg Board, the board of directors of the Offeror and the Regal REIT Manager Board in relation to, inter alia, the Regal REIT Offer under Rule 3.5 of the Takeovers Code |
| “Offer Period” | the period from 20 April 2012, being the date of the First Announcement, to the Closing Date or such other date to which the Offeror may decide to extend the Regal REIT Offer in accordance with the Takeovers Code |
| “Offeror” | Glorymark Investments Limited, a company incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of Paliburg |
| “Paliburg” | Paliburg Holdings Limited (Stock code: 617), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange |
| “Paliburg Board” | board of directors of Paliburg |

DEFINITIONS

| | |
|----------------------------------|---|
| “Paliburg Concert Group” | Paliburg and parties acting in concert with it, including the Offeror and SHK |
| “Paliburg Director(s)” | director(s) of Paliburg |
| “Paliburg Group” | Paliburg and its subsidiaries |
| “Regal Hotels” | Regal Hotels International Holdings Limited (Stock code: 78), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange |
| “Regal Hotels Board” | the board of directors of Regal Hotels |
| “Regal Hotels Group” | Regal Hotels and its subsidiaries |
| “Regal Hotels Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of Regal Hotels |
| “Regal REIT” | Regal Real Estate Investment Trust (Stock code: 1881), a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange |
| “Regal REIT Group” | Regal REIT and its subsidiaries |
| “Regal REIT Manager” | Regal Portfolio Management Limited, the manager of Regal REIT and a wholly-owned subsidiary of Regal Hotels |
| “Regal REIT Manager Board” | board of director(s) of Regal REIT Manager |
| “Regal REIT Manager Director(s)” | director(s) of Regal REIT Manager |
| “Regal REIT Offer” | the unconditional mandatory general cash offer made by SHK on behalf of the Offeror to acquire all the Regal REIT Offer Units pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code |
| “Regal REIT Offer Price” | the cash consideration per Regal REIT Offer Unit payable under the Regal REIT Offer, being HK\$1.00 per Regal REIT Offer Unit |
| “Regal REIT Offer Unit(s)” | the issued Regal REIT Unit(s) (other than those already owned or agreed to be acquired by the Paliburg Concert Group), being the subject of the Regal REIT Offer |

DEFINITIONS

| | |
|--|--|
| “Regal REIT Unit Holders” or “Unitholders” | holders of Regal REIT Units from time to time |
| “Regal REIT Units” | units of Regal REIT |
| “REIT Code” | the Code on Real Estate Investment Trusts published by the SFC (as amended from time to time) |
| “Registrar” | Computershare Hong Kong Investor Services Limited, being the unit registrar of Regal REIT and the receiving agent for receiving and processing the acceptance of the Regal REIT Offer, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong |
| “Relevant Period” | the period commencing six months prior to 20 April 2012, being the date of the First Announcement, and up to and including the Latest Practicable Date |
| “RH Share Repurchase Programme” | an on-market programme of repurchases of up to 38,886,400 Regal Hotels Shares, comprising the RH Share Repurchase (Pre-Consolidation) and the RH Share Repurchase (Post-Consolidation) |
| “RH Share Repurchase (Post-Consolidation)” | all and any repurchases of up to 26,295,789 Regal Hotels Shares by Regal Hotels under the RH Share Repurchase Programme <i>after</i> Regal Hotels becomes a subsidiary of Paliburg |
| “RH Share Repurchase (Pre-Consolidation)” | all and any repurchases of up to 12,590,611 Regal Hotels Shares by Regal Hotels under the RH Share Repurchase Programme <i>before</i> Regal Hotels becomes a subsidiary of Paliburg |
| “Second Announcement” | the announcement dated 9 May 2012 jointly issued by the Century City Board, the Paliburg Board, the Regal Hotels Board and the Regal REIT Manager Board in accordance with Rule 13.09 of the Listing Rules and paragraph 10.3 of the REIT Code |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “SHK” | Sun Hung Kai International Limited, a licensed corporation to carry out Type 1 (dealings in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

DEFINITIONS

| | |
|------------------|--|
| “SHKIS” | Sun Hung Kai Investment Services Limited, a licensed corporation to carry out Type 1 (dealings in securities) and Type 4 (advising on securities) of the regulated activities under the SFO |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | the Code on Takeovers and Mergers, issued by the SFC (as amended from time to time) |
| “Trust Deed” | the trust deed constituting Regal REIT dated 11 December 2006, entered into between the Trustee and the Regal REIT Manager, as supplemented by a first supplemental deed dated 2 March 2007, a second supplemental deed dated 15 May 2008, a third supplemental deed dated 8 May 2009, a fourth supplemental deed dated 23 July 2010, a fifth supplemental deed dated 3 May 2011 and a sixth supplemental deed dated 21 July 2011 all entered into between the same parties (as may be further amended and supplemented from time to time) |
| “Trustee” | DB Trustees (Hong Kong) Limited, in its capacity as trustee of Regal REIT |
| “%” | per cent. |

LETTER FROM SHK

 **新鴻基金融集團**
SUN HUNG KAI FINANCIAL
SUN HUNG KAI INTERNATIONAL LIMITED

42/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

9 July 2012

To the Independent Regal REIT Unit Holders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
SUN HUNG KAI INTERNATIONAL LIMITED
FOR AND ON BEHALF OF GLORYMARK INVESTMENTS LIMITED
(AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF PALIBURG HOLDINGS LIMITED)
TO ACQUIRE ALL THE OUTSTANDING UNITS OF
REGAL REAL ESTATE INVESTMENT TRUST
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
PALIBURG HOLDINGS LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Offer Announcement in relation to, among others, the Regal REIT Offer.

As set out in the Offer Announcement, taking into consideration that the aggregate of 12,600,000 Regal Hotels Shares repurchased by Regal Hotels from the Business Day immediately following the date of the First Announcement and up to 7 May 2012 had been cancelled, the aggregate proportionate shareholding interests of the Paliburg Group and the Paliburg Concert Group in 494,413,861 Regal Hotels Shares and 495,750,238 Regal Hotels Shares had increased from approximately 49.37% to approximately 50.00% and from approximately 49.50% to approximately 50.14% of the then issued share capital of Regal Hotels respectively and crossed over the 50% shareholding threshold on 7 May 2012. Accordingly, pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code, Paliburg is required and has procured the Offeror, being an indirect wholly-owned subsidiary of Paliburg, to make an unconditional mandatory general cash offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Paliburg Concert Group.

As at the Latest Practicable Date, taking into consideration that the aggregate of 37,344,000 Regal Hotels Shares repurchased by Regal Hotels up to the Latest Practicable Date had been cancelled, the aggregate proportionate shareholdings interests of the Paliburg Group and the Paliburg Concert Group in the then issued share capital of Regal Hotels were approximately 51.28% and 51.42% respectively.

LETTER FROM SHK

This letter sets out, among other things, the principal terms of the Regal REIT Offer, the information on the Offeror and Paliburg, and the intention of the Offeror and Paliburg regarding the Regal REIT Group. Further terms and procedures of acceptance of the Regal REIT Offer are set out in Appendix I to this Composite Offer Document and the accompanying Form of Acceptance.

The Independent Regal REIT Unit Holders are strongly advised to consider carefully the information contained in the “Letter from the Regal REIT Manager Board”, the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” as set out in this Composite Offer Document before reaching a decision as to whether or not to accept the Regal REIT Offer.

THE REGAL REIT OFFER

Other than the 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date, Regal REIT does not have any other outstanding Regal REIT Units, options, derivatives or warrants or other securities which are convertible or exchangeable into Regal REIT Units and has not entered into any agreement for the issue of any Regal REIT Units, options, derivatives or warrants or other securities of Regal REIT.

The Paliburg Concert Group was interested in 2,433,549,739 Regal REIT Units, representing approximately 74.71% of the total issued Regal REIT Units as at the Latest Practicable Date.

Principal terms of the Regal REIT Offer

SHK is making, for and on behalf of the Offeror, the Regal REIT Offer to the Independent Regal REIT Unit Holders on the following terms in accordance with Rule 26.1 of the Takeovers Code:

For each Regal REIT Offer Unit HK\$1.00 in cash

The Regal REIT Offer Units to be acquired under the Regal REIT Offer shall be fully paid and free from all Encumbrances together with all rights attached to them, including the rights to receive all distributions declared, made or paid on or after 9 July 2012, being the date of this Composite Offer Document.

Acceptance of the Regal REIT Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code. The procedures for acceptance and further terms of the Regal REIT Offer are set out in Appendix I to this Composite Offer Document.

As set out in the Offer Announcement, the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit is determined based on the implied value of the Regal REIT Units deemed acquired by the Paliburg Group, which is derived from:

- (i) the maximum repurchase price paid for each Regal Hotels Share during the Offer Period of the Regal REIT Offer and within six months prior to the date of the First Announcement, being 20 April 2012;

LETTER FROM SHK

- (ii) the number of Regal Hotels Shares in issue on the date immediately prior to each share repurchase made under the RH Share Repurchase Programme during the Offer Period and within the six months before the date of the First Announcement, being 20 April 2012;
- (iii) the ratio of the NAV of the Regal REIT Group based on its latest audited financial statements to the NAV of the Regal Hotels Group based on its latest audited financial statements (subject to adjustments to restate its hotel property portfolio at its fair market value and to add back the relevant deferred taxation); and
- (iv) the number of Regal REIT Units held by the Regal Hotels Group.

Up to the Latest Practicable Date, the highest repurchase price paid for the Regal Hotels Shares under the RH Share Repurchase Programme was HK\$3.33 per Regal Hotels Share and was made on 3 May 2012. The Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit has been determined by the Offeror based on the possible maximum repurchase price under the RH Share Repurchase Programme as announced in the First Announcement of HK\$3.80 per Regal Hotels Share, instead of the actual highest repurchase price made on 3 May 2012 of HK\$3.33 per Regal Hotels Share.

Comparison of value

The Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit represents:

- (i) a discount of approximately 45.95% to the closing price of HK\$1.850 per Regal REIT Unit as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 49.75% to the closing price of HK\$1.990 per Regal REIT Unit as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 49.49% to the closing price of HK\$1.980 per Regal REIT Unit as quoted on the Stock Exchange on the Last (First Announcement) Trading Day;
- (iv) a discount of approximately 49.80% to the average closing price of approximately HK\$1.992 per Regal REIT Unit for the last 5 trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 49.39% to the average closing price of approximately HK\$1.976 per Regal REIT Unit for the last 10 trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 49.08% to the average closing price of approximately HK\$1.964 per Regal REIT Unit for the last 30 trading days immediately prior to and including the Last Trading Day;
- (vii) a discount of approximately 51.08% to the average closing price of approximately HK\$2.044 per Regal REIT Unit for the last 60 trading days immediately prior to and including the Last Trading Day;

LETTER FROM SHK

- (viii) a discount of approximately 49.60% to the average closing price of approximately HK\$1.984 per Regal REIT Unit for the last 90 trading days immediately prior to and including the Last Trading Day; and
- (ix) a discount of approximately 74.25% to the NAV per Regal REIT Unit of approximately HK\$3.884 (calculated based on the audited NAV of the Regal REIT Group of approximately HK\$12,651.85 million as at 31 December 2011 and 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date).

Highest and lowest prices of Regal REIT Units

During the Relevant Period, the highest closing price of the Regal REIT Units as quoted on the Stock Exchange was HK\$2.17 per Regal REIT Unit on 20 February 2012 and the lowest closing price of the Regal REIT Units as quoted on the Stock Exchange was HK\$1.69 per Regal REIT Unit on 4 June 2012 and 6 June 2012.

Total consideration

Based on the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit and 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date, the entire issued Regal REIT Units are valued at approximately HK\$3,257.43 million. Excluding the 2,433,549,739 Regal REIT Units held by the Paliburg Concert Group as at the Latest Practicable Date, 823,881,450 Regal REIT Offer Units will be the subject of the Regal REIT Offer. Assuming the Regal REIT Offer is accepted in full by the Independent Regal REIT Unit Holders, the total amount of cash required to effect the Regal REIT Offer will be approximately HK\$823.88 million.

Financial resources available to the Offeror

The financial resources of the Offeror to fund the Regal REIT Offer, amounting to approximately HK\$824 million, are partly financed from internal resources of the Paliburg Group and partly by the Facility provided by SHKIS. All Regal REIT Units to be acquired by the Offeror under the Regal REIT Offer shall be pledged to SHKIS for the Facility. The payment of interest on, repayment of or security for any liability under the Facility will not depend on the business of the Regal REIT Group. As at the Latest Practicable Date, SHKIS did not hold any Regal REIT Units, convertible securities, warrants, options or derivatives of Regal REIT.

SHK has been appointed as the financial adviser to the Offeror in respect of the Regal REIT Offer and is satisfied that there are sufficient financial resources available to the Offeror to satisfy the full acceptance of the Regal REIT Offer as at the Latest Practicable Date.

Effect of accepting the Regal REIT Offer

By accepting the Regal REIT Offer, the Independent Regal REIT Unit Holders will sell their Regal REIT Offer Units to the Offeror free from all Encumbrances together with all rights attached to them, including the rights to receive all distributions declared, made or paid on or after 9 July 2012, being the date of this Composite Offer Document.

LETTER FROM SHK

Independent Regal REIT Unit Holders outside Hong Kong

The making of the Regal REIT Offer to persons not resident in Hong Kong may be affected by the laws of non-Hong Kong jurisdictions. Any Independent Regal REIT Unit Holders who are citizens, residents or nationals of any jurisdictions outside Hong Kong or otherwise subject to any non-Hong Kong jurisdictions should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It will be the sole responsibility of the Independent Regal REIT Unit Holders who wish to accept the Regal REIT Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant non-Hong Kong jurisdictions in connection with the acceptance of the Regal REIT Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Payment

Remittances in respect of cash consideration (after deducting the seller's ad valorem stamp duty payable for the Regal REIT Offer Units tendered under the Regal REIT Offer) will be made to the accepting Independent Regal REIT Unit Holders by ordinary post at their own risks as soon as possible but in any event within 7 Business Days following the date on which the relevant documents of title are received by the Registrar to render such acceptance complete and valid in accordance with the terms of the Regal REIT Offer set out in this Composite Offer Document together with the accompanying Form of Acceptance.

Stamp Duty

The ad valorem stamp duty on the sale of any Regal REIT Offer Units represented by acceptances of the Regal REIT Offer, at the rate of 0.1% (as prescribed under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)) of the higher of their market value or the amount of consideration for them, will be payable by the relevant accepting Independent Regal REIT Unit Holders. The amounts due will be deducted from the consideration payable to them. The Offeror will arrange for payment of the due amount of stamp duty in respect of any Regal REIT Offer Units represented by acceptances of the Regal REIT Offer for the relevant accepting Independent Regal REIT Unit Holders. The Offeror will pay the ad valorem stamp duty in respect of its purchase of those Regal REIT Offer Units and the fixed stamp duty in respect of their transfers in accordance with the Stamp Duty Ordinance.

Compulsory acquisition

The Offeror does not intend to avail itself of any powers of compulsory acquisition of the Regal REIT Offer Units after the close of the Regal REIT Offer.

LETTER FROM SHK

DEALINGS AND INTERESTS IN THE SECURITIES OF REGAL HOTELS AND REGAL REIT

During the Relevant Period,

- (i) save for the 37,344,000 Regal Hotels Shares which have been repurchased under the RH Share Repurchase Programme, the 16 Regal Hotels Shares which had been sold by Sun Hung Kai (Nominees) Limited* at HK\$2.50 per Regal Hotels Share on 28 October 2011 and the non-discretionary dealings in Regal Hotels Shares for and on behalf of its individual clients by SHKIS and/or its associates which are presumed to be parties acting in concert with the Offeror and except as disclosed in (ii) below, none of the members of the Paliburg Concert Group has dealt in the Regal Hotels Shares, options, derivatives, warrants or other securities convertible into Regal Hotels Shares;

* Sun Hung Kai (Nominees) Limited is presumed to be acting in concert with the Offeror under class (5) of the definition of “acting in concert” under the Takeovers Code.

- (ii) H.P. Nominees Limited (“**HP Nominees**”), a wholly-owned subsidiary of Paliburg, entered into a contract (the “**Equity Swap Contract**”) with an independent third party financial institution (the “**Equity Swap Counterparty**”) on 20 June 2012, in relation to cash settled equity swap transaction referenced to Regal Hotels Shares with a notional amount of HK\$10 million for a period of one year from the effective date on 21 June 2012 to the valuation date on 21 June 2013. The Equity Swap Contract will be settled in cash only, and there is no right for any party to elect physical settlement. Under Part XV of the SFO, HP Nominees is deemed to have interests in the Regal Hotels Shares purchased by the Equity Swap Counterparty (as hedging party) as set out below, to which the Equity Swap Contract is referenced:

| Date | Regal Hotels Shares purchased by the Equity Swap Counterparty (as hedging party) | VWAP* | Total value of Regal Hotels Shares purchased by the Equity Swap Counterparty (at VWAP*) |
|--------------|---|--------------|--|
| 21 June 2012 | 800,000 | HK\$2.9038 | HK\$2,323,020 |
| 22 June 2012 | 1,250,000 | HK\$2.9080 | HK\$3,635,000 |
| 25 June 2012 | 800,000 | HK\$2.8929 | HK\$2,314,340 |
| 26 June 2012 | 400,000 | HK\$2.8922 | HK\$1,156,880 |
| 27 June 2012 | <u>184,000</u> | HK\$2.8853 | <u>HK\$530,900</u> |
| Total | <u>3,434,000</u> | | <u>HK\$9,960,140</u> |

* VWAP denotes the volume weighted average price per Regal Hotels Share based on trades executed on the relevant date by the Equity Swap Counterparty;

and

LETTER FROM SHK

- (iii) save for the non-discretionary dealings in Regal REIT Units for and on behalf of its individual clients by SHKIS and/or its associates which are presumed to be parties acting in concert with the Offeror, none of the members of the Paliburg Concert Group has dealt in the Regal REIT Units, options, derivatives, warrants or other securities convertible into Regal REIT Units.

Paliburg and the Offeror confirm that, as at the Latest Practicable Date:

- (i) save for the 2,433,549,739 Regal REIT Units, representing approximately 74.71% of the total number of Regal REIT Units in issue, none of the members of the Paliburg Concert Group holds, owns or has control or direction over any voting rights and rights over Regal REIT Units, options, derivatives, warrants or other securities convertible into Regal REIT Units; and
- (ii) none of the members of the Paliburg Concert Group has entered into any arrangements or contracts in relation to the derivatives in respect of securities in Regal REIT or borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Regal REIT.

Other arrangements

Paliburg and the Offeror confirm that, as at the Latest Practicable Date:

- (i) none of the members of the Paliburg Concert Group have entered into any arrangement of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person.
- (ii) there is no condition (including normal conditions relating to acceptance, listing and increase of capital) to which the Regal REIT Offer is subject;
- (iii) there is no agreement or arrangement to which any member of the Paliburg Concert Group is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Regal REIT Offer;
- (iv) no person who owned or controlled any Regal REIT Units or relevant securities of Regal REIT had irrevocably committed themselves to accept or reject the Regal REIT Offer; and
- (v) none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Regal REIT; and
- (vi) none of the members of the Paliburg Concert Group has entered into any outstanding derivatives in respect of units or other securities in Regal REIT.

LETTER FROM SHK

INFORMATION ON THE OFFEROR AND PALIBURG

The Offeror is a company incorporated in the BVI on 5 April 2012 and is an indirect wholly-owned subsidiary of Paliburg. The directors of the Offeror are Mr. LO, Mr. Donald FAN Tung, Mr. Jimmy LO Chun To, Miss LO Po Man, Mr. Kenneth NG Kwai Kai and Mr. Kenneth WONG Po Man who are also the Paliburg Directors. The principal business of the Offeror is investment holding.

The principal activity of Paliburg is that of a holding company. The principal activities of the subsidiaries of Paliburg are property development and investment, construction and building related businesses, the investment in Regal Hotels, and other investments. The Paliburg Directors are Mr. LO (Chairman and Chief Executive Officer), Mr. Donald FAN Tung (Chief Operating Officer), Mr. Jimmy LO Chun To, Miss LO Po Man, Mr. Kenneth NG Kwai Kai and Mr. Kenneth WONG Po Man as executive Paliburg Directors and Mr. Bowen Joseph LEUNG Po Wing, GBS, JP, Mr. NG Siu Chan, Hon Abraham SHEK Lai Him, SBS, JP and Mr. WONG Chi Keung as the independent non-executive Paliburg Directors.

INTENTIONS OF THE OFFEROR AND PALIBURG ON THE REGAL REIT GROUP

The Regal REIT Offer was triggered by the repurchases of Regal Hotels Shares made under the RH Share Repurchase Programme, as detailed in the First Announcement and the Offer Announcement. The Regal REIT Offer Price was determined at HK\$1.00 for each Regal REIT Offer Unit as mentioned above. The Offeror intends to continue the existing business and operation of Regal REIT for producing stable and growing distribution and achieving long-term growth. The Offeror does not intend to introduce any major changes to the operations of Regal REIT as a result of the Regal REIT Offer, including (i) any redeployment of its assets; (ii) any proposed change of the property management company and any transitional arrangements; (iii) any major changes to the investment policy of the Regal REIT; and (iv) any plan to remove the current management company (and/or its directors) and appoint a new management company (and/or its directors) and any corresponding transitional arrangements. As at the Latest Practicable Date, the Offeror (i) had not entered nor had any intention to enter into any agreement, arrangement, understanding or negotiation about any acquisition of assets (whether concluded or not) and (ii) had no assets injections agreed or under negotiation. The Offeror intends to maintain the listing status of Regal REIT on the Stock Exchange after the Regal REIT Offer.

INFORMATION ON THE REGAL REIT GROUP

Regal REIT is a Hong Kong collective investment scheme authorised under section 104 of the SFO and the Regal REIT Units were first listed on the Stock Exchange on 30 March 2007. Regal REIT is governed by the Trust Deed. The principal activity of the Regal REIT Group is to own and invest in income-generating hotels, hospitality-related properties and other commercial properties with the objectives of producing stable and growing distributions to the Regal REIT Unit Holders and to achieve long-term growth in the NAV per Regal REIT Unit.

As referred to in the annual report of Regal REIT for the year ended 31 December 2011 (the “**Regal REIT AR**”), the portfolio of investment properties of Regal REIT comprised six hotel

LETTER FROM SHK

properties, being Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal iClub Hotel. According to the Regal REIT AR, the audited NAV of the Regal REIT Group as at 31 December 2011 was approximately HK\$12,651.85 million, representing audited NAV of approximately HK\$3.884 per Regal REIT Unit.

Please refer to the “Letter from the Regal REIT Manager Board” contained in this Composite Offer Document for further information of the Regal REIT Group.

MAINTENANCE OF REGAL REIT’S LISTING STATUS

The Paliburg Board does not have intention to privatize Regal REIT by means of the Regal REIT Offer. Paliburg intends to maintain the listing status of Regal REIT on the Stock Exchange after the Regal REIT Offer. As set out above, the total number of Regal REIT Offer Units is 823,881,450, being the subject of the Regal REIT Offer, which are held by the Independent Regal REIT Unit Holders, representing approximately 25.29% of the Regal REIT Units outstanding as at the Latest Practicable Date. If, as a result of the Regal REIT Offer, the percentage of the outstanding Regal REIT Units in the public hands has fallen below 25%, Paliburg will take appropriate steps, including placement of Regal REIT Units, to ensure that sufficient public float exists in the Regal REIT Units as soon as possible after the close of the Regal REIT Offer.

Furthermore, under the Trust Deed, in the event that the Regal REIT Manager becomes aware that the percentage of the outstanding Regal REIT Units in the public hands has fallen below 25%, the Regal REIT Manager shall use its best efforts by working closely with Paliburg to restore the percentage of Regal REIT Units held in public hands to at least the said public float percentage of the outstanding Regal REIT Units as soon as possible.

TAX IMPLICATIONS

None of Regal REIT, the Offeror, Paliburg, SHK, the Independent Financial Adviser, the Registrar or any of their respective directors or any other parties involved in the Regal REIT Offer is in a position to advise the Independent Regal REIT Unit Holders on their individual tax implications. The Independent Regal REIT Unit Holders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Regal REIT Offer. None of Regal REIT, the Offeror, Paliburg, SHK, the Independent Financial Adviser, the Registrar, the professional advisers to Regal REIT, the Offeror and Paliburg or any of their respective directors or any other parties involved in the Regal REIT Offer accepts any responsibility for any tax effect on, or liabilities of, the Independent Regal REIT Unit Holders.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Offer Document and the accompanying Form of Acceptance.

LETTER FROM SHK

GENERAL

To ensure equality of treatment of all Independent Regal REIT Unit Holders, those registered Independent Regal REIT Unit Holders who hold any Regal REIT Offer Units as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Regal REIT Offer Units whose investments are registered in the names of nominees to accept the Regal REIT Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Regal REIT Offer.

The attention of the Independent Regal REIT Unit Holders with registered addresses in jurisdiction outside Hong Kong is drawn to the section headed “Independent Regal REIT Unit Holders outside Hong Kong” in Appendix I to this Composite Offer Document.

All documents and remittances to the Independent Regal REIT Unit Holders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Regal REIT Unit Holders at their respective addresses as they appear in the register of holders of Regal REIT Units or in the case of joint Independent Regal REIT Unit Holders, to the Independent Regal REIT Unit Holder whose name appears first in the register of holders of Regal REIT Units. None of the members of the Paliburg Concert Group (including SHK and SHKIS), Regal REIT, the Independent Financial Adviser, the Registrar or any of their respective directors or any other parties involved in the Regal REIT Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

The Independent Regal REIT Unit Holders are strongly advised to consider carefully the information contained in the “Letter from Regal REIT Manager Board”, the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” set out in this Composite Offer Document and to consult their professional advisers if in doubt.

You are recommended to read this Composite Offer Document and the accompanying Form of Acceptance for details of the Regal REIT Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Offer Document.

Yours faithfully,
For and on behalf of
Sun Hung Kai International Limited
Derek Chan
Managing Director and
Head of Corporate Finance

LETTER FROM THE REGAL REIT MANAGER BOARD



REGAL REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 1881)

Managed by



Non-executive Directors:

Mr. Lo Yuk Sui (*Chairman*)
Mr. Donald Fan Tung
Mr. Jimmy Lo Chun To
Mr. Kai Ole Ringenson

Registered office:

Unit No.1504
15th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

Executive Directors:

Mr. Francis Chiu
Mr. Simon Lam Man Lim

Independent non-executive Directors:

Mr. John William Crawford, JP
Mr. Alvin Leslie Lam Kwing Wai
Hon. Abraham Shek Lai Him, SBS, JP

9 July 2012

To the Independent Regal REIT Unit Holders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
SUN HUNG KAI INTERNATIONAL LIMITED
FOR AND ON BEHALF OF
GLORYMARK INVESTMENTS LIMITED
(AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF PALIBURG HOLDINGS LIMITED)
TO ACQUIRE ALL THE OUTSTANDING UNITS OF
REGAL REAL ESTATE INVESTMENT TRUST
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
PALIBURG HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

LETTER FROM THE REGAL REIT MANAGER BOARD

1. INTRODUCTION

On 18 May 2012, the Century City Board, the Paliburg Board, the board of directors of the Offeror and the Regal REIT Manager Board jointly made the Offer Announcement under Rule 3.5 of the Takeovers Code, whereby it was announced that SHK, for and on behalf of the Offeror, would make the Regal REIT Offer to acquire all issued Regal REIT Units (other than those Regal REIT Units already owned or agreed to be acquired by the Paliburg Concert Group) at the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit in cash.

The Independent Board Committee, comprising Mr. Kai Ole RINGENSON, a non-executive Regal REIT Manager Director, and Mr. John William CRAWFORD, JP and Mr. Alvin Leslie LAM Kwing Wai, both independent non-executive Regal REIT Manager Directors, has been established to advise the Independent Regal REIT Unit Holders as to whether or not the terms of the Regal REIT Offer are fair and reasonable so far as the Independent Regal REIT Unit Holders are concerned and whether or not to accept the Regal REIT Offer.

As Mr. LO, Mr. Donald FAN Tung and Mr. Jimmy LO Chun To, the non-executive Regal REIT Manager Directors, are executive Paliburg Directors and the directors of the Offeror, and Hon. Abraham SHEK Lai Him, SBS, JP, an independent non-executive Regal REIT Manager Director, is an independent non-executive Paliburg Director, they are not considered independent under the Takeovers Code and are excluded from forming part of the Independent Board Committee.

KBC Bank N.V., acting through its Hong Kong Branch, the Independent Financial Adviser, was appointed by Regal REIT Manager Board with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Regal REIT Offer. The appointment of the Independent Financial Adviser was announced in the announcement dated 31 May 2012 made by the Regal REIT Manager Board in accordance with the Takeovers Code.

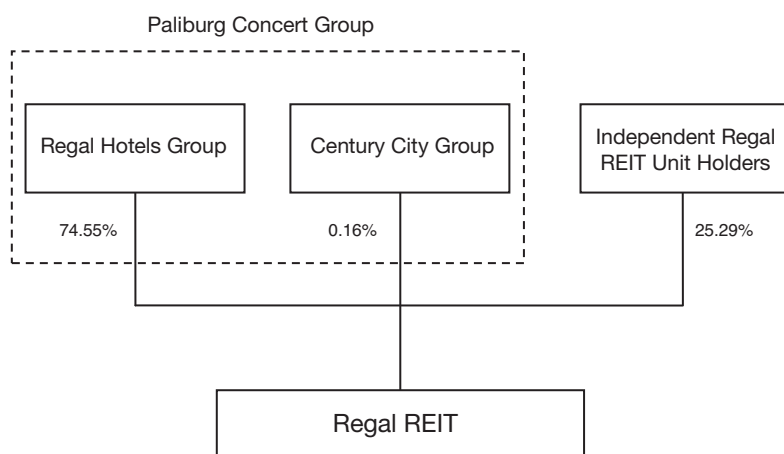
2. REPURCHASES MADE UNDER THE RH SHARE REPURCHASE PROGRAMME

As set out in the Offer Announcement and the “Letter from SHK” contained in this Composite Offer Document, the Regal REIT Offer was triggered by the repurchases of the Regal Hotels Shares under the RH Share Repurchase Programme. Taking into consideration that the aggregate of 12,600,000 Regal Hotels Shares repurchased by Regal Hotels from the Business Day immediately following the date of the First Announcement and up to 7 May 2012 had been cancelled, the aggregate proportionate shareholding interests of the Paliburg Group and the Paliburg Concert Group in 494,413,861 Regal Hotels Shares and 495,750,238 Regal Hotels Shares increased from approximately 49.37% to approximately 50.00% and from approximately 49.50% to approximately 50.14% of the then issued share capital of Regal Hotels respectively and crossed over the 50% shareholding threshold on 7 May 2012. Accordingly, pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code, Paliburg is required and has procured the Offeror, being an indirect wholly-owned subsidiary of Paliburg, to make an unconditional mandatory general cash offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Paliburg Concert Group.

LETTER FROM THE REGAL REIT MANAGER BOARD

3. THE UNIT HOLDING STRUCTURE OF REGAL REIT

Other than 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date, Regal REIT does not have any other outstanding Regal REIT Units, options, derivatives or warrants or other securities which are convertible or exchangeable into the Regal REIT Units and has not entered into any agreement for the issue of any Regal REIT Units, options, derivatives or warrants or other securities of Regal REIT. Set out below are a structural chart and a table setting out the holding structure of Regal REIT Units as at the Latest Practicable Date:



| | Number of Regal REIT Units | Approximate % |
|--|---|--------------------------|
| Regal Hotels Group <i>(Note 1)</i> | 2,428,262,739 | 74.55 |
| Century City Group <i>(Note 2)</i> | <u>5,287,000</u> | <u>0.16</u> |
| <i>Sub-total for the Paliburg Concert Group</i> | <i>2,433,549,739</i> | <i>74.71</i> |
| Independent Regal REIT Unit Holders | <u>823,881,450</u> | <u>25.29</u> |
| Total | <u>3,257,431,189</u> | <u>100.00</u> |

Notes:

- The 2,428,262,739 Regal REIT Units were held by Complete Success Investments Limited, Great Prestige Investments Limited, Honormate Nominees Limited, Kaybro Investments Limited and Regal Portfolio Management Limited, all wholly-owned subsidiaries of Regal Hotels.
- The 5,287,000 Regal REIT Units were held by Aikford Financial Services Limited, a wholly-owned subsidiary of Century City, of which Paliburg is a listed subsidiary.

LETTER FROM THE REGAL REIT MANAGER BOARD

4. THE REGAL REIT OFFER

SHK, for and on behalf of the Offeror, makes the Regal REIT Offer to acquire all the Regal REIT Offer Units on the following basis in cash:

For each Regal REIT Offer Unit HK\$1.00 in cash

As set out in the “letter from SHK” contained in this Composite Offer Document, Paliburg and the Offeror confirm that, as at the Latest Practicable Date, there is no condition (including normal conditions relating to acceptance, listing and increase of capital) to which the Regal REIT Offer is subject.

Further details of the basis of the Regal REIT Offer Price, comparisons with historical prices and the other terms and conditions of the Regal REIT Offer are set out in the “Letter from SHK” contained in, and Appendix I to, this Composite Offer Document and the Form of Acceptance.

5. EFFECT OF ACCEPTING THE REGAL REIT OFFER

As set out in the sub-paragraph headed “Effect of accepting the Regal REIT Offer” under the paragraph headed “The Regal REIT Offer” in the “Letter from SHK” contained in this Composite Offer Document, by accepting the Regal REIT Offer, the Independent Regal REIT Unit Holders will sell their Regal REIT Offer Units to the Offeror free from all Encumbrances and together with all rights attached to them, including the rights to receive all distributions declared, made or paid on or after 9 July 2012, being the date of this Composite Offer Document.

6. VALUE OF THE REGAL REIT OFFER

As at the Latest Practicable Date, there were 3,257,431,189 Regal REIT Units in issue.

As set out in the “Letter from SHK” contained in this Composite Offer Document, based on the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit, the entire issued Regal REIT Units are valued at approximately HK\$3,257.43 million. Assuming the Regal REIT Offer is accepted in full by the Independent Regal REIT Unit Holders and based on 823,881,450 Regal REIT Offer Units, the total amount of cash required to effect the Regal REIT Offer will be approximately HK\$823.88 million.

As set out in the Offer Announcement and the “Letter from SHK” contained in this Composite Offer Document, SHK is satisfied that there are sufficient financial resources available to the Offeror to satisfy the full acceptance of the Regal REIT Offer as at the Latest Practicable Date.

LETTER FROM THE REGAL REIT MANAGER BOARD

7. INTENTIONS OF THE OFFEROR AND PALIBURG

Your attention is drawn to the paragraph headed “Intentions of the Offeror and Paliburg on the Regal REIT Group” in the “Letter from SHK” contained in this Composite Offer Document.

The intentions of the Offeror and Paliburg on the Regal REIT Group are noted by the Regal REIT Manager Board and the Regal REIT Manager Board agrees with such intentions. As at the Latest Practicable Date, the Regal REIT Manager Board (i) had not entered, or proposed to enter, into any agreement, arrangement, understanding or negotiation about any acquisition of assets (whether concluded or not); and (ii) had no assets injections agreed or under negotiation.

8. INFORMATION ON REGAL REIT

Regal REIT is a Hong Kong collective investment scheme authorised under section 104 of the SFO and the Regal REIT Units were first listed on the Stock Exchange on 30 March 2007. Regal REIT is governed by the Trust Deed. The principal activity of the Regal REIT Group is to own and invest in income-producing hotels, hospitality-related properties and other commercial properties with the objectives of producing stable and growing distributions to the Regal REIT Unit Holders and to achieve long-term growth in the NAV per Regal REIT Unit.

The portfolio of investment properties of Regal REIT currently comprises six hotel properties, being Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal iClub Hotel. As at 31 December 2011, the audited NAV of the Regal REIT Group was approximately HK\$12,651.85 million, representing audited NAV of approximately HK\$3.884 per Regal REIT Unit.

The Regal REIT Manager Board also notes that, as stated in the “Letter from SHK” contained in this Composite Offer Document, the Paliburg Board does not have intention to privatize Regal REIT by means of the Regal REIT Offer. Paliburg intends to maintain the listing status of Regal REIT on the Stock Exchange after the Regal REIT Offer. As set out above, the total number of Regal REIT Offer Units, which are held by the Independent Regal REIT Unit Holders and are subject to the Regal REIT Offer, is 823,881,450 Regal REIT Units, representing approximately 25.29% of the Regal REIT Units outstanding as at the Latest Practicable Date. If, as a result of the Regal REIT Offer, the percentage of the outstanding Regal REIT Units in the public hands has fallen below 25%, Paliburg will take appropriate steps, including placement of Regal REIT Units, to ensure that sufficient public float exists in the Regal REIT Units as soon as possible after the close of the Regal REIT Offer.

LETTER FROM THE REGAL REIT MANAGER BOARD

Furthermore, under the Trust Deed, in the event that the Regal REIT Manager becomes aware that the percentage of the outstanding Regal REIT Units in the public hands has fallen below 25%, the Regal REIT Manager shall use its best efforts by working closely with Paliburg to restore the percentage of Regal REIT Units held in public hands to at least the said public float percentage of the outstanding Regal REIT Units as soon as possible.

The Offeror does not intend to avail itself of any powers of compulsory acquisition of the Regal REIT Offer Units after the close of the Regal REIT Offer.

9. FURTHER INFORMATION

Your attention is drawn to the “Letter from SHK” contained in, and Appendix I to, this Composite Offer Document and the Form of Acceptance for the principal terms and the acceptance and settlement procedures of the Regal REIT Offer.

Your attention is also drawn to (i) the “Letter from the Independent Board Committee” as set out on pages 23 and 24 of this Composite Offer Document; (ii) the “Letter from the Independent Financial Adviser” as set out on pages 25 to 37 of this Composite Offer Document which contains, among other things, its advice to the Independent Board Committee in respect of the Regal REIT Offer and the principal factors and reasons considered by it in arriving at such advice; (iii) the property valuation reports in respect of the properties of the Regal REIT Group as set out in Appendix III to this Composite Offer Document; and (iv) the general information as set out in Appendix IV to this Composite Offer Document.

Yours faithfully,
For and on behalf of the Board of
Regal Portfolio Management Limited
as manager of
Regal Real Estate Investment Trust
Simon LAM Man Lim
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Independent Board Committee to the Independent Regal REIT Unit Holders prepared for the purpose of inclusion in this Composite Offer Document.



REGAL REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 1881)

Managed by



Non-executive Directors:

Mr. Lo Yuk Sui (*Chairman*)
Mr. Donald Fan Tung
Mr. Jimmy Lo Chun To
Mr. Kai Ole Ringenson

Registered office:

Unit No.1504
15th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

Executive Directors:

Mr. Francis Chiu
Mr. Simon Lam Man Lim

Independent non-executive Directors:

Mr. John William Crawford, JP
Mr. Alvin Leslie Lam Kwing Wai
Hon. Abraham Shek Lai Him, SBS, JP

9 July 2012

To the Independent Regal REIT Unit Holders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
SUN HUNG KAI INTERNATIONAL LIMITED
FOR AND ON BEHALF OF
GLORYMARK INVESTMENTS LIMITED
(AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF PALIBURG HOLDINGS LIMITED)
TO ACQUIRE ALL THE OUTSTANDING UNITS OF
REGAL REAL ESTATE INVESTMENT TRUST
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
PALIBURG HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We refer to the composite offer document dated 9 July 2012 (the “Composite Offer Document”) in respect of the Regal REIT Offer, of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Offer Document have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to consider and to make recommendation to you as to whether the terms of the Regal REIT Offer are fair and reasonable and as to the acceptance of the Regal REIT Offer, after taking into account the advice from the Independent Financial Adviser.

Your attention is drawn to the “Letter from the Regal REIT Manager Board” as set out on pages 17 to 22 of the Composite Offer Document, the “Letter from SHK” as set out on pages 7 to 16 of the Composite Offer Document, the “Letter from the Independent Financial Adviser” as set out on pages 25 to 37 of the Composite Offer Document, which contains its advice and recommendation to us in respect of the Regal REIT Offer, as well as the principal factors and reasons for its advice and recommendation and Appendix I to the Composite Offer Document containing detailed terms of the Regal REIT Offer.

Having considered the principal factors and reasons considered by, and the opinion of, the Independent Financial Adviser as stated in the aforementioned letter of advice, we are of the opinion that the terms of the Regal REIT Offer are not fair and reasonable so far as the Independent Regal REIT Unit Holders are concerned. Therefore, we recommend the Independent Regal REIT Unit Holders not to accept the Regal REIT Offer.

Yours faithfully,

For and on behalf of

Independent Board Committee

Kai Ole RINGENSON **John William CRAWFORD JP** **Alvin Leslie LAM Kwing Wai**
Non-executive Director *Independent non-executive Director* *Independent non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from the Independent Financial Adviser to the Independent Board Committee which has been prepared for the purpose of inclusion in this Composite Offer Document.



39/F., Central Plaza
18 Harbour Road
Hong Kong

9 July 2012

To the Independent Board Committee

Dear Sirs,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
SUN HUNG KAI INTERNATIONAL LIMITED FOR AND ON BEHALF OF
GLORYMARK INVESTMENTS LIMITED
(AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF PALIBURG HOLDINGS LIMITED)
TO ACQUIRE ALL THE OUTSTANDING UNITS OF
REGAL REAL ESTATE INVESTMENT TRUST
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
PALIBURG HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in connection with the unconditional mandatory general cash offer by Sun Hung Kai International Limited on behalf of Glorymark Investments Limited, an indirect wholly-owned subsidiary of Paliburg, to acquire all the outstanding Regal REIT Units not already owned or agreed to be acquired by the Paliburg Concert Group at the Regal REIT Offer Price. Details of the Regal REIT Offer are set out in the Composite Offer Document dated 9 July 2012, of which this letter forms part. Unless otherwise defined herein, terms used in this letter shall have the same meanings as those defined in the Composite Offer Document.

On 20 April 2012, the Regal Hotels Board announced that it had authorised and approved the RH Share Repurchase Programme for repurchasing not more than 38,886,400 Regal Hotels Shares on the market. As set out in the Offer Announcement, on 7 May 2012, the Regal Hotels Board informed Century City and Paliburg that Regal Hotels had repurchased an aggregate of 12,600,000 Regal Hotels Shares on the market under the RH Share Repurchase Programme. As a result, the aggregate shareholdings of the Paliburg Group and the Paliburg Concert Group in the issued share capital of Regal Hotels had been increased to approximately 50.00% and 50.14%, respectively. Pursuant to Rule 26 of the Takeovers Code, Paliburg is required to make an unconditional mandatory general cash offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Paliburg Concert Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Regal REIT Manager Board comprises two executive directors, four non-executive directors and three independent non-executive directors. Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprising all non-executive directors who have no direct or indirect interest in the Regal REIT Offer is required to be established to advise the Independent Regal REIT Unit Holders as to whether the Regal REIT Offer is fair and reasonable. Since three non-executive Regal REIT Manager Directors, namely, Mr. LO, Mr. Donald Fan Tung and Mr. Jimmy Lo Chun To, are also executive Paliburg Directors, and Mr. Abraham Shek Lai Him, SBS, JP, an independent non-executive Regal REIT Manager Director is also an independent non-executive Paliburg Director, they are not considered independent under the Takeovers Code and are excluded from forming part of the Independent Board Committee. As such, the Independent Board Committee comprising only one non-executive director, Mr. Kai Ole Ringenson, and two independent non-executive directors, namely, Mr. John William Crawford, JP and Mr. Alvin Leslie Lam Kwing Wai, has been established to advise the Independent Regal REIT Unit Holders in respect of the Regal REIT Offer and whether the Independent Regal REIT Unit Holders should accept the Regal REIT Offer. We, KBC Bank N.V. Hong Kong Branch, have been appointed by the Regal REIT Manager to advise the Independent Board Committee as to whether (i) the Regal REIT Offer is fair and reasonable and (ii) the Independent Regal REIT Unit Holders should accept the Regal REIT Offer.

In formulating our recommendation, we have reviewed, among other things, (i) the Composite Offer Document; (ii) the property valuation reports (the “Property Valuation Reports”) contained in Appendix III of the Composite Offer Document; and (iii) the annual reports of Regal REIT covering the three years ended 31 December 2009, 2010 and 2011 (collectively, the “Financial Reports”). We have assumed that all information, opinions and representations contained or referred to in the Composite Offer Document are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Regal REIT Manager Directors and the management of Regal REIT Manager and they have confirmed, after having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the Regal REIT Manager and the Regal REIT Manager Directors in the Composite Offer Document have been arrived at after due and careful consideration and there are no other facts or representation not contained in the Composite Offer Document, the omission of which would make any statement contained in the Composite Offer Document, including this letter, misleading. In addition, we have also assumed that all information, statements and representations made or referred to in the Composite Offer Document, which have been provided to us by Regal REIT Manager, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Composite Offer Document. In the event there are material changes to the information and representations provided and made to us after the Latest Practicable Date and throughout the Offer Period, Regal REIT/Regal REIT Manager will make relevant announcements as and when appropriate.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Regal REIT Offer and to provide a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by Regal REIT/Regal REIT Manager; nor have we conducted any independent in-depth investigation into the business and affairs of Regal REIT and its respective associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not considered the tax and regulatory implications on the Independent Regal REIT Unit Holders of acceptance or non-acceptance of the Regal REIT Offer since these are only relevant to their own individual circumstances. In particular, the Independent Regal REIT Unit Holders who are overseas residents outside Hong Kong or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Regal REIT Offer and, if in any doubt, should consult their own professional advisers.

We are not associated or connected with, and are independent of the Regal REIT Group, the Regal REIT Manager, the Trustee, the Offeror or parties acting in concert with any of them and, accordingly, are considered eligible to give independent advice on the Regal REIT Offer. Apart from the normal professional fee payable to us in connection with our appointment, no arrangements exist whereby we will receive any fees or benefits from Regal REIT, the Offeror or parties acting in concert with any of them.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee, we have taken into account the following factors and reasons:

1. Background of the Regal REIT Offer

On 20 April 2012, the Regal Hotels Board announced that it had authorised and approved the RH Share Repurchase Programme, for repurchasing not more than 38,886,400 Regal Hotels Shares on the market at a maximum price of not more than HK\$3.80 per Regal Hotels Share. Prior to the RH Share Repurchase Programme, Regal Hotels had a total of 1,001,418,333 Regal Hotels Shares in issue and each of the Paliburg Group and the Paliburg Concert Group was interested in 494,413,861 and 495,750,238 Regal Hotels Shares, respectively (representing approximately 49.37% and 49.50% of the then issued share capital of Regal Hotels as at 20 April 2012, respectively). Following the repurchase of an aggregate 12,600,000 Regal Hotels Shares during the business days immediately following the First Announcement and up to 7 May 2012, and taking into consideration that such Regal Hotels Shares repurchased under the RH Share Repurchase Programme by Regal Hotels had been cancelled, the aggregate shareholding interests of Paliburg Group and Paliburg Concert Group in Regal Hotels had been increased to approximately 50.00% and 50.14%, respectively, which resulted in Regal Hotels having become a subsidiary of Paliburg as disclosed in the Second Announcement. Under the circumstance, Regal REIT, a listed subsidiary of Regal Hotels, has effectively become an indirect subsidiary of Paliburg as a result of the above-mentioned repurchase of the Regal Hotels Shares under the RH Share Repurchase Programme. Pursuant to the chain principle under Rule 26 of the Takeovers Code, Paliburg is required, and has procured the Offeror, to make an unconditional mandatory cash offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Paliburg Concert Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Regal REIT had a total of 3,257,431,189 Regal REIT Units in issue, of which the Regal Hotels Group and the Century City Group held 2,428,262,739 and 5,287,000 Regal REIT Units, respectively (representing approximately 74.55% and 0.16% of the issued Regal REIT Units, respectively), and the remaining 823,881,450 Regal REIT Units were held by Independent Regal REIT Unit Holders. As stated in the Composite Offer Document, other than the 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date, Regal REIT did not have any other outstanding Regal REIT Units, options, derivatives or warrants or other securities which are convertible or exchangeable into any Regal REIT Units and has not entered into any agreements for the issue of such Regal REIT Units, options, derivatives or warrants or other securities of Regal REIT.

2. Background and Business Environment of Regal REIT

Background of Regal REIT

Regal REIT, which was listed on the Stock Exchange in 2007, was established for the purpose of owning an investment portfolio of hotel properties in Hong Kong. Regal REIT currently owns a portfolio of six hotels in Hong Kong, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels”) and Regal iClub Hotel (together, the “Regal REIT Hotels”), with an aggregate of 3,929 quality guestrooms and suites. Based on our discussion with the management of the Regal REIT Manager and as described in the Financial Reports, we noted that the primary objectives of Regal REIT and Regal REIT Manager are to provide long-term stable, growing distributions and capital growth for the Regal REIT Unit Holders, and Regal REIT Manager intends to achieve such objectives by adopting two core strategies comprising an external growth strategy to grow its hotel portfolio through selective acquisitions of additional hotel properties (for example, the acquisition of Regal iClub Hotel) and an internal growth strategy for the existing hotel portfolio through pro-active asset management, such as upgrading and renovating the existing guestrooms, suites and facilities in order to improve the competitiveness of the Regal REIT Hotels. Furthermore, we also noted from the Trust Deed that the Regal REIT is established to invest in real estate (which shall generally be income-producing) that wholly or primarily comprises of hotels, serviced apartments or commercial properties (including office properties) located anywhere in the world.

The Initial Hotels are leased to (for a term expiring in December 2015) and managed by the Regal Hotels Group such that Regal REIT is entitled to receive rental income mainly comprising of base rents (a pre-determined fixed cash sum) and variable rents (computed based on pre-determined percentages of the excess of the aggregate profit from the operations of the Initial Hotels over the aforesaid aggregate base rents). Regal iClub Hotel, which became wholly-owned by Regal REIT in December 2010, has been managed by the Regal Hotels Group since 1 January 2011 under a hotel

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

management agreement, but the operation results of which are accounted for directly by Regal REIT. Set out below is the summary of the audited consolidated results of Regal REIT Group for each of the three financial years ended 31 December 2011 extracted from the Financial Reports:

| | <i>Notes</i> | For the year ended 31 December | | |
|--|--------------|---|---|---|
| | | 2009 <i>(HK\$'</i> <i>Million)</i> | 2010 <i>(HK\$'</i> <i>Million)</i> | 2011 <i>(HK\$'</i> <i>Million)</i> |
| Revenue | | | | |
| Gross rental revenue | | | | |
| - Initial Hotels | <i>1</i> | 727.2 | 849.6 | 677.1 |
| - Regal iClub Hotel | <i>2</i> | 4.7 | 24.0 | 4.9 |
| - Other rental-related income | <i>3</i> | 24.1 | 27.8 | — |
| - Others | | <u>7.4</u> | <u>8.6</u> | <u>9.9</u> |
| | | 763.4 | 910.0 | 691.9 |
| Gross hotel revenue | <i>4</i> | <u>—</u> | <u>—</u> | <u>44.1</u> |
| Total gross rental income | | <u>763.4</u> | <u>910.0</u> | <u>736.0</u> |
| Net profit for the year before distribution to Regal REIT Unit Holders | <i>5</i> | <u>682.3</u> | <u>997.1</u> | <u>2,997.3</u> |
| Total distributable income attributable to Regal REIT Unit Holders | <i>6</i> | <u>558.2</u> | <u>682.9</u> | <u>397.9</u> |
| Distribution to Regal REIT Unit Holders | <i>6</i> | <u>532.6</u> | <u>616.9</u> | <u>390.9</u> |

Notes:

- 1. This mainly comprised the base rents and the variable rents from the Initial Hotels.*
- 2. For the years ended 31 December 2009 and 2010, the amounts represented the rental income fixed at HK\$2 million per month from the leasing of Regal iClub Hotel (formerly known as Regal iClub Building) under the lease agreement between the Regal REIT Group and the Paliburg Group. For the year ended 31 December 2011, the amount represented rental income from the leasing of certain retail premises of the Regal iClub Hotel to independent third parties.*
- 3. This mainly represented the contributions to the furniture, fixtures and equipment reserve received from the Regal Hotels Group for the purposes of additions to and replacements of furniture, fixtures and equipment for the Initial Hotels for the years ended 31 December 2009 and 2010. As disclosed in the Financial Reports, no such contributions were required to be made by the Regal Hotels Group under the market rental package for 2011.*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. *This represented the gross revenue from the hotel operations of Regal iClub Hotel.*
5. *The net profit for the year before distributions to Regal REIT Unit Holders also included increases in the fair values of the Regal REIT Hotels of approximately HK\$272.0 million, HK\$478.6 million and HK\$2,625.3 million for each of the three years ended 31 December 2009, 2010 and 2011, respectively.*
6. *Pursuant to the REIT Code and the Trust Deed, Regal REIT is required to distribute no less than 90% of the distributable income to Regal REIT Unit Holders, and the distributions to Regal REIT Unit Holders represent approximately 95.4%, 90.3% and 98.2% of the total distributable income attributable to the Regal REIT Unit Holders for each of the three years ended 31 December 2009, 2010 and 2011, respectively.*

The principal assets of Regal REIT mainly comprise the Regal REIT Hotels. Given the significant appreciation in the market valuations of Regal REIT's hotel properties as described in the Financial Reports, Regal REIT has recorded significant increases in the fair values of its Regal REIT Hotels which resulted in its net asset value having been increased from approximately HK\$9,350.55 million as at 31 December 2009 to HK\$12,651.85 million as at 31 December 2011 (representing an increase of approximately 35.31%), with net asset value per Regal REIT Unit attributable to Regal REIT Unit Holders having been increased from approximately HK\$2.91 as at 31 December 2009 to approximately HK\$3.88 as at 31 December 2011 (representing an increase of approximately 33.33%). In addition, for the three years ended 31 December 2009, 2010 and 2011, Regal REIT also recorded net cash inflows from operating activities of approximately HK\$582.2 million, HK\$668.7 million and HK\$534.9 million, respectively. The gearing ratios (being the percentage of the gross amount of outstanding loans to the total gross assets of Regal REIT) of Regal REIT were approximately 31.1% and 26.6% as at 31 December 2010 and 2011, respectively.

Overview of the Business Environment of Regal REIT

The Regal REIT Hotels are located across different districts in Hong Kong and offer a diverse range of accommodation and facilities to cater to various market segments. We noted from the Financial Reports that for the year ended 31 December 2011, the Regal REIT Hotels recorded a general increase from 2010 in both their occupancy rates and average room rates with their occupancy rates reaching approximately 87% to 96% during 2011. Furthermore, as disclosed in the Property Valuation Reports, whilst a total of 15.1 million visitors came to Hong Kong during the first four months of 2012 (representing a year-on-year increase of 15.3%), indicating a strong demand for hotel rooms, the available room supply in 2012 is only expected to increase by 10.4%, resulting in the average occupancy of all hotels in Hong Kong to stand at 88% during the period from January to April 2012. On the other hand, the average hotel room rate for all hotels rose by 12.7% (on a year-on-year basis) during the same period. The increase in both the occupancy rates and the average room rates thus resulted in an increase in overall revenue per available room of 12.7% (on a year-on-year basis) during the period. In addition, with the support from the Hong Kong government to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital and its continuous investment in infrastructure, as well as tourist and travel related facilities to support Hong Kong as a travel destination and regional hub (as detailed in the Property Valuation Reports), it is expected that the hotel room demand in Hong Kong during 2012 will remain strong and thus have a positive impact on the performance of the Regal REIT Hotels.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Intention of the Offeror and Paliburg on the Regal REIT Group

As disclosed in the Composite Offer Document, the Offeror intends to continue the existing business and operation of Regal REIT to produce stable and growing distribution and achieve long-term growth. The Offeror does not intend to introduce any major changes to the operations of Regal REIT as a result of the Regal REIT Offer, including (i) redeployment of its assets; (ii) any proposed change of the property management company and any transitional arrangements; (iii) any major changes to the investment policy of Regal REIT and (iv) any plan to remove the current management company (and/or its directors) and appoint a new management company (and/or its directors) and any corresponding transitional arrangements. As at the Latest Practicable Date, the Offeror (i) had not entered nor had any intention to enter into any agreement, arrangement, understanding or negotiation about any acquisition of assets (whether concluded or not); and (ii) had no assets injections agreed or under negotiation. As at the Latest Practicable Date, the Regal REIT Manager Board (i) had not entered or proposed to enter into any agreement, arrangement, understanding or negotiation about any acquisition of assets (whether concluded or not); and (ii) had no assets injections agreed or under negotiation.

4. The Regal REIT Offer

The Regal REIT Offer Price

As disclosed in the section headed “Letter from SHK” contained in the Composite Offer Document, the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit is determined based on the implied value of the Regal REIT Units deemed to have been acquired by the Paliburg Group, which is in turn derived from:

- (i) the maximum repurchase price paid for each Regal Hotels Share during the Offer Period of the Regal REIT Offer and within six months prior to the date of the First Announcement, being 20 April 2012;
- (ii) the number of Regal Hotels Shares in issue on the date immediately prior to each share repurchase made under the RH Share Repurchase Programme during the Offer Period and within six months before the date of the First Announcement, being 20 April 2012;
- (iii) the ratio of the NAV of the Regal REIT Group based on its latest audited financial statements to the NAV of the Regal Hotels Group based on its latest audited financial statements (subject to adjustments to restate its hotel property portfolio at its fair market value and to add back the relevant deferred taxation); and
- (iv) the number of Regal REIT Units held by the Regal Hotels Group.

In addition, it is also stated that up to the Latest Practicable Date, the highest repurchase price paid for the Regal Hotels Shares under the RH Share Repurchase Programme was HK\$3.33 per Regal Hotels Share and was made on 3 May 2012. The Regal REIT Offer Price of HK\$1.00 per Regal REIT

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

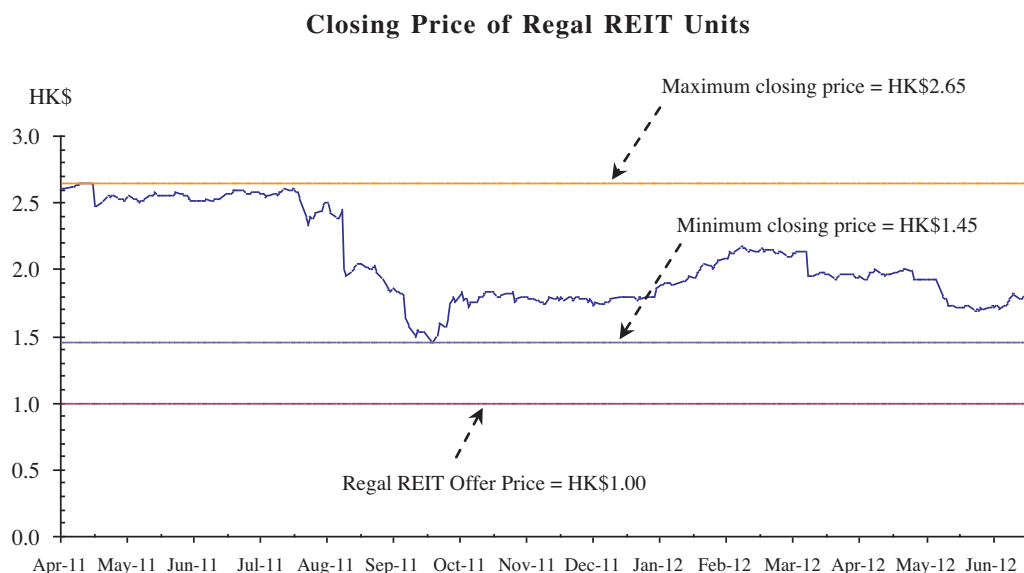
Offer Unit has been determined by the Offeror based on the possible maximum repurchase price under the RH Share Repurchase Programme as announced in the First Announcement of HK\$3.80 per Regal Hotels Share, instead of the actual highest repurchase price made on 3 May 2012 of HK\$3.33 per Regal Hotels Share.

The Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit represents:

- (i) a discount of approximately 49.75% to the closing price of HK\$1.990 per Regal REIT Unit as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 49.80% to the average closing price of approximately HK\$1.992 per Regal REIT Unit as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 49.39% to the average closing price of approximately HK\$1.976 per Regal REIT Unit as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 49.08% to the average closing price of approximately HK\$1.964 per Regal REIT Unit as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (v) a discount of approximately 51.08% to the average closing price of approximately HK\$2.044 per Regal REIT Unit as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 49.60% to the average closing price of approximately HK\$1.984 per Regal REIT Unit as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- (vii) a discount of approximately 45.95% to the closing price of HK\$1.850 per Regal REIT Unit as quoted on the Stock Exchange on the Latest Practicable Date; and
- (viii) a discount of approximately 74.25% to the NAV per Regal REIT Unit of approximately HK\$3.884 as at 31 December 2011 (based on the audited consolidated net assets attributable to Regal REIT Unit Holders of approximately HK\$12,651.85 million as at 31 December 2011 and 3,257,431,189 Regal REIT Units in issue as at 31 December 2011 and the Latest Practicable Date).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The graph below illustrates the movements in the closing prices of Regal REIT Units on the Stock Exchange from 20 April 2011 up to and including the Latest Practicable Date (the “Review Period”):



Source: Bloomberg

During the Review Period, the closing prices of Regal REIT Units were within the range of HK\$1.45 to HK\$2.65. The closing prices of Regal REIT Units had been on a downward trend from approximately HK\$2.60 in early August 2011 to the lowest closing price during the Review Period of HK\$1.45 on 4 October 2011. Since then, the closing prices of Regal REIT Units have gradually gone up to approximately HK\$2.00 in February 2012. On 21 May 2012, being the first trading day after the resumption of trading in Regal REIT Units following the publication of the Offer Announcement, the closing price of Regal REIT Units decreased to HK\$1.79 from the closing price of HK\$1.99 on the Last Trading Day. As at the Latest Practicable Date, the closing price of Regal REIT Units amounted to HK\$1.85.

We note that the Regal REIT Offer Price represents a discount of (i) approximately 31.0% and 62.3% to the lowest and highest closing prices of HK\$1.45 and HK\$2.65 per Regal REIT Unit during the Review Period, respectively; (ii) approximately 51.69% to the average closing price of HK\$2.07 per Regal REIT Unit during the Review Period; and (iii) approximately 45.95% to the closing price of HK\$1.85 per Regal REIT Unit as at the Latest Practicable Date and, therefore, we consider that the Regal REIT Offer Price is significantly lower than the closing prices of Regal REIT Units during the Review Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Trading liquidity in Regal REIT Units

For reference purposes, we have also set out below the monthly total and the average daily trading volumes of Regal REIT Units as well as the percentages of the average daily trading volumes to the total number of issued Regal REIT Units and the Regal REIT Units held by Independent Regal REIT Unit Holders for the period from 1 April 2011 to the Latest Practicable Date.

| Year | Total Regal REIT Units trading volume for the month | Average Regal REIT Units daily trading volume | Percentage of average daily trading volume of Regal REIT Units to total number of Regal REIT Units in issue as at the Latest Practicable Date <i>(Note 2)</i> | Percentage of average daily trading volume of Regal REIT Units to total number of Regal REIT Units held by Independent Regal REIT Unit Holders as at the Latest Practicable Date <i>(Note 3)</i> |
|--------------------------------------|--|--|---|--|
| 2011 | | | | |
| April | 35,843,835 | 1,991,324 | 0.06% | 0.24% |
| May | 31,289,500 | 1,564,475 | 0.05% | 0.19% |
| June | 22,864,588 | 1,088,790 | 0.03% | 0.13% |
| July | 25,636,710 | 1,281,836 | 0.04% | 0.16% |
| August | 118,759,908 | 5,163,474 | 0.16% | 0.63% |
| September | 46,846,001 | 2,342,300 | 0.07% | 0.28% |
| October | 31,226,086 | 1,561,304 | 0.05% | 0.19% |
| November | 17,364,163 | 789,280 | 0.02% | 0.10% |
| December | 11,784,433 | 589,222 | 0.02% | 0.07% |
| 2012 | | | | |
| January | 21,371,600 | 1,187,311 | 0.04% | 0.14% |
| February | 31,909,915 | 1,519,520 | 0.05% | 0.18% |
| March | 44,877,773 | 2,039,899 | 0.06% | 0.25% |
| 1 April to 7 May | <i>(Note 1)</i> 39,672,505 | 1,803,296 | 0.06% | 0.22% |
| 21 May to Latest Practicable Date | <i>(Note 1)</i> 66,219,298 | 1,947,626 | 0.06% | 0.24% |

Source: Bloomberg and website of the Stock Exchange

Notes:

1. Trading in Regal REIT Units was suspended for the period from 8 May to 18 May 2012 pending publication of the Offer Announcement.
2. Based on the total of 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date.
3. Based on the total of 823,881,450 Regal REIT Units held by Independent Regal REIT Unit Holders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As noted from the table above, the trading liquidity in Regal REIT Units has been generally thin during the period from 1 April 2011 to the Latest Practicable Date whereby the monthly average daily trading volumes of Regal REIT Units accounted for approximately 0.02% to 0.16% of the total number of Regal REIT Units in issue or approximately 0.07% to 0.63% of Regal REIT Units held by Independent Regal REIT Unit Holders. Given the thin trading volumes of Regal REIT Units as discussed above, it may be difficult for the Independent Regal REIT Unit Holders to dispose of a large volume of Regal REIT Units in the open market without exerting a downward pressure on the trading price of Regal REIT Units if the same trading pattern of Regal REIT Units persisted during and after the Offer Period. Nevertheless, the Independent Regal REIT Unit Holders should note that if the trading price of Regal REIT Units is above the Regal REIT Offer Price during the Offer Period, they may still be able to realise their investment with a higher return by selling their Regal REIT Units in the open market during the Offer Period.

5. Comparison of the Regal REIT Offer Price with Comparable Real Estate Investment Trusts (“REITs”)

In assessing the fairness and reasonableness of the Regal REIT Offer Price, we have identified all the REITs (the “REIT Comparables”) listed on the Stock Exchange and compared their respective price-to-distributable income ratios (“Price/Distributable Income Ratio”) and price-to-book ratios (“Price/Book Ratio”).

The table below summarises the results of our analysis:

| REIT Comparables <i>(Note 1)</i> | Stock code | Market capitalisation <i>(HK\$ million)</i> <i>(A)</i> <i>(Note 2)</i> | Total distributable income <i>(HK\$ million)</i> <i>(B)</i> <i>(Notes 3,4)</i> | Net asset value attributable to unit holders <i>(HK\$ million)</i> <i>(C)</i> <i>(Notes 3,4)</i> | Price/ Distributable Income Ratio <i>(A) / (B)</i> | Price/ Book Ratio <i>(A) / (C)</i> |
|---|---------------|--|---|--|---|--|
| Yuexiu REIT | 405 | 4,146.6 | 285.7 | 6,290.4 | 14.51 | 0.66 |
| Sunlight REIT | 435 | 4,286.9 | 264.5 | 8,261.9 | 16.21 | 0.52 |
| Fortune REIT | 778 | 8,188.5 | 442.3 | 13,227.8 | 18.51 | 0.62 |
| Prosperity REIT | 808 | 2,495.2 | 163.5 | 4,452.3 | 15.26 | 0.56 |
| The Link REIT | 823 | 73,871.2 | 2,922.0 | 62,735.0 | 25.28 | 1.18 |
| Champion REIT | 2778 | 16,461.5 | 1,170.3 | 38,755.6 | 14.07 | 0.42 |
| Hui Xian REIT <i>(Note 6)</i> | 87001 | 18,942.3 | 907.4 | 32,064.2 | 20.88 | 0.59 |
| Maximum | | | | | 25.28 | 1.18 |
| Median | | | | | 16.21 | 0.59 |
| Mean | | | | | 17.82 | 0.65 |
| Minimum | | | | | 14.07 | 0.42 |
| The Regal REIT Offer <i>(Note 5)</i> | | 3,257.4 | 397.9 | 12,651.8 | 8.19 | 0.26 |

Source: website of the Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. REIT Comparables exclude RREEF China Commercial Trust as it disposed of all of its real estate business and relevant assets in 2010 and is in the process of termination and liquidation.
2. Based on the closing unit prices of the REIT Comparables as at the Latest Practicable Date and their respective number of units in issue as at the Latest Practicable Date.
3. Extracted from respective latest published annual reports.
4. For illustration purposes, the conversion of Renminbi ("RMB") into HK\$ is based on the approximate exchange rate of HK\$1.00 to RMB0.81.
5. Based on the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit and the total number of 3,257,431,189 Regal REIT Units as at the Latest Practicable Date.
6. As Hui Xian REIT was listed on 29 April 2011, its annual report only contained financial information for the period from 29 April to 31 December 2011. If Hui Xian REIT's total distributable income for the year ended 31 December 2011 were annualised, which amounted to approximately HK\$1,340.9 million, the maximum, median, mean and minimum Price/Distributable Income ratios of the REIT Comparables would be 25.28, 15.26, 16.85 and 14.07, respectively.

As illustrated above, the Price/Distributable Income Ratio and Price/Book Ratio as implied by the Regal REIT Offer Price are significantly lower than those of the REIT Comparables.

After having taken into account (i) the Regal REIT Offer Price is significantly lower than both the lowest closing price and the average closing prices of Regal REIT Units during the Review Period; (ii) the Regal REIT Offer Price represents a discount of over 70% to the NAV per Regal REIT Unit based on the audited consolidated net asset value of Regal REIT as at 31 December 2011; (iii) the Price/Distributable Income Ratio and Price/Book Ratio as implied by the Regal REIT Offer Price are lower than those of the REIT Comparables; (iv) the positive outlook for the Regal REIT Hotels as indicated in the Property Valuation Reports; and (v) Regal REIT has been generating cash inflows from its operating activities and distributing over 90% of its distributable income during the past three years ended 31 December 2011, we consider that the Regal REIT Offer Price is not attractive and is not fair and reasonable in-so-far as the Independent Regal REIT Unit Holders are concerned.

RECOMMENDATION

Having considered the principal factors set out above, we are of the view that the terms of the Regal REIT Offer are not fair and reasonable in-so-far as the Independent Regal REIT Unit Holders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Regal REIT Unit Holders not to accept the Regal REIT Offer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Regal REIT Unit Holders are reminded to review the market prices of Regal REIT Units during the Offer Period. Should the market prices of Regal REIT Units fall below the Regal REIT Offer Price during the Offer Period, so that the net proceeds of sale (after deducting all transaction costs) would fall below the net amount receivable under the Regal REIT Offer, the Independent Regal REIT Unit Holders should consider accepting the Regal REIT Offer.

Yours faithfully,

For and on behalf of

KBC Bank N.V. Hong Kong Branch

Kenneth Chan

Head of Corporate Finance, Greater China

Gaston Lam

Corporate Finance

1. PROCEDURES FOR ACCEPTANCE OF THE REGAL REIT OFFER

To accept the Regal REIT Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Regal REIT Offer.

- (a) If the Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Regal REIT Units is/are in your name, and you wish to accept the Regal REIT Offer, you must send the duly completed and signed Form of Acceptance together with the relevant Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand, to the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, marked "**Regal Real Estate Investment Trust Offer**" on the envelope, in any event not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Regal REIT Unit(s) is/are in the name of a nominee company or a name other than your own, and you wish to accept the Regal REIT Offer (whether in full or in part of your Regal REIT Units), you must either:
 - (i) lodge your Regal REIT Unit certificate(s) and/ or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Regal REIT Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in an envelope marked "**Regal Real Estate Investment Trust Offer**"; or
 - (ii) arrange for the Regal REIT Units to be registered in your name by Regal REIT through the Registrar, and deliver the Form of Acceptance duly completed and signed together with the relevant Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar in an envelope marked "**Regal Real Estate Investment Trust Offer**"; or
 - (iii) if your Regal REIT Units have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Regal REIT Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the

deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your Regal REIT Units have been lodged with your investor participant account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If the Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Regal REIT Units is/are not readily available and/or is/are lost and you wish to accept the Regal REIT Offer in respect of your Regal REIT Units, the Form of Acceptance should nevertheless be completed, signed and delivered in an envelope marked **“Regal Real Estate Investment Trust Offer”** to the Registrar together with a letter stating that you have lost one or more of your Regal REIT Unit certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become available, the relevant Regal REIT Unit certificate(s) and/or, transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Regal REIT Units for registration in your name and have not yet received your Regal REIT Unit certificate(s), and you wish to accept the Regal REIT Offer in respect of your Regal REIT Units, you should nevertheless complete and sign the Form of Acceptance and deliver it in an envelope marked **“Regal Real Estate Investment Trust Offer”** to the Registrar together with the transfer receipt(s) that you have duly signed. Such action will be deemed to be an irrevocable authority to Paliburg, the Offeror and/or SHK and/or any of their respective agent(s) to collect from the Registrar on your behalf the relevant Regal REIT Unit certificate(s) when issued and to deliver such Regal REIT Unit certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (e) Acceptance of the Regal REIT Offer will be treated as valid only if the completed and signed Form of Acceptance is received by the Registrar no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), and is:
 - (i) accompanied by the relevant Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if the Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory

indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Regal REIT Unit, executed by the registered holder) as are required in order to establish your right to become the registered holder of the relevant Regal REIT Units; or

- (ii) from a registered Regal REIT Unit Holder or his/her/its personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Regal REIT Units which are not taken into account under another sub-paragraph of this paragraph (e)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Independent Regal REIT Unit Holder, appropriate documentary evidence of authority (e.g. a grant of probate/administration or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

If no number is inserted or a number in excess of a registered Regal REIT Unit Holder's holding of Regal REIT Offer Unit(s) is inserted and he/she has signed the Form of Acceptance, that Regal REIT Unit Holder will be deemed to have accepted the Regal REIT Offer for his/her entire registered holding of Regal REIT Offer Unit(s).

- (f) Seller's ad valorem stamp duty for transfer of Regal REIT Offer Units registered by the Registrar arising in connection with the Regal REIT Offer will be payable by each accepting Independent Regal REIT Unit Holder at the rate of 0.1% (as prescribed under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong)) of (i) the market value of the Regal REIT Offer Units; or (ii) the consideration payable by the Offeror in respect of the relevant acceptance, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by the Offeror to the relevant Independent Regal REIT Unit Holder accepting the Regal REIT Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Regal REIT Unit Holder accepting the Regal REIT Offer and will pay the buyer's ad valorem stamp duty in accordance with the Stamp Duty Ordinance.
- (g) No acknowledgement of receipt of any Form of Acceptance, Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT

Provided that your valid Form of Acceptance and the relevant Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than 4:00 p.m. on the Closing Date (or such other time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each Independent Regal REIT Unit Holder less seller's ad valorem stamp duty in

respect of the Regal REIT Units tendered by him/her/it under the Regal REIT Offer will be despatched to the Independent Regal REIT Unit Holder by ordinary post at his/her/its own risks, as soon as possible but in any event within 7 Business Days following the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any Independent Regal REIT Unit Holder is entitled under the Regal REIT Offer will be implemented in full in accordance with the terms of the Regal REIT Offer (save with respect to the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Regal REIT Unit Holder.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offeror has the right, subject to the Takeovers Code, to extend the Regal REIT Offer after the despatch of this Composite Offer Document or to revise the terms of the Regal REIT Offer. Any decision to extend the latest time and/or date for acceptance may be made at any time up to, and will be announced no later than, the time on the relevant date stipulated in the section headed "Announcements" below, or any such later time and date as the Executive may agree.
- (b) Unless the Regal REIT Offer is validly extended, the Form of Acceptance must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the Form of Acceptance and the Regal REIT Offer will be closed on the Closing Date.
- (c) If the Regal REIT Offer is extended, the announcement of such extension must state the next closing date of the Regal REIT Offer.
- (d) If the Regal REIT Offer is extended, any reference in this Composite Offer Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Regal REIT Offer as extended.
- (e) If in the course of the Regal REIT Offer, the Offeror revises the terms of the Regal REIT Offer, all the Independent Regal REIT Unit Holders, whether or not they have already accepted the Regal REIT Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted.
- (f) Any acceptance of the relevant revised Regal REIT Offer pursuant thereto shall be irrevocable unless and until the accepting Independent Regal REIT Unit Holder becomes entitled to withdraw his/her/its acceptance under the section headed "Right of withdrawal" in this Appendix below and duly does so.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on the Closing Date, the Offeror will inform the Executive and the Stock Exchange of its decision in relation to the revision or extension or expiry of the Regal REIT Offer. The Offeror will publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Regal REIT Offer has been revised, extended or expired. The announcement must state the following:
- (i) the total number of Regal REIT Units and rights over Regal REIT Units for which acceptances of the Regal REIT Offer have been received;
 - (ii) the total number of Regal REIT Units and rights over Regal REIT Units held, controlled or directed by the Paliburg Concert Group before the Offer Period; and
 - (iii) the total number of Regal REIT Units and rights over Regal REIT Units acquired or agreed to be acquired during the Offer Period by the Paliburg Concert Group.

The announcement shall include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in Regal REIT which the Paliburg Concert Group has borrowed or lent. The announcement will also specify the percentages of the relevant classes of issued units of Regal REIT, and the percentages of voting rights, represented by these numbers.

- (b) In computing the total number of Regal REIT Units represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in part (e) of the section headed "1. Procedures for acceptance of the Regal REIT Offer" in this Appendix, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date (being the latest time and date for acceptance of the Regal REIT Offer) shall be included.

5. RIGHT OF WITHDRAWAL

- (a) As the Regal REIT Offer is unconditional in all respects, acceptances tendered by the Independent Regal REIT Unit Holders shall be irrevocable and shall not be capable of being withdrawn, except in the circumstances set out in (b) below.
- (b) If the Offeror is unable to comply with the requirements set out in the section headed "Announcements" in this Appendix, the Executive may require all the Independent Regal REIT Unit Holders who have tendered acceptances to the Regal REIT Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements under Rule 19 of the Takeovers Code and those set out in the section headed "Announcements" in this Appendix are met.

In such case, upon the Independent Regal REIT Unit Holders withdraw their acceptance(s), the Offeror will return the Regal REIT Unit certificate(s) and/or transfer receipt(s) and/or

other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance to relevant Independent Regal REIT Unit Holder(s) by ordinary post at the relevant Independent Regal REIT Unit Holder(s)' own risk as soon as possible but in any event within 10 days thereof.

6. INDEPENDENT REGAL REIT UNIT HOLDERS OUTSIDE HONG KONG

The making of the Regal REIT Offer to persons not resident in Hong Kong may be affected by the laws of non-Hong Kong jurisdictions. Any Independent Regal REIT Unit Holders who are citizens, residents or nationals of any jurisdictions outside Hong Kong or otherwise subject to any non-Hong Kong jurisdictions should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice. It will be the sole responsibility of the Independent Regal REIT Unit Holders who wish to accept the Regal REIT Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant non-Hong Kong jurisdictions in connection with the acceptance of the Regal REIT Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

7. TAXATION

None of Regal REIT, the Offeror, Paliburg, SHK, the Independent Financial Adviser, the Registrar or any of their respective directors or any other parties involved in the Regal REIT Offer is in a position to advise the Independent Regal REIT Unit Holders on their individual tax implications. The Independent Regal REIT Unit Holders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Regal REIT Offer. None of Regal REIT, the Offeror, Paliburg, SHK, the Independent Financial Adviser, the Registrar, the professional advisers to Regal REIT, the Offeror and Paliburg or any of their respective directors or any other parties involved in the Regal REIT Offer accepts any responsibility for any tax effect on, or liabilities of, the Independent Regal REIT Unit Holders.

8. GENERAL

- (a) The Regal REIT Offer Units acquired under the Regal REIT Offer are sold or tendered by such person or persons free from all Encumbrances together with all rights attached to them, including the rights to receive all distributions declared, made or paid on or after 9 July 2012, being the date of this Composite Offer Document;
- (b) If such acceptor is an overseas Independent Regal REIT Unit Holder, that he, she or it has observed the laws of all relevant territories, obtained any and all requisite governmental, exchange control or other consents which may be required, complied with all requisite formalities and paid any and all transfer or other taxes or duties due from him or her in connection with such acceptance in any territory, that he, she or it has not taken or omitted to take any action which will or may result in Paliburg, the Offeror, SHK or any other person acting or being in breach of the legal or regulatory requirements of any territory in connection with the Regal REIT Offer or his or her acceptance thereof and he, she or it is

permitted under the laws of the relevant jurisdictions in connection therewith to receive and accept the Regal REIT Offer (an any revision thereof), and that such acceptance is valid and binding in accordance with the laws of the relevant jurisdictions in connection therewith;

- (c) The Independent Regal REIT Unit Holders who are accepting the Regal REIT Offer will deliver or procure the delivery to the Registrar of his or her relevant Regal REIT Unit certificate(s) (if any) and/or transfer receipt(s) and/or any other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof (as applicable);
- (d) Acceptance of the Regal REIT Offer by any nominee will be deemed to constitute a warranty by such nominee to Paliburg, the Offeror and SHK that the number of Regal REIT Units indicated in the Form of Acceptance is the aggregate number of Regal REIT Units held by such nominee for such beneficial owners who are accepting the Regal REIT Offer;
- (e) Due execution of the Form of Acceptance in respect of the Regal REIT Offer will constitute an irrevocable instruction and authority to Paliburg, the Offeror and SHK, any director of Paliburg, any director of the Offeror and any director of SHK or their respective agents to complete, amend and execute, on behalf of the Independent Regal REIT Unit Holders who accept the Regal REIT Offer, the Form of Acceptance and any document and, in relation to the Regal REIT Offer, to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or its nominees or such other persons as the Offeror shall direct, the Regal REIT Units which are the subject of such acceptance;
- (f) The terms, provision, instructions and authorities contained in the Form of Acceptance constitute part of the terms of the Regal REIT Offer. The terms and conditions of the Regal REIT Offer contained in this Composite Offer Document (including the provisions of this Appendix) shall be deemed to be incorporated into the Form of Acceptance which shall be read and construed accordingly.
- (g) All communications, notices, Form of Acceptance, certificates of Regal REIT Units, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Regal REIT Offer to be delivered by or sent to or from the Independent Regal REIT Unit Holders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of Paliburg, the Offeror, SHK, Regal REIT, the Independent Financial Adviser and any of their respective agents nor the Registrar or the company secretary of Regal REIT or other parties involved in the Regal REIT Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (h) The accidental omission to despatch this Composite Offer Document and/or Form of Acceptance or any of them to any person to whom the Regal REIT Offer is made will not invalidate the Regal REIT Offer in any aspect.

- (i) The Regal REIT Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong. Delivery of a Form of Acceptance by any Independent Regal REIT Unit Holder will constitute submission to the jurisdiction of the courts of Hong Kong.
- (j) References to the Regal REIT Offer in this Composite Offer Document and in the Form of Acceptance shall include any revision and/or extension thereof.
- (k) The Offeror does not intend to avail itself of any powers of compulsory acquisition of the Regal REIT Offer Units after the close of the Regal REIT Offer.

1. THREE YEARS FINANCIAL SUMMARY

The following is a summary of (i) the audited financial results of the Regal REIT Group for each of the three financial years ended 31 December 2011; and (ii) the assets and liabilities as at 31 December 2009, 2010 and 2011 as extracted from the audited financial statements of the Regal REIT Group for the three financial years ended 31 December 2011. The auditors of the Regal REIT did not issue any qualified opinion on the financial statements of the Regal REIT Group for the three years ended 31 December 2011. The Regal REIT Group had no items which are exceptional because of size, nature or incidence for each of the three years ended 31 December 2011.

(i) Results

for the year ended 31 December

| | 2011 | 2010 | 2009 |
|---|------------------|------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TURNOVER | | | |
| Gross rental and hotel revenue | 736,034 | 909,974 | 763,408 |
| Net rental and hotel income | 707,029 | 899,259 | 754,004 |
| Profit before tax and distributions to Unitholders | 3,070,523 | 1,120,407 | 787,990 |
| Income tax expense | <u>(73,260)</u> | <u>(102,855)</u> | <u>(106,821)</u> |
| Profit after tax | 2,997,263 | 1,017,552 | 681,169 |
| Non-controlling interest | <u>—</u> | <u>(20,459)</u> | <u>1,113</u> |
| Profit for the year, before distributions to Unitholders | 2,997,263 | 997,093 | 682,282 |
| Distributable income for the year attributable to Unitholders | 397,886 | 682,879 | 558,166 |
| Total distributions to Unitholders | <u>390,892</u> | <u>616,942</u> | <u>532,584</u> |
| Earnings per Unit | <u>HK\$0.921</u> | <u>HK\$0.309</u> | <u>HK\$0.215</u> |
| Total distributions per Unit | <u>HK\$0.120</u> | <u>HK\$0.190</u> | <u>HK\$0.170</u> |

(ii) **Assets and Liabilities***As at 31 December*

| | 2011 | 2010 | 2009 |
|-------------------|-------------------|-------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Total assets | <u>17,922,306</u> | <u>15,107,343</u> | <u>14,495,393</u> |
| Total liabilities | <u>5,270,457</u> | <u>5,187,732</u> | <u>5,144,844</u> |

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements together with relevant notes thereto as extracted from the annual report of the Regal REIT Group for the year ended 31 December 2011 are set out on page II-3 to page II-56 of this Appendix.

3. INDEBTEDNESS STATEMENT

As at 30 April 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Offer Document, the Regal REIT Group had HK\$4,840.0 million of outstanding bank loan facilities, secured by the Regal REIT Group's investment properties and property, plant and equipment.

Save as set out above and apart from intra-group liabilities, the Regal REIT Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptances credits or hire purchase commitments, guarantees or any material contingent liabilities. The Regal REIT Manager Directors and the Regal REIT Manager confirmed that there had been no material change in the indebtedness of the Regal REIT Group since 30 April 2012.

4. MATERIAL CHANGE

The Regal REIT Manager and the Regal REIT Manager Directors confirm that there was no material change in the Regal REIT Group's financial or trading position or outlook since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Regal REIT Group were made up, up to the Latest Practicable Date.

EXTRACTED AUDITED FINANCIAL STATEMENTS OF REGAL REIT GROUP

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2011

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| REVENUE | | | |
| Gross rental revenue | 5 | 691,967 | 909,974 |
| Gross hotel revenue | 5 | 44,067 | — |
| | | 736,034 | 909,974 |
| Property and hotel operating expenses | | (29,005) | (10,715) |
| Net rental and hotel income | 5 | 707,029 | 899,259 |
| Other income | 6 | 7,473 | 138 |
| Depreciation | 12 | (5,063) | — |
| Fair value changes on investment properties | 13 | 2,625,319 | 478,642 |
| REIT Manager fees | 7 | (75,518) | (75,381) |
| Trust, professional and other expenses | 8 | (9,541) | (14,045) |
| Fair value changes on derivative financial instruments | | 3,746 | 11,223 |
| Finance costs - excluding distributions to Unitholders | 9 | (182,922) | (179,429) |
| PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS | | 3,070,523 | 1,120,407 |
| Income tax expense | 10 | (73,260) | (102,855) |
| PROFIT FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS | | 2,997,263 | 1,017,552 |
| Non-controlling interest | | — | (20,459) |
| PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS | | 2,997,263 | 997,093 |
| Finance costs - distributions to Unitholders | | (524,446) | (552,458) |
| PROFIT FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS | | 2,472,817 | 444,635 |
| EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS | | | |
| Basic and diluted | 11 | HK\$0.921 | HK\$0.309 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2011

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| PROFIT FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS | | 2,997,263 | 1,017,552 |
| Other comprehensive income: | | | |
| Cash flow hedges: | | | |
| Changes in fair values of cash flow hedges | | (21,393) | (69,176) |
| Transfer from hedging reserve to consolidated income statement | | <u>128,079</u> | <u>128,895</u> |
| | | <u>106,686</u> | <u>59,719</u> |
| Gain on revaluation of property | 12 | 182,916 | — |
| Income tax effect | 21 | <u>(30,181)</u> | — |
| | | <u>152,735</u> | — |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | <u>259,421</u> | <u>59,719</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS | | <u>3,256,684</u> | <u>1,077,271</u> |
| Represented by: | | | |
| Unitholders | | 3,256,684 | 1,056,812 |
| Non-controlling interest | | <u>—</u> | <u>20,459</u> |
| | | <u>3,256,684</u> | <u>1,077,271</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2011

| | <i>Notes</i> | 31st December, 2011 | 31st December, 2010 |
|--|--------------|--------------------------------|--------------------------------|
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 615,000 | — |
| Investment properties | 13 | <u>17,154,000</u> | <u>14,880,000</u> |
| Total non-current assets | | <u>17,769,000</u> | <u>14,880,000</u> |
| Current assets | | | |
| Accounts receivable | 14 | 52,935 | 121,359 |
| Prepayments, deposits and other receivables | 15 | 2,693 | 6,854 |
| Tax recoverable | | 4,655 | — |
| Restricted cash | 16 | 69,226 | 71,979 |
| Cash and cash equivalents | 17 | <u>23,797</u> | <u>27,151</u> |
| Total current assets | | <u>153,306</u> | <u>227,343</u> |
| Total assets | | <u>17,922,306</u> | <u>15,107,343</u> |
| Current liabilities | | | |
| Accounts payable | 18 | 87,606 | 9,685 |
| Deposits received | | 262 | — |
| Due to related companies | 28(b) | 302 | 432 |
| Other payables and accruals | | 55,459 | 86,381 |
| Interest-bearing bank borrowings | 19 | 4,563,301 | 75,413 |
| Derivative financial instruments | 20 | 31,991 | — |
| Tax payable | | <u>2,718</u> | <u>15,758</u> |
| Total current liabilities | | <u>4,741,639</u> | <u>187,669</u> |
| Net current assets/(liabilities) | | <u>(4,588,333)</u> | <u>39,674</u> |
| Total assets less current liabilities | | <u>13,180,667</u> | <u>14,919,674</u> |

| | <i>Notes</i> | 31st December, 2011 <i>HK\$'000</i> | 31st December, 2010 <i>HK\$'000</i> |
|--|--------------|---|---|
| Non-current liabilities, excluding net assets attributable to Unitholders | | | |
| Interest-bearing bank borrowings | 19 | 209,019 | 4,617,241 |
| Derivative financial instruments | 20 | — | 142,423 |
| Deposits received | | 2,489 | 2,034 |
| Deferred tax liabilities | 21 | 317,310 | 238,365 |
| Total non-current liabilities | | 528,818 | 5,000,063 |
| Total liabilities, excluding net assets attributable to Unitholders | | | |
| | | 5,270,457 | 5,187,732 |
| Net assets attributable to Unitholders | | | |
| | | 12,651,849 | 9,919,611 |
| Number of Units in issue | | | |
| | 22 | 3,257,431,189 | 3,241,560,101 |
| Net asset value per Unit attributable to Unitholders | | | |
| | 23 | HK\$3.884 | HK\$3.060 |

The consolidated financial statements on pages II-3 to II-56 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 20th March, 2012.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December, 2011

| | Attributable to Unitholders | | | | | Total HK\$'000 |
|---|-----------------------------|---------------|-----------------|----------------|------------------|-------------------|
| | Units | Capital | Hedging | Property | Retained | |
| | HK\$'000 | reserve | reserve | revaluation | profits | |
| Net assets as at | | | | | | |
| 1st January, 2011 | 8,432,356 | 15,876 | (138,677) | — | 1,610,056 | 9,919,611 |
| Profit for the year | — | — | — | — | 2,997,263 | 2,997,263 |
| Other comprehensive income for the year: | | | | | | |
| Cash flow hedges | — | — | 106,686 | — | — | 106,686 |
| Gain on revaluation of property, net of tax | — | — | — | 152,735 | — | 152,735 |
| Total comprehensive income for the year, before distribution to Unitholders | — | — | 106,686 | 152,735 | 2,997,263 | 3,256,684 |
| Finance costs - distributions to Unitholders | — | — | — | — | (524,446) | (524,446) |
| Net assets as at | | | | | | |
| 31st December, 2011 | <u>8,432,356</u> | <u>15,876</u> | <u>(31,991)</u> | <u>152,735</u> | <u>4,082,873</u> | <u>12,651,849</u> |

APPENDIX II
FINANCIAL INFORMATION OF THE REGAL REIT GROUP

For the year ended 31st December, 2010

| | <i>Note</i> | Attributable to Unitholders | | | | | Non-controlling | |
|--|-------------|-----------------------------|-----------------|------------------|------------------|------------------|-----------------|------------------|
| | | Units | Capital reserve | Hedging reserve | Retained profits | Total | interest | Total |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net assets as at | | | | | | | | |
| 1st January, 2010 | | 8,362,016 | — | (198,396) | 1,165,421 | 9,329,041 | 21,508 | 9,350,549 |
| Profit for the year | | — | — | — | 997,093 | 997,093 | 20,459 | 1,017,552 |
| Other comprehensive income for the year: | | | | | | | | |
| Cash flow hedges | | — | — | 59,719 | — | 59,719 | — | 59,719 |
| Total comprehensive income for the year, before distributions to Unitholders | | — | — | 59,719 | 997,093 | 1,056,812 | 20,459 | 1,077,271 |
| Finance costs — distributions to Unitholders | | — | — | — | (552,458) | (552,458) | — | (552,458) |
| Acquisition of non-controlling interest | 24 | — | 15,876 | — | — | 15,876 | (41,967) | (26,091) |
| As payment of REIT Manager fees: | | | | | | | | |
| Units issued | | 35,147 | — | — | — | 35,147 | — | 35,147 |
| Units to be issued | | 35,193 | — | — | — | 35,193 | — | 35,193 |
| Net assets as at | | | | | | | | |
| 31st December, 2010 | | <u>8,432,356</u> | <u>15,876</u> | <u>(138,677)</u> | <u>1,610,056</u> | <u>9,919,611</u> | <u>—</u> | <u>9,919,611</u> |

DISTRIBUTION STATEMENT*For the year ended 31st December, 2011*

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|----------------|--------------------------------|--------------------------------|
| Profit for the year, before distributions to Unitholders | | 2,997,263 | 997,093 |
| Adjustments: | | | |
| Difference in accounting Base Rent and actual contractual cash Base Rent | | — | 60,660 |
| Amounts set aside for the furniture, fixtures and equipment reserve | (e) | (34,651) | (41,639) |
| REIT Manager fees paid/payable in the form of Units | | — | 70,340 |
| Amortisation of debt establishment costs | | 10,512 | 9,062 |
| Fair value changes on investment properties | | (2,625,319) | (462,392) |
| Fair value changes on derivative financial instruments | | (3,746) | (11,223) |
| Depreciation | | 5,063 | — |
| Deferred tax charge | | 48,764 | 60,978 |
| Distributable income for the year | (a) & (b) | <u>397,886</u> | <u>682,879</u> |
| | | <i>HK\$</i> | <i>HK\$</i> |
| Distributions per Unit: | | | |
| Interim | (a) | 0.057 | 0.086 |
| Final | (b), (c) & (d) | <u>0.063</u> | <u>0.104</u> |
| | | <u>0.120</u> | <u>0.190</u> |

Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders the minimum amount of no less than 90% of Regal REIT's Total Distributable Income for each financial year. The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager resolved to make an interim distribution of HK\$0.057 per Unit for the interim period ended 30th June, 2011, resulting in a total amount of interim distribution of approximately HK\$185.7 million.
- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 14th May, 2012 in respect of the final distribution for the period from 1st July, 2011 to 31st December, 2011. The final distribution will be paid out to Unitholders on or about 23rd May, 2012. The total amount of final distribution to be paid to Unitholders of approximately HK\$205.2 million is arrived at based on the final distribution per Unit of HK\$0.063 and

the number of Units expected to be in issue at the Record Date that are entitled to distributions as detailed in note (c) below. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of approximately HK\$185.7 million and the final distribution of approximately HK\$205.2 million, amounted to HK\$390.9 million or approximately 98.2% of the Total Distributable Income for the year.

- (c) The number of Units expected to be entitled to distributions for the period from 1st July, 2011 to 31st December, 2011 is 3,257,431,189. This does not take into consideration any Units which may be repurchased and cancelled or any other changes in the number of the issued Units subsequent to the approval of the consolidated financial statements but before the Record Date.
- (d) The final distribution of HK\$0.063 per Unit for the period from 1st July, 2011 to 31st December, 2011, involving an amount of approximately HK\$205.2 million, was resolved and declared by the REIT Manager on 20th March, 2012. Accordingly, the distribution is not reflected as a distribution payable in the consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2012. The final distribution for the period from 1st July, 2010 to 31st December, 2010 of approximately HK\$338.7 million was included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.
- (e) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels” and each referred to as the “Initial Hotel”), and Regal iClub Hotel aggregated approximately HK\$34.7 million. In 2010, the amounts for the Initial Hotels contributed by the lessee and the lessors aggregated HK\$27.7 million and HK\$13.9 million, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2011

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax and distributions to Unitholders | | 3,070,523 | 1,120,407 |
| Adjustments for: | | | |
| Fair value changes on investment properties | 13 | (2,625,319) | (478,642) |
| Difference in accounting Base Rent and actual contractual cash Base Rent | 5 | — | 60,660 |
| Bank interest income | 6 | (77) | (103) |
| REIT Manager fees in the form of Units | 7 | — | 70,340 |
| Finance costs - excluding distributions to Unitholders | 9 | 182,922 | 179,429 |
| Fair value changes on derivative financial instruments | | (3,746) | (11,223) |
| Depreciation | 12 | 5,063 | — |
| | | <u>629,366</u> | <u>940,868</u> |
| Decrease/(increase) in accounts receivable | | 68,424 | (118,649) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 4,161 | (4,358) |
| Decrease/(increase) in restricted cash | | (138) | 4,419 |
| Increase in accounts payable | | 77,921 | 2,090 |
| Increase/(decrease) in deposits received | | 717 | (4,361) |
| Decrease in amounts due to related companies | | (130) | — |
| Increase/(decrease) in other payables and accruals | | <u>(30,930)</u> | <u>39,510</u> |
| Cash generated from operations | | 749,391 | 859,519 |
| Interest received | | 77 | 103 |
| Interest paid | | (172,402) | (169,798) |
| Hong Kong profits tax paid | | <u>(42,191)</u> | <u>(21,130)</u> |
| Net cash flows from operating activities | | <u>534,875</u> | <u>668,694</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions of items of property, plant and equipment | | (147) | — |
| Additions to investment properties | | (85,681) | (111,358) |
| Increase in restricted cash | | <u>(9,233)</u> | <u>(8,168)</u> |
| Cash flows used in investing activities | | <u>(95,061)</u> | <u>(119,526)</u> |

APPENDIX II**FINANCIAL INFORMATION OF THE REGAL REIT GROUP**

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank borrowings, net of debt establishment costs | | 278,654 | 70,000 |
| Repayment of bank borrowings | | (209,500) | (6,000) |
| Acquisition of non-controlling interest | | — | (90,088) |
| Distributions paid | | (524,446) | (552,458) |
| Decrease/(increase) in restricted cash | | <u>12,124</u> | <u>(11,776)</u> |
| Net cash flows used in financing activities | | <u>(443,168)</u> | <u>(590,322)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (3,354) | (41,154) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | <u>27,151</u> | <u>68,305</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | <u>23,797</u> | <u>27,151</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 17 | <u>23,797</u> | <u>27,151</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

1. GENERAL

Regal Real Estate Investment Trust (“Regal REIT”) is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units (the “Units”) were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 30th March, 2007 (the “Listing Date”). Regal REIT is governed by a trust deed (the “Trust Deed”) dated 11th December, 2006 (date of establishment), made between Regal Portfolio Management Limited (the “REIT Manager”) and DB Trustees (Hong Kong) Limited (the “Trustee”) (as amended by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011 and the sixth supplemental trust deed dated 21st July, 2011) and the Code on Real Estate Investment Trusts (the “REIT Code”) issued by the Securities and Futures Commission (the “SFC”).

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

The addresses of the registered office of the REIT Manager and the Trustee are Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2011. The financial statements of the subsidiaries are prepared for the same reporting period as Regal REIT, using consistent accounting policies. The results of subsidiaries are

consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|------------------------------------|---|
| HKAS 24 (Revised) | <i>Related Party Disclosures</i> |
| <i>Improvements to HKFRSs 2010</i> | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised) and amendments to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 28 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31st December, 2011, in these financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Group's financial statements upon becoming effective:

| | |
|-------------------|---|
| HKFRS 9 | <i>Financial Instruments</i> ³ |
| HKFRS 10 | <i>Consolidated Financial Statements</i> ² |
| HKFRS 12 | <i>Disclosure of Interests in Other Entities</i> ² |
| HKFRS 13 | <i>Fair Value Measurement</i> ² |
| HKAS 1 Amendments | Amendments to <i>HKAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ¹ |

¹ Effective for annual periods beginning on or after 1st July, 2012

² Effective for annual periods beginning on or after 1st January, 2013

³ Effective for annual periods beginning on or after 1st January, 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1st January, 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1st January, 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1st January, 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

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

Unitholders' funds

In accordance with the Trust Deed, Regal REIT has a limited life of eighty years less one day from the date of its commencement, and it is required to distribute to the Unitholders no less than 90% of its Total Distributable Income for each financial year. Accordingly, Regal REIT has contractual obligations to the Unitholders to pay cash dividends and also, upon the termination of Regal REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Regal REIT less any liabilities, in accordance with the proportionate interests of the Unitholders in Regal REIT at the date of its termination. The Unitholders' funds are, therefore, classified as financial liabilities in accordance with HKAS 32 *Financial Instruments: Presentation*.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than in respect of financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined by individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would

have been determined had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation 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 consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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:

| | |
|-----------------------------------|---|
| Leasehold land | Over the lease term |
| Building | Over the shorter of the lease term and 2.5% |
| Furniture, fixtures and equipment | 20% |

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 the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

Investments and other financial assets*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowances for

impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated income statement. The loss arising from impairment is recognised in the consolidated income statement.

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the consolidated income statement.

Financial liabilities*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as set out below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

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

Derivative financial instruments and hedge accounting*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which are recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as set out below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the consolidated income statement in finance costs.

Amounts recognised in other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

Where the hedged item is the cost of a non-financial liability, the amounts recognised in other comprehensive income are transferred to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement.

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

Current versus non-current classification

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

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged items. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in values, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in net assets.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Operating leases

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Base Rent from operating leases, on a straight-line basis over the terms of the relevant leases;
- (b) Additional Base Rent, Variable Rent and the furniture, fixtures and equipment reserve contributions, in the accounting period in which they are earned in accordance with the terms of the respective agreements;
- (c) hotel revenue, in the period in which such service is rendered;
- (d) other rental income, on a time proportion basis over the lease terms; and
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Foreign currency transactions

These consolidated financial statements are presented in Hong Kong dollars which is Regal REIT's functional and presentation currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the consolidated income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that may require material adjustments to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effects on the amounts recognised in the consolidated financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Derivative financial instruments and hedging activities

Derivative financial instruments and hedging activities require the Group to make judgements on the designation of the hedging relationship of the Group's derivatives and their hedge effectiveness. These judgements determine if the changes in fair values of the derivative instruments are recognised directly in other comprehensive income in the hedging reserve or any ineffective element is recognised in the consolidated income statement.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses a discounted cash flow analysis for its derivative financial instruments that are not traded in active markets.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair values of investment properties and property, plant and equipment

The fair value of each investment property and property, plant and equipment is individually determined at the end of each reporting period by an independent valuer based on a market value assessment, on an open market, existing use basis. The valuer has relied on the discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy or occupancy, and cash flow profile. The discounted cash flow projections of each investment property and property, plant and equipment are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases, other contracts, projection of hotel operating income and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the carry forward of unused tax losses can be utilised. Recognition of deferred tax primarily involves judgements and estimations regarding the future performance of the Group. 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 realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profits projections are reviewed at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports about the components of the Group which are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to segments and assess their performance. Information reported to the Group's chief operating decision-maker, for the above-mentioned purposes, is mainly focused on the segment results related to the nature of properties, namely, the hotel properties and the mixed use property. For management purposes, the two reportable operating segments are (i) the hotel properties segment which invested in the Initial Hotels; and (ii) the mixed use property segment which invested in Regal iClub Hotel, which is made up of the hotel portion and other portions.

The operating segments of the Group for the year ended 31st December, 2011 are as follows:

| | Hotel Properties | Mixed Use Property | Total |
|--|-----------------------------|-------------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Segment revenue | | | |
| Gross rental revenue | 687,038 | 4,929 | 691,967 |
| Gross hotel revenue | — | 44,067 | 44,067 |
| Total | <u>687,038</u> | <u>48,996</u> | <u>736,034</u> |
| Segment results | <u>675,310</u> | <u>31,719</u> | 707,029 |
| Fair value changes on investment properties | 2,614,370 | 10,949 | 2,625,319 |
| Depreciation | — | (5,063) | (5,063) |
| Bank interest income | | | 77 |
| Other income | | | 7,396 |
| REIT Manager fees | | | (75,518) |
| Trust, professional and other expenses | | | (9,541) |
| Fair value changes on derivative financial instruments | | | 3,746 |
| Finance costs - excluding distributions to Unitholders | | | (182,922) |
| Profit before tax and distributions to Unitholders | | | <u>3,070,523</u> |

The operating segments of the Group for the year ended 31st December, 2010 are as follows:

| | Hotel Properties | Mixed Use Property | Total |
|--|-----------------------------|-------------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Segment revenue | | | |
| Gross rental revenue | 885,974 | 24,000 | 909,974 |
| Segment results | <u>875,267</u> | <u>23,992</u> | 899,259 |
| Fair value changes on investment properties | 413,642 | 65,000 | 478,642 |
| Bank interest income | | | 103 |
| Other income | | | 35 |
| REIT Manager fees | | | (75,381) |
| Trust, professional and other expenses | | | (14,045) |
| Fair value changes on derivative financial instruments | | | 11,223 |
| Finance costs - excluding distributions to Unitholders | | | (179,429) |
| Profit before tax and distributions to Unitholders | | | <u>1,120,407</u> |

APPENDIX II FINANCIAL INFORMATION OF THE REGAL REIT GROUP

Segment assets and liabilities

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

As at 31st December, 2011, the Group's segment assets comprised of aggregate fair values of the investment properties and property, plant and equipment, in the hotel properties segment and the mixed use property segment amounting to HK\$17,010,000,000 (2010: HK\$14,310,000,000) and HK\$759,000,000 (2010: HK\$570,000,000), respectively.

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

Other segment information

| | Year ended 31st December, 2011 | | |
|----------------------|---------------------------------------|------------------|-----------------|
| | Hotel | Mixed Use | Total |
| | Properties | Property | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditures | <u>85,630</u> | <u>198</u> | <u>85,828</u> |

| | Year ended 31st December, 2010 | | |
|----------------------|---------------------------------------|------------------|-----------------|
| | Hotel | Mixed Use | Total |
| | Properties | Property | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditures | <u>86,358</u> | <u>25,000</u> | <u>111,358</u> |

Capital expenditures consist of additions to investment properties and property, plant and equipment.

Information about a major customer

Revenue of approximately HK\$687,038,000 (2010: HK\$885,974,000) was derived from the lease of the hotel properties to a single lessee, a related company.

Geographical information

The Group's investment properties and property, plant and equipment are all located in Hong Kong.

5. NET RENTAL AND HOTEL INCOME

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

The net rental and hotel income represents the aggregate of:

- (a) Net rental income, being the net amount of gross rental revenue less property operating expenses; and
- (b) Net hotel income, being the gross hotel revenue less hotel operating expenses.

An analysis of the net rental and hotel income is as follows:

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------------------|--------------|--------------------------------|--------------------------------|
| Gross rental revenue | | | |
| Rental income - Initial Hotels | (a) | 677,116 | 849,615 |
| - Regal iClub Hotel - Other portions | (b) | 4,929 | 24,000 |
| Other rental-related income | (c) | — | 27,759 |
| Other | | <u>9,922</u> | <u>8,600</u> |
| | | 691,967 | 909,974 |
| Property operating expenses | | <u>(12,150)</u> | <u>(10,715)</u> |
| Net rental income | | <u>679,817</u> | <u>899,259</u> |
| Gross hotel revenue | | | |
| | (d) | 44,067 | — |
| Hotel operating expenses | | <u>(16,855)</u> | <u>—</u> |
| Net hotel income | | <u>27,212</u> | <u>—</u> |
| Net rental and hotel income | | <u><u>707,029</u></u> | <u><u>899,259</u></u> |

Notes:

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

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|
| Base Rent: | | |
| Cash Base Rent | 560,000 | 780,000 |
| Cash Additional Base Rent | 1,078 | 11,891 |
| Difference in accounting Base Rent and actual contractual cash Base Rent | <u>—</u> | <u>(60,660)</u> |
| | 561,078 | 731,231 |
| Variable Rent | <u>116,038</u> | <u>118,384</u> |
| | <u><u>677,116</u></u> | <u><u>849,615</u></u> |

Prior to 31st December, 2010, under the terms of the lease agreements with the lessee with respect to the Initial Hotels, the Group was entitled to receive (i) cash Base Rent in the form of a pre-determined fixed cash sum per annum payable monthly in advance; (ii) cash Additional Base Rent for capital additions projects which were proposed by the lessee, were approved and funded by the Group and were intended to increase revenue and rental payment capacity of any one of the Initial Hotels; and (iii) Variable Rent, computed on pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments.

For the year ended 31st December, 2011, Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. Regal REIT received an aggregate of HK\$561.1 million, representing cash Base Rent of HK\$560.0 million for the year 2011 and cash Additional Base Rent of HK\$1.1 million for December 2010.

- (b) Under the terms of the lease agreement with the lessee with respect to Regal iClub Hotel, a subsidiary of Regal REIT received from the lessee a rent of HK\$2.0 million per calendar month (excluding management expenses, rates, government rent and other sums payable by the lessee under the lease agreement) which expired on 31st December, 2010.

For the year ended 31st December, 2011, Regal iClub Hotel - Other portions generated rental income of approximately HK\$4.9 million.

- (c) Other rental-related income in the prior year represented contributions to the FF&E Reserve received from the lessee of the Initial Hotels in accordance with the terms of the lease agreements until 31st December, 2010. The FF&E Reserve contributions were for additions to and replacements of furniture, fixtures and equipment for the Initial Hotels. Under the Market Rental Package for 2011, no FF&E Reserve contributions were required to be made by the lessee and the obligation for such contributions rested with the lessors of each of the Initial Hotels.
- (d) For the year ended 31st December, 2011, Regal iClub Hotel - Hotel portion contributed gross hotel revenue of approximately HK\$44.1 million and incurred operating costs and expenses amounting to approximately HK\$16.9 million.

6. OTHER INCOME

| | 2011 | 2010 |
|----------------------|---------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank interest income | 77 | 103 |
| Sundry | <u>7,396</u> | <u>35</u> |
| | <u><u>7,473</u></u> | <u><u>138</u></u> |

7. REIT MANAGER FEES

| | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--------------------------|-------------------------|-------------------------|
| Base Fees: | | |
| In the form of Units | — | 42,199 |
| In the form of cash | 53,767 | 3,123 |
| Variable Fees: | | |
| In the form of Units | — | 28,141 |
| In the form of cash | 21,751 | 720 |
| Acquisition Fee: | | |
| In the form of cash | — | 1,198 |
| | <u>75,518</u> | <u>75,381</u> |
| Total REIT Manager Fees: | | |
| In the form of Units | — | 70,340 |
| In the form of cash | <u>75,518</u> | <u>5,041</u> |
| | <u>75,518</u> | <u>75,381</u> |

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

- a base fee (the “Base Fee”) of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT which is payable monthly (in the form of Units and cash) and subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the end of the reporting period for the relevant financial year;
- a variable fee (the “Variable Fee”) of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel and Regal iClub Hotel, which is payable annually; and
- an acquisition fee (the “Acquisition Fee”) not exceeding 1% of the purchase price of any real estate acquired by Regal REIT (pro-rated, if applicable, to the proportion of Regal REIT’s interest in the real estate acquired).

For the year ended 31st December, 2011, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash. Details of which can be referred to the announcements published on 14th January, 2011 and 21st July, 2011, respectively.

APPENDIX II FINANCIAL INFORMATION OF THE REGAL REIT GROUP

8. TRUST, PROFESSIONAL AND OTHER EXPENSES

| | 2011 | 2010 |
|-----------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Auditors' remuneration: | | |
| Audit fees | 1,330 | 1,180 |
| Non-audit fees | 619 | 618 |
| Legal and other professional fees | 3,307 | 7,918 |
| Trustee fees | 2,601 | 2,644 |
| Valuation fees | 731 | 741 |
| Other expenses | 953 | 944 |
| | <u>9,541</u> | <u>14,045</u> |

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2010: Nil) and, accordingly, no directors and employee benefit expenses were incurred during the year (2010: Nil).

9. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

| | 2011 | 2010 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest expenses on interest-bearing bank borrowings repayable within five years | 44,223 | 41,008 |
| Fair value changes on derivative financial instruments — cash flow hedge (transfer from hedging reserve) | 128,079 | 128,895 |
| Amortisation of debt establishment costs | 10,512 | 9,208 |
| Loan commitment fees | 40 | 88 |
| Loan agency fees | 68 | 230 |
| | <u>182,922</u> | <u>179,429</u> |

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | 2011 | 2010 |
|-------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Charge for the year | 24,496 | 41,219 |
| Overprovision in prior years | — | (40) |
| Deferred (note 21) | 48,764 | 61,676 |
| Total tax charge for the year | <u>73,260</u> | <u>102,855</u> |

A reconciliation of the tax charge applicable to profit before tax and distributions to Unitholders at the Hong Kong statutory rate of 16.5% (2010: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

| | 2011 | 2010 |
|---|------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit before tax and distributions to Unitholders | <u>3,070,523</u> | <u>1,120,407</u> |
| Tax at the statutory tax rate | 506,636 | 184,867 |
| Adjustments in respect of current tax of previous periods | — | (40) |
| Income not subject to tax | (433,808) | (80,845) |
| Expenses not deductible for tax | 682 | 1,447 |
| Others | <u>(250)</u> | <u>(2,574)</u> |
| Tax charge at the Group's effective rate | <u>73,260</u> | <u>102,855</u> |

11. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the year before distributions to Unitholders of approximately HK\$2,997,263,000 (2010: HK\$997,093,000) and the weighted average of 3,253,039,224 Units (2010: 3,225,175,623 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK\$0.921 (2010: HK\$0.309).

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

12. PROPERTY, PLANT AND EQUIPMENT

| | Land and building <i>HK\$'000</i> | Furniture, fixtures and equipment <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|---------------------------------|
| 31st December, 2011 | | | |
| At 1st January, 2011: | | | |
| Transfer from investment properties, at valuation or deemed cost (note 13) | 437,000 | — | 437,000 |
| Accumulated depreciation | <u>—</u> | <u>—</u> | <u>—</u> |
| Net carrying amount | <u>437,000</u> | <u>—</u> | <u>437,000</u> |
| At 1st January, 2011, net of accumulated depreciation | | | |
| | 437,000 | — | 437,000 |
| Additions | — | 147 | 147 |
| Surplus on revaluation | 182,916 | — | 182,916 |
| Depreciation provided during the year | <u>(5,049)</u> | <u>(14)</u> | <u>(5,063)</u> |
| At 31st December, 2011, net of accumulated depreciation | | | |
| | <u>614,867</u> | <u>133</u> | <u>615,000</u> |
| At 31st December, 2011: | | | |
| Cost or valuation | 614,867 | 147 | 615,014 |
| Accumulated depreciation | <u>—</u> | <u>(14)</u> | <u>(14)</u> |
| Net carrying amount | <u>614,867</u> | <u>133</u> | <u>615,000</u> |

The land and building was transferred from investment properties to property, plant and equipment on 1st January, 2011.

The Group's property, plant and equipment represents the value of land and building, and furniture, fixtures and equipment of Regal iClub Hotel for the hotel portion. The property, plant and equipment was revalued on 31st December, 2011 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$615,000,000 on an open market value, existing use basis. A revaluation surplus of approximately HK\$182,916,000 resulting from the 31st December, 2011 valuation has been credited to other comprehensive income.

The Regal iClub Hotel is situated in Hong Kong and is held under a long term lease, and has been pledged to secure banking facilities granted to the Group (note 19).

The carrying amount of the Group's property, plant and equipment would have been approximately HK\$432,084,000 had such assets been stated in the consolidated financial statements at cost less accumulated depreciation.

13. INVESTMENT PROPERTIES

| | <i>HK\$'000</i> |
|---|--------------------------|
| At 1st January, 2010 | 14,290,000 |
| Fair value changes | 478,642 |
| Capital expenditures for the year | <u>111,358</u> |
| At 31st December, 2010 and 1st January, 2011 | 14,880,000 |
| Transfer to owner-occupied property (note 12) | (437,000) |
| Fair value changes | 2,625,319 |
| Capital expenditures for the year | <u>85,681</u> |
| At 31st December, 2011 | <u><u>17,154,000</u></u> |

The Group's investment properties were valued on 31st December, 2011 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$17,154,000,000 on an open market value, existing use basis. The investment properties are leased to a related party and other commercial tenants under operating leases, further details of which are included in note 26(a) to the consolidated financial statements.

The Group's investment properties, which are situated in Hong Kong and held under medium to long term leases, have been pledged to secure banking facilities granted to the Group (note 19).

14. ACCOUNTS RECEIVABLE

| | 2011 | 2010 |
|---------------------------------------|----------------------|-----------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Variable Rent receivables | 52,221 | 118,384 |
| FF&E Reserve contribution receivables | — | 2,975 |
| Accounts receivable | <u>714</u> | <u>—</u> |
| | <u><u>52,935</u></u> | <u><u>121,359</u></u> |

The age of the Group's accounts receivable as at the end of the reporting period, based on the invoice date, is within 3 months. The Group has no accounts receivable that is past due at the end of the reporting period.

The Variable Rent receivables and FF&E Reserve contribution receivables represent amounts due from a related company which has no recent history of default. The amounts are unsecured and repayable within one year in accordance with the terms of the respective agreements.

Credit term

The general credit term for accounts receivable is 30 days. The 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 the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2011 | 2010 |
|-------------------|---------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Prepayments | 971 | 152 |
| Deposits | 1,648 | 1,702 |
| Other receivables | <u>74</u> | <u>5,000</u> |
| | <u><u>2,693</u></u> | <u><u>6,854</u></u> |

Deposits in the amount of approximately HK\$1,212,000 (2010: HK\$1,212,000) were placed with a related company with respect of services provided to Regal iClub Hotel. The amounts are unsecured and repayable on demand.

At 31st December, 2010, the other receivables represented an amount due from a related company. The amount was unsecured and repayable on demand.

16. RESTRICTED CASH

At 31st December, 2011, the Group had approximately HK\$69.2 million (2010: HK\$72.0 million) of cash which was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the FF&E Reserve for use in the Initial Hotels and Regal iClub Hotel - Hotel portion, and deposits from certain tenants in respect of Regal iClub Hotel - Other portions. All of the restricted cash is expected to be released within one year from the end of the reporting period and is, accordingly, classified as a current asset.

17. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. ACCOUNTS PAYABLE

| | 2011 | 2010 |
|----------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amounts due to related companies | 87,513 | 9,685 |
| Other accounts payable | <u>93</u> | <u>—</u> |
| | <u>87,606</u> | <u>9,685</u> |

The amounts due to related companies are unsecured, interest-free and repayable on demand. For other accounts payable, they are non interest-bearing and are normally settled within 90 days.

The age of the Group's other accounts payable as at the end of the reporting period, based on the invoice date, is within 3 months.

19. INTEREST-BEARING BANK BORROWINGS

| | 2011 | 2010 |
|---|--------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest-bearing bank borrowings | 4,775,500 | 4,705,000 |
| Debt establishment costs | <u>(3,180)</u> | <u>(12,346)</u> |
| | 4,772,320 | 4,692,654 |
| Portion classified as current liabilities | <u>(4,563,301)</u> | <u>(75,413)</u> |
| Non-current portion | <u>209,019</u> | <u>4,617,241</u> |
| Analysed into bank loans repayable: | | |
| Within one year | 4,563,301 | 75,413 |
| In the second year | 5,552 | 4,617,241 |
| In the third to fifth years, inclusive | <u>203,467</u> | <u>—</u> |
| | <u>4,772,320</u> | <u>4,692,654</u> |

Under a banking facility agreement, the Group was granted a facility aggregating HK\$4.5 billion (the "Initial Facility"). The Initial Facility bears interest at a floating interest rate based on 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. At the end of the reporting period, the Group had fully utilised the Initial Facility. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK\$4.35 billion, details of which are set out in note 20.

As at 31st December, 2011, the Group's current liabilities exceeded its current assets by approximately HK\$4,588.3 million as the Initial Facility of HK\$4.5 billion is repayable in full on 30th March, 2012 and the related derivative financial instruments were both classified as current liabilities at the end of the current reporting period.

On 7th March, 2012, Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, entered into a new facility agreement in respect of the coming maturity of the Initial Facility amounting to HK\$4.5 billion (the “New Term Loan Facility”) for a term of three years. The New Term Loan Facility will be wholly used for refinancing the Initial Facility that will mature on 30th March, 2012. It is expected that the full drawdown of the principal amount from the New Term Loan Facility will take place on or before 30th March, 2012. Based on the terms set out in the New Term Loan Facility, the REIT Manager believes that the Group will have sufficient resources to satisfy its commitments and working capital requirement.

After completion of the acquisition of the remaining 25% interest in Regal iClub Hotel on 31st December, 2010, Regal iClub Hotel became wholly-owned by Regal REIT. On 28th January, 2011, Regal REIT entered into a new loan agreement for loan facilities aggregating HK\$280.0 million for a term of three years, comprised of a term loan of HK\$220.0 million and a revolving credit facility of HK\$60.0 million (the “iClub Existing Facilities”) to replace the previous facilities of HK\$211.0 million. The iClub Existing Facilities bear interest at rates ranging from 215 to 230 basis points above HIBOR per annum. As at the end of the reporting period, the term loan facility had an outstanding amount of HK\$215.5 million and the revolving credit facility of HK\$60.0 million was fully utilised. Out of the term loan of HK\$220.0 million, a portion of HK\$16.5 million is repayable quarterly and a final repayment portion of HK\$203.5 million is due on 28th January, 2014.

On 24th February, 2012, Regal REIT, through Sonnix Limited, entered into another loan agreement for a new term loan facility of HK\$340.0 million for a term of three years (the “New iClub Facility”), to replace the iClub Existing Facilities. The New iClub Facility also bears HIBOR-based interest.

Bank borrowings under the Initial Facility are guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies of the Group. The New Facilities are guaranteed by Regal REIT while the bank borrowings under the replaced facilities in the prior year were guaranteed by Regal REIT and Paliburg Holdings Limited in proportions of 75% and 25%, respectively, on a several basis.

The Group’s interest-bearing bank borrowings are also secured by, amongst others:

- (i) legal charges and debentures over the corresponding properties;
- (ii) an assignment of rental income and all other proceeds arising from and including all rights, titles and interests under all hotel management agreements and lease agreements, where appropriate, and relating to the relevant properties;
- (iii) charges over each relevant rental account, sales proceeds account and other control accounts, if any;
- (iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant Group companies; and

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

20. DERIVATIVE FINANCIAL INSTRUMENTS

| | Liabilities | |
|--|----------------------|-----------------|
| | 2011 | 2010 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest rate swaps - cash flow hedges | 31,991 | 142,423 |
| Portion classified as non-current | <u>—</u> | <u>142,423</u> |
| Current portion | <u><u>31,991</u></u> | <u><u>—</u></u> |

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to one of its floating rate term loans with a notional amount of HK\$4.35 billion (note 19). Major terms of the interest rate swaps are set out below.

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

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

21. DEFERRED TAX

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

| | Fair value adjustments arising from revaluation of property, plant and equipment <i>HK\$'000</i> | Depreciation allowances in excess of related depreciation <i>HK\$'000</i> | Losses available for offsetting against future taxable profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|---|--------------------------|
| Gross deferred tax assets/(liabilities) at 1st January, 2010 | — | (241,996) | 65,307 | (176,689) |
| Deferred tax charged to the consolidated income statement during the year (note 10) | <u>—</u> | <u>(26,979)</u> | <u>(34,697)</u> | <u>(61,676)</u> |
| Gross deferred tax assets/(liabilities) at 31st December, 2010 | <u>—</u> | <u>(268,975)</u> | <u>30,610</u> | <u>(238,365)</u> |
| Gross deferred tax assets/(liabilities) at 1st January, 2011 | — | (268,975) | 30,610 | (238,365) |
| Deferred tax charged to other comprehensive income during the year | (30,181) | — | — | (30,181) |
| Deferred tax charged to the consolidated income statement during the year (note 10) | <u>—</u> | <u>(28,945)</u> | <u>(19,819)</u> | <u>(48,764)</u> |
| Gross deferred tax assets/(liabilities) at 31st December, 2011 | <u>(30,181)</u> | <u>(297,920)</u> | <u>10,791</u> | <u>(317,310)</u> |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

22. NUMBER OF UNITS IN ISSUE

| | Number of Units | |
|---|----------------------|----------------------|
| | 2011 | 2010 |
| Units in issue: | | |
| At beginning of the year | 3,241,560,101 | 3,204,394,184 |
| REIT Manager fees paid in the form of Units | <u>15,871,088</u> | <u>37,165,917</u> |
| At end of the year | <u>3,257,431,189</u> | <u>3,241,560,101</u> |

23. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2011 of approximately HK\$12,651,849,000 (2010: HK\$9,919,611,000) by the number of Units in issue of 3,257,431,189 (2010: 3,241,560,101) as at that date.

24. ACQUISITION OF NON-CONTROLLING INTEREST

On 31st December, 2010, the Group exercised the option to acquire the remaining 25% of the total issued share capital of Twentyfold Investments Limited, thereby, increasing its ownership interest to 100%, for a cash consideration of HK\$90.5 million (which included the assumption of an advance from a related company as at 31st December, 2010). The difference of HK\$15.9 million between the consideration and the value of the non-controlling interest acquired was recognised in the capital reserve account included in net assets attributable to Unitholders.

25. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**Major non-cash transaction**

The REIT Manager fees for the year ended 31st December, 2010 of HK\$70.3 million were settled in the form of Units, the details of which are set out in note 7 to the consolidated financial statements.

26. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties, as set out in note 13, under operating lease arrangements. At 31st December, 2011, the total future minimum lease receivables under non-cancellable operating leases with its lessees fall due as follows:

| | 2011 | 2010 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 657,595 | 569,645 |
| In the second to fifth years, inclusive | 33,370 | 32,385 |
| After five years | <u>31,812</u> | <u>37,969</u> |
| | <u>722,777</u> | <u>639,999</u> |

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

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

(b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for terms of 3 to 12 years. At 31st December, 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2011 | 2010 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 7,667 | 6,157 |
| In the second to fifth years, inclusive | 27,510 | 24,629 |
| After five years | <u>31,812</u> | <u>37,969</u> |
| | <u>66,989</u> | <u>68,755</u> |

During the year ended 31st December, 2011, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of approximately HK\$6,157,000 (2010: HK\$5,963,000) were charged to the consolidated income statement.

27. COMMITMENTS

In addition to the operating lease commitments detailed in note 26(b) above, the Group had the following capital commitments for its properties at the end of the reporting period:

| | 2011 | 2010 |
|------------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised and contracted for | — | 3,008 |
| Authorised, but not contracted for | <u>37,280</u> | <u>30,284</u> |
| | <u>37,280</u> | <u>33,292</u> |

28. CONNECTED AND RELATED PARTY TRANSACTIONS

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

| Connected/related parties | Relationship with the Group |
|--|------------------------------------|
| DB Trustees (Hong Kong) Limited (the "Trustee") | The Trustee of Regal REIT |
| Deutsche Bank AG and its associates (the "Deutsche Bank Group") | Connected persons of the Trustee |

| Connected/related parties | Relationship with the Group |
|---|---|
| Regal Hotels International Holdings Limited and other members of its group (collectively the “RHIHL Group”) | Significant Unitholder of Regal REIT |
| Regal Portfolio Management Limited (the “REIT Manager”) | The Manager of Regal REIT and a member of the RHIHL Group |
| Paliburg Holdings Limited and other members of its group (collectively the “PHL Group”) | Controlling shareholders of the RHIHL Group |
| Colliers International (Hong Kong) Limited (the “Valuer”) | The principal valuer of the Group |

(a) Transactions with connected/related parties:

| | Notes | 2011 HK\$'000 | 2010 HK\$'000 |
|---|--------|------------------|------------------|
| Contractual rental and rental-related income received/receivable from the RHIHL Group | (i) | 687,038 | 946,634 |
| Hotel management fees charged by the RHIHL Group | (ii) | (2,313) | — |
| Marketing fee charged by the RHIHL Group | (iii) | (441) | — |
| Contractual rental and rental-related income received/receivable from the PHL Group | (iv) | — | 24,000 |
| Development consultancy and construction fees charged by the PHL Group | (v) | — | (4,550) |
| Building management fee charged by the PHL Group | (vi) | (387) | — |
| Interest expense charged by the Deutsche Bank Group | (vii) | (58,881) | (59,258) |
| REIT Manager fees | (viii) | (75,518) | (75,381) |
| Trustee fees | (ix) | (2,601) | (2,644) |
| Valuation fees paid/payable to the Valuer | (x) | <u>(846)</u> | <u>(931)</u> |

Notes:

- (i) The rental and rental-related income earned by the Group was in accordance with the relevant agreements with respect to the Initial Hotels, details of which, including the terms, are set out in note 5 to the consolidated financial statements.
- (ii) Hotel management fees comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.

- (iii) The marketing fee in respect of Regal iClub Hotel - Hotel portion was charged at 1% of the gross hotel revenue of Regal iClub Hotel - Hotel portion in accordance with the corresponding hotel management agreement.
- (iv) The rental and rental-related income in the prior year earned by the Group was in accordance with the lease with respect to Regal iClub Hotel, details of which, including the terms, are set out in note 5 to the consolidated financial statements.
- (v) The development consultancy and construction fees were charged by the PHL Group in accordance with the terms of the relevant agreements.
- (vi) The building management fee was charged at a mutually agreed amount payable on a monthly basis in respect of Regal iClub Hotel - Other portions.
- (vii) The interest expense is related to bank balances maintained and interest rate swaps arranged with the Deutsche Bank Group. The incurred interest expense thereon was in accordance with the corresponding bank agreements and swap contracts with the Deutsche Bank Group.
- (viii) The REIT Manager is entitled to receive Base Fees, Variable Fees and the Acquisition Fee, details of which, including the terms, are set out in note 7 to the consolidated financial statements.
- (ix) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (x) The valuation fees were charged by the Valuer in accordance with the terms of the relevant agreements.

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

| | <i>Notes</i> | 2011 <i>HK\$'000</i> | 2010 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| Net amounts due from/(to) the RHIHL Group: | | | |
| Variable Rent receivables and FF&E Reserve contribution receivables | (i) | 52,221 | 121,359 |
| Other receivables | (ii) | 65 | 5,000 |
| Accounts payable to related companies | (ii) | (87,513) | (9,685) |
| Other payables | (iii) | (9,662) | — |
| Amounts due to related companies | (iii) | (302) | — |
| Net amounts due from/(to) the PHL Group: | | | |
| Amount due to a related company | (iii) | — | (432) |
| Other payables and accruals | (iii) | (130) | (418) |
| Deposits paid | (ii) | 1,212 | 1,212 |
| Net amounts due to: | | | |
| The Trustee | (iv) | (707) | (646) |
| The Valuer | (v) | (561) | (611) |
| Restricted and non-restricted bank balances with the Deutsche Bank Group | | | |
| | (vi) | <u>40,271</u> | <u>31,253</u> |

Notes:

- (i) Details of the balances are set out in note 14 to the consolidated financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand.
 - (iii) The amounts are unsecured, interest-free and repayable within one year.
 - (iv) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (v) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vi) The bank balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the Group and the Trustee for a period up to 30th June, 2011. Under the Market Rental Package for 2011, the RHIHL Lessee had delivered a replacement third party guarantee as a security deposit, for an amount of HK\$280.0 million, which is equivalent to six months Base Rent for the year 2011, issued by a licensed bank in Hong Kong in favor of the Group and the Trustee for a period up to 30th June, 2012. On 28th October, 2011, a new third party guarantee was issued to raise the existing guarantee amount of HK\$280.0 million to HK\$322.5 million effective from 1st January, 2012 to 31st December, 2012.
- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) The lease of Regal iClub Hotel to a subsidiary of PHL Group (the “PHL Lessee”) was under a lease agreement for the period from 21st October, 2009 to 31st December, 2010 (the “PHL Lease”). Under the PHL Lease, the PHL Group guaranteed (i) the PHL Lessee’s obligations to pay to a subsidiary of Regal REIT and the Trustee, on demand by a subsidiary of Regal REIT or the Trustee (on behalf of Regal REIT and at the direction of the REIT Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to a subsidiary of Regal REIT under the PHL Lease, and (ii) the due observance and performance of all terms, conditions, covenants, agreements and obligations contained in the PHL Lease, and on the part of the PHL Lessee, to be observed and performed.

- (f) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of the hotel portion of Regal iClub Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

| | Loans and receivables | |
|--|------------------------------|-----------------|
| | 2011 | 2010 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Accounts receivable | 52,935 | 121,359 |
| Financial assets included in prepayments, deposits and other receivables | 1,722 | 6,702 |
| Restricted cash | 69,226 | 71,979 |
| Cash and cash equivalents | <u>23,797</u> | <u>27,151</u> |
| | <u>147,680</u> | <u>227,191</u> |

Financial liabilities

| | 2011 | | |
|----------------------------------|---|--|------------------|
| | Financial liabilities at fair value through profit or loss — designated as hedging instruments | Financial liabilities at amortised cost | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Accounts payable | — | 87,606 | 87,606 |
| Due to related companies | — | 302 | 302 |
| Other payables and accruals | — | 55,459 | 55,459 |
| Deposits received | — | 2,751 | 2,751 |
| Derivative financial instruments | 31,991 | — | 31,991 |
| Interest-bearing bank borrowings | — | 4,772,320 | 4,772,320 |
| | <u>31,991</u> | <u>4,918,438</u> | <u>4,950,429</u> |

| | 2010 | | |
|----------------------------------|--|---|------------------|
| | Financial liabilities at fair value through profit or loss — designated as hedging instruments | Financial liabilities at amortised cost | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Accounts payable | — | 9,685 | 9,685 |
| Due to a related company | — | 432 | 432 |
| Other payables and accruals | — | 86,381 | 86,381 |
| Deposits received | — | 2,034 | 2,034 |
| Derivative financial instruments | 142,423 | — | 142,423 |
| Interest-bearing bank borrowings | — | 4,692,654 | 4,692,654 |
| | <u>142,423</u> | <u>4,791,186</u> | <u>4,933,609</u> |

30. FAIR VALUE HIERARCHY

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

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value

As at 31st December, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|----------|---------------|----------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Derivative financial instruments | <u>—</u> | <u>31,991</u> | <u>—</u> | <u>31,991</u> |

As at 31st December, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Derivative financial instruments | <u>—</u> | <u>142,423</u> | <u>—</u> | <u>142,423</u> |

During the year, there were no transfers into or out of Level 1 and 3 fair value measurements (2010: Nil).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

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

For Hong Kong dollars bank borrowings, assuming the amount of bank borrowings and interest rate swap contracts outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase/decrease in interest rates at 31st December, 2011 would have decreased/increased the Group's profit before tax and distributions to Unitholders by approximately HK\$4.3 million (2010: HK\$3.6 million). The sensitivity to the interest rate used is considered reasonable with the other variables held constant.

Credit risk

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

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

Liquidity risk

The REIT Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the REIT Manager observes the REIT Code issued by the SFC concerning limits on total borrowings and monitors the level of borrowings of Regal REIT to be within the permitted limits.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| | 2011 | | | |
|-----------------------------------|------------------|--------------------------------|---------------------|------------------|
| | On demand | Less than 12 months | 1 to 5 years | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest-bearing bank borrowings* | — | 4,581,002 | 215,527 | 4,796,529 |
| Accounts payable | 87,513 | 93 | — | 87,606 |
| Deposits received | — | 262 | 2,489 | 2,751 |
| Other payables and accruals | — | 55,459 | — | 55,459 |
| Due to related companies | — | 302 | — | 302 |
| Derivative financial instruments | — | 31,991 | — | 31,991 |
| | <u>87,513</u> | <u>4,669,109</u> | <u>218,016</u> | <u>4,974,638</u> |

* As further explained in note 19, despite the maturity profile disclosed above, the existing facilities included in the interest-bearing bank borrowings balance were fully settled subsequent to the end of the reporting period and replaced by the New Term Loan Facility and New iClub Facility with different maturity profile.

| | 2010 | | | |
|----------------------------------|------------------|--------------------------------|---------------------|------------------|
| | On demand | Less than 12 months | 1 to 5 years | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest-bearing bank borrowings | — | 110,104 | 4,667,707 | 4,777,811 |
| Accounts payable | 9,685 | — | — | 9,685 |
| Deposits received | — | — | 2,034 | 2,034 |
| Other payables and accruals | — | 86,381 | — | 86,381 |
| Due to a related company | — | 432 | — | 432 |
| Derivative financial instruments | — | 137,675 | 4,748 | 142,423 |
| | <u>9,685</u> | <u>334,592</u> | <u>4,674,489</u> | <u>5,018,766</u> |

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

Capital management

The objective of the Group is to employ a growth oriented capital structure to maximise cash flows while maintaining flexibility in funding any future acquisitions. The Group's excess borrowing capacity will be available to meet future capital requirements relating to acquisitions of additional properties, as well as capital expenditures associated with the enhancement of the investment properties held by the Group.

The Group also adopts a prudent capital management policy to ensure that the leverage ratio will not exceed the threshold percentage under the REIT Code and relevant provisions in the banking facility agreements.

The Group monitors the capital management position using the loan-to-value ratio and the gearing ratio. At the end of the reporting period, the loan-to-value ratio in connection with certain utilised banking facilities ranged from 26.5% to 36.3% (2010: 31.4% to 36.0%), which was below the thresholds as allowed under the respective banking facility agreements. At the end of the reporting period, the gearing ratio of 26.6% (2010: 31.1%), being the gross amount of the outstanding loans of approximately HK\$4,775.5 million (2010: HK\$4,705.0 million) divided by the total assets of approximately HK\$17,922.3 million (2010: HK\$15,107.3 million), was below the maximum limit of 45% stipulated under the REIT Code.

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

33. CONTINGENCIES AND PROVISION

Following legal proceedings which commenced in prior years between a wholly-owned subsidiary of Regal REIT that owns the Regal Hongkong Hotel (the "Plaintiff") and the owner of a neighboring commercial building (the "Defendant"), the High Court dismissed the Plaintiff's claims and the Defendant's counterclaim in 2010, and made a cost order nisi that the Plaintiff pays the net bill of costs to the Defendant (the "Judgement"). A provision for such costs was recorded in the Group's consolidated financial statements as at 31st December, 2010, but an appeal was filed by the Plaintiff against the Judgement that was scheduled to take place in November 2011.

On 31st October, 2011, prior to the appeal hearing, the Defendant and the Plaintiff entered into a settlement agreement whereby (i) the Defendant agreed to pay the Plaintiff an amount that exceeded the bill of costs previously paid in July 2011 by the Plaintiff to the Defendant, and (ii) the Defendant and the Plaintiff entered into a lease agreement for the Plaintiff to rent certain premises in the building. Both the Defendant and the Plaintiff applied to the High Court to dismiss all prior legal proceedings and formal dismissals were issued by the High Court in November 2011. The proceeds from the settlement agreement are recorded by the Group as sundry income as set out in note 6.

34. SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

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

The above table lists the subsidiaries of Regal REIT which, in the opinion of the REIT Manager, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the REIT Manager, result in particulars of excessive length.

1. VALUATION OF PROPERTY INTERESTS OF THE REGAL REIT GROUP

The valuation of the investment properties portfolio of the Regal REIT Group as at 30 April 2012 was conducted by Colliers International (Hong Kong) Limited (“Colliers”). Colliers is the principal valuer of Regal REIT appointed by the Trustee according to the provisions of the REIT Code.

The following is the text of a letter, summary of valuations and valuation reports prepared for the purpose of incorporation in this Composite Offer Document received from Colliers, an independent property valuer, in connection with its opinion of the market value of the leasehold interests of the properties of the Regal REIT Group as at 30 April 2012.



9 July 2012

REGAL PORTFOLIO MANAGEMENT LIMITED
UNIT NO. 1504, 15TH FLOOR,
68 YEE WO STREET,
CAUSEWAY BAY,
HONG KONG
(AS “MANAGER” OF REGAL REIT)

AND

DB TRUSTEES (HONG KONG) LIMITED
LEVEL 52, INTERNATIONAL COMMERCE CENTRE,
1 AUSTIN ROAD WEST,
KOWLOON,
HONG KONG
(AS “TRUSTEE” OF REGAL REIT)

DEAR SIR/MADAM,

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

Instructions

In accordance with the instructions of the Manager on behalf of Regal REIT (the “Client”) to value the Properties, we confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the leasehold interests of the Properties in their existing state as at 30 April 2012 (the “date of valuation”).

We hereby confirm that:

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

Basis of Valuation

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

Valuation Standards

The valuations have been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors; the requirements contained in Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2010, and where applicable, the Listing Rules of The Stock Exchange of Hong Kong Limited and The Codes on Takeovers and Mergers and Share Repurchases published by The Securities and Futures Commission.

Valuation Rationale

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

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

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

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

Title Investigations

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

Sources of Information

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

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

Site Measurement

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

Site Inspection

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

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

Potential Tax Liability

According to the information provided to us, the Properties will not be subject to any potential tax liability upon disposal. The Client has also confirmed that it has no intention to dispose of any of the Properties.

According to our established practice, we have neither verified nor taken into account any tax liability in the course of our valuation.

Assumptions and Caveats

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

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

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

We have made the following assumptions:

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

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

Our Summary of Values and Valuation Reports are attached hereto.

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

David Faulkner

BSc (Hons) FRICS FHKIS RPS(GP) MAE

Executive Director

Valuation & Advisory Services — Asia

Stella Ho

MSc BSSc (Hons) MRICS MHKIS RPS(GP)

Associate Director

Valuation & Advisory Services

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

Stella Ho is a Chartered Surveyor and has over 12 years' experience in the valuation of properties of this magnitude and nature in Hong Kong/China.

SUMMARY OF VALUES

| No. | Property | Market Value in existing state as at 30 April 2012 HK\$ |
|------------|--|--|
| 1 | Regal Airport Hotel 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong | 3,300,000,000 |
| 2 | Regal Hongkong Hotel 88 Yee Wo Street, Causeway Bay, Hong Kong | 4,080,000,000 |
| 3 | Regal Kowloon Hotel 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong | 4,570,000,000 |
| 4 | Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on Ground Floor including Cockloft of Shops 5-7 and the whole of 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong | 1,760,000,000 |
| 5 | Regal Riverside Hotel 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong | 3,520,000,000 |

| No. Property | Market Value in existing state as at 30 April 2012 <i>HK\$</i> |
|---|--|
| 6 Regal iClub Hotel Shops A, B and C on G/F, Flat Roof on 3/F, whole of 5-12/F, 15-23/F and 25-29/F, Eastern and Western Elevations of External Walls, Architectural Feature at Roof Top and Upper Roof, 211 Johnston Road, Wanchai, Hong Kong | 776,000,000 |
| Total: | <hr/> <u>18,006,000,000</u> |

VALUATION REPORTS

Property 1

REGAL AIRPORT HOTEL

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

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

1. Property Description

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

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

| | | |
|-----------------------------|---|---|
| Site Area | : | 10,886 sq.m. |
| Gross Floor Area | : | 71,988 sq.m. |
| Covered Floor Area | : | Approx. 83,400 sq.m. |
| Town Planning Zoning | : | RAH falls within “Commercial” zone under Chek Lap Kok Outline Zoning Plan No. S/I-CLK/12 dated 21 October 2011. |

Hotel Guestroom Configuration

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

Note: The room sizes range from 27 sq.m. to 280 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|-------|---------------------------|-------------------------------|-------------------------------|---------------------------------------|
| | | | Area (sq.m.) | No. of normal dining seating |
| G/F | Café Aficionado | International Buffet | 869 | 384 |
| G/F | China Coast Bar & Grill | American Steakhouse | 644 | 184 |
| G/F | Dragon Inn | Shanghainese Cuisine | 359 | 182 |
| G/F | Airport Izakaya | Japanese Cuisine | 236 | 143 |
| 1/F | Rouge | Cantonese and Sichuan Cuisine | 469 | 228 |
| 2/F | Regala Café & Dessert Bar | Desserts and Drinks | 326 | 102 |
| | | Total | <u>2,903</u> | <u>1,223</u> |

Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (sq.m.) | Seating Capacity (approx.) | |
|-------|--|---------------------------|------------------|---------------------|---|---------------------|
| | | | | | No. of Seating in Theatre/ Boardroom Style | Banquet Style |
| B/F | Pre-function Area and Meeting Rooms | Conference and Exhibition | 13 | 1,645 | 522 | 512 |
| 1/F | Ballroom | Banquet/Convention | 1 ¹ | 960 | 960 | 960 |
| 1/F | Multi-purpose Function Rooms | Meeting and Conference | 7 | 510 | 403 | 312 |
| 2/F | Meeting Rooms | Meeting and Conference | 3 | 94 | 38 | N/A |
| 9/F | Meeting Room | Meeting and Conference | 1 | 60 | 40 | N/A |
| | | Total | <u>25</u> | <u>3,269</u> | <u>1,963</u> | <u>1,784</u> |

Other Facilities

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

¹ The Ballroom can be subdivided into three rooms.

2. Ownership and Tenure

| | | |
|-------------------------|---|---|
| Registered Owner | : | Airport Authority ² |
| Lease Term | : | The Lot is held under New Grant No. IS7996 for a term commencing from 1 December 1995 and expiring on 30 June 2047. |

Major Registered Encumbrances

- Sub-Lease of Hotel in favour of Bauhinia Hotels Limited dated 12 August 2004, registered vide Memorial No. IS342341. The term of the Sub-Lease commenced from 31 December 2003 until the date occurring 25 years thereafter.
- Supplemental Lease (To Sub-Lease of Hotel Memorial No. IS342341) in favour of Bauhinia Hotels Limited dated 8 November 2006, registered vide Memorial No. 06112400700018.
- Lease Agreement (No. 1 for Regal Airport Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910065. (Remarks: By Bauhinia Hotels Limited from 30th Day of March 2007 to 31st Day of December 2015)
- First Supplemental Agreement amending Lease Agreement No. 1 for Regal Airport Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510099. (Remarks: By Bauhinia Hotels Limited)
- Mortgage and Assignment of Rights in favour of Hang Seng Bank Limited dated 30 March 2012, registered vide Memorial No. 12042002690401. (Remarks: By Bauhinia Hotels Limited)
- G.N. 2762 dated 26.4.2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590012. (Remarks: re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)
- G.N. 2764 dated 26.4.2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590024. (Remarks: annexed with plan Nos. ISM1734B-I and ISM1732B-I for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong boundary crossing facilities)

² The Hotel is sub-lease in favour of Bauhinia Hotels Limited for a term commencing from 31 December 2003 until the date occurring 25 years thereafter.

- G.N. 2761 dated 26.4.2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590037. (Remarks: re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)
- G.N. 2763 dated 26.4.2012 under Roads (works, use and compensation) Ordinance (Chapter 370) dated 26 April 2012, registered vide Memorial No. 12051002590049. (Remarks: with plans nos. ISM1742A and ISM1757A for creation of easements and other permanent rights and rights of temporary occupation of land. Re: PWP item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road)

3. Hotel Operation

Hotel Performance in January to April 2012

| | | |
|--------------------------|---|-----------|
| Occupancy Rate | : | 85% |
| Average Room Rate | : | HK\$1,040 |

Lease Agreement

| | | |
|--------------------------------|---|--|
| Lessor | : | Bauhinia Hotels Limited |
| Lessee | : | Favour Link International Limited |
| Term of Lease Agreement | : | Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive). |

Rental

From 2011 to 2015, the Market Rent³ to be determined (the “Market Rental Package Determination”) in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK\$175,000,000 per annum.

According to the 2011 and 2012 Market Rental Package Determinations, Base Rents for RAH for the fiscal years of 2011 and 2012 are HK\$176,000,000 and HK\$190,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels⁴ over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

³ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

⁴ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|---|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | Twenty (20) years from the Listing Date |
| Base Fee | : | One percent (1%) of Gross Revenue ⁵ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| Incentive Fee | : | One percent (1%) of the excess of the Adjusted GOP ⁶ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

4. Retail Tenancies/Licence Schedules**Retail⁷**

| | | |
|---------------------------------|---|---|
| Retail Area (Lettable) | : | Approx. 40,100 sq.ft. (3,725 sq.m.) |
| Occupied Area (Lettable) | : | Approx. 9,299 sq.ft. (864 sq.m.) |
| Vacant Area (Lettable) | : | Approx. 30,801 sq.ft. (2,861 sq.m.) |
| Occupancy Rate | : | 23.2% |
| Monthly Base Rent | : | HK\$319,199 (All tenancies except one are exclusive of rates, management fees and air conditioning charges; the remaining tenancy is inclusive of management fees and air conditioning charges, but exclusive of rates) |

⁵ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁶ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁷ The areas quoted exclude spaces which are used by RAH.

Tenancy Expiry Profile

| Year | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------|----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 794 | 8.5% | 27,790 | 8.7% | 1 | 12.5% |
| Year Ending 2012 | 6,043 | 65.0% | 179,608 | 56.3% | 3 | 37.5% |
| Year Ending 2013 | 429 | 4.6% | 22,737 | 7.1% | 1 | 12.5% |
| Year Ending 2014 | <u>2,033</u> | <u>21.9%</u> | <u>89,064</u> | <u>27.9%</u> | <u>3</u> | <u>37.5%</u> |
| | | 100% | | 100% | | 100% |
| Total | <u>9,299</u> | <u>(rounded)</u> | <u>319,199</u> | <u>(rounded)</u> | <u>8</u> | <u>(rounded)</u> |

Tenancy Duration Profile

| Tenancy Duration | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------------------------|----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 794 | 8.5% | 27,790 | 8.7% | 1 | 12.5% |
| Less than and up to 1 year | 4,662 | 50.1% | 122,378 | 38.3% | 1 | 12.5% |
| More than 1 year and up to 2 years | <u>3,843</u> | <u>41.3%</u> | <u>169,031</u> | <u>53.0%</u> | <u>6</u> | <u>75.0%</u> |
| | | 100% | | 100% | | 100% |
| Total | <u>9,299</u> | <u>(rounded)</u> | <u>319,199</u> | <u>(rounded)</u> | <u>8</u> | <u>(rounded)</u> |

Latest Expiry Date : 15 April 2014

Range of Rent Free Period : 0 to 4 months

Option to Renew : One of the tenancies have an option to renew for two years at market rent but within a pre-determined range

Summary of Terms : The Landlord⁸ is responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is responsible for the internal repairs of the Property.

⁸ All tenancies are entered by Favour Link International Limited as Landlord.

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

| | | |
|----------------------------|---|------------------|
| Number of Licences | : | 5 |
| Monthly Licence Fee | : | HK\$223,388 |
| Latest Expiry Date | : | 14 February 2013 |

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million⁹ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million¹⁰, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%¹¹ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%¹² in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%¹³ y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%¹⁴ y-o-y.

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

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

⁹ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

¹⁰ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

¹¹ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

¹² Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

¹³ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

¹⁴ RevPAR — Revenue per available room. Source: “Hotel Room Occupancy Report — Apr 2012” and “Hotel Room Occupancy Report — Apr 2011”, Research, Hong Kong Tourism Board and Colliers.

- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

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

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

The airport’s throughput for passengers was 55.3 million¹⁵ (increase 6.6% y-o-y) from May 2011 to April 2012, and is expected to increase in the near future with the current development and planned expansion of HKIA strengthening its position and in turn the position of RAH.

RAH benefits from strong room demand with the majority of customers being business visitors (36.6% in January to April 2012), and leisure visitors (29.3% in January to April 2012) due to its strategic location. It also enjoys demand from airline crews and layover passengers as handled by the ground-handling unit of HKIA Services Limited.

¹⁵ Source: “Provisional Civil International Air Traffic Statistics at HKIA, April-2012” Hong Kong International Airport.

The geographical customer market segmentation at RAH is made up of Mainland China visitors (31.3% from January to April 2012) and Asian visitors (excluding Mainland China, at 38.2% from January to April 2012). Visitors from the Americas, Europe and other regions represented 30.5% of the total demand from January to April 2012.

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

Based on the projected long-term growth in airport traffic turnover, the strategic location of RAH, its strong distribution networks both worldwide and in Mainland China, and also the strong Regal Group representation in Mainland China, it is anticipated that RAH would achieve strong growth in both occupancy and average room rates.

6. Estimated Net Property Yield¹⁶

5.5%

7. Market Value in existing state as at 30 April 2012¹⁷

HK\$3,300,000,000

¹⁶ The Estimated Net Property Yield of RAH is derived from the base rental receivable from May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the base and variable rental receivable in 2011 divided by the Market Value as at 31 December 2011, was 5.9%.

¹⁷ The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in “Basis of Valuation”, “Valuation Standards” and “Valuation Rationale” of this report.

Property 2**REGAL HONGKONG HOTEL**

88 Yee Wo Street,

Causeway Bay, Hong Kong

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

1. Property Description

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

RHK also comprises ancillary hotel spaces on the portions of Ground Floor, 1st, 2nd and 3rd Floors and Unit Shop Nos. 301 to 304 on the 3rd Floor of 68 Yee Wo Street¹⁸.

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

| | | |
|-----------------------------|---|--|
| Site Area | : | 1,176 sq.m. |
| Gross Floor Area | : | 25,083 sq.m. |
| Covered Floor Area | : | Approx. 31,900 sq.m. |
| Town Planning Zoning | : | RHK falls within “Commercial” zone under Causeway Bay Outline Zoning Plan No. S/H6/15 dated 17 September 2010. |

¹⁸ The owner of RHK has also rented some spaces on G/F to 3/F of 68 Yee Wo Street. The first tenancy is related to hotel ancillary use of 10,510 sq.ft. (976 sq.m.) lettable area. The current monthly rent is HK\$500,000 with expiration on 1 March 2022. The second one is related to Shop Nos. 301 to 304 on Third Floor with a lettable area of 3,437 sq.ft. (319 sq.m.). The term is 3 years commencing on 16 January 2012 with a monthly rent of HK\$114,310.

Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|-----------------------------|---------------------|
| Standard Room | 34 |
| Superior Room | 210 |
| Deluxe Room | 117 |
| Premier Room | 39 |
| Regal Royale | 12 |
| Regal Royale — Harbour View | 7 |
| Regal Royale — Summit | 30 |
| Executive Suite | 20 |
| Deluxe Suite | 8 |
| Presidential Suite | 1 |
| Imperial Suite | 1 |
| Regal Royale Suite | 3 |
| Total: | <u>482</u> |

Note: The room sizes range from 25 sq.m. to 153 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|--------------|-----------------------|-------------------------------------|---------------------------------------|---|
| | | | Area (sq.m.) | No. of normal dining seating |
| G/F | Tiffany Lounge | Lobby Lounge | 137 | 50 |
| G/F | Regal Patisserie | Cake Shop | N/A | N/A |
| 1/F | Café Rivoli | International Cuisine and Buffet | 376 | 200 |
| 3/F | Regal Palace | Chinese Restaurant | 780 | 500 |
| 31/F | Zeffirino Ristorante | Italian Restaurant | 214 | 120 |
| | | Total | <u>1,507</u> | <u>870</u> |

Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (sq.m.) | Seating Capacity (approx.) | |
|-------|------------------------------|--------------------|--------------|--------------|--|---------------|
| | | | | | No. of Seating in Theatre/ Boardroom Style | Banquet Style |
| 2/B | Multi-purpose Function Rooms | Banquet/Convention | 5 | 324 | 250 | 228 |
| 1/B | Ballroom | Banquet/Convention | 1 | 239 | 238 | 228 |
| 1/B | Multi-purpose Function Rooms | Banquet/Convention | 3 | 194 | 176 | 132 |
| 3/F | Meeting Rooms | Banquet/Convention | 6 | 336 | 255 | 228 |
| | | Total | 15 | 1,093 | 919 | 816 |

Other Facilities

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

2. Ownership and Tenure

- Registered Owner** : Cityability Limited, via an assignment dated 20 May 1987, registered vide Memorial No. UB3386564 and three assignments all dated 4 August 1988, registered vide Memorial Nos. UB3803869, UB3803870 and UB3803871.
- Lease Term** : The Lot is held under Government Lease for a term of 999 years commencing from 25 December 1884.

Major Registered Encumbrances

- Deed of Restrictive Covenant dated 13 May 1992, registered vide Memorial No. UB5287070.
- Deed of Covenant and Grant of Right of Way and Easements and Management Agreement dated 13 May 1992, registered vide Memorial No. UB5287071.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033163.
- Lease Agreement (No. 2 for Regal Hongkong Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910073.

- First Supplemental Agreement amending Lease Agreement No. 2 for Regal Hongkong Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510109.
- Cityability Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Finance Parties dated 30 March 2012, registered vide Memorial No. 12041702590232.

3. Hotel Operation

Hotel Performance in January to April 2012

| | | |
|--------------------------|---|-----------|
| Occupancy Rate | : | 89% |
| Average Room Rate | : | HK\$1,503 |

Lease Agreement

| | | |
|--------------------------------|---|--|
| Lessor | : | Cityability Limited |
| Lessee | : | Favour Link International Limited |
| Term of Lease Agreement | : | Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive). |

Rental

From 2011 to 2015, the Market Rent¹⁹ to be determined (the “Market Rental Package Determination”) in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK\$60,000,000 per annum.

According to the 2011 and 2012 Market Rental Package Determinations, Base Rents for RHK for the fiscal years of 2011 and 2012 are HK\$114,000,000 and HK\$129,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels²⁰ over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

¹⁹ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

²⁰ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|--|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | Twenty (20) years from the Listing Date |
| Base Fee | : | One percent (1%) of Gross Revenue ²¹ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| Incentive Fee | : | One percent (1%) of the excess of the Adjusted GOP ²² over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

4. Licence Schedules**Licences for Installation of Mobile Radio Equipment and Integrated Radio System (“IRS”)**

| | | |
|----------------------------|---|----------------|
| Number of Licences | : | 4 |
| Monthly Licence Fee | : | HK\$229,200 |
| Latest Expiry Date | : | 15 August 2014 |

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million²³ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million²⁴, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

²¹ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

²² According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

²³ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

²⁴ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%²⁵ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%²⁶ in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%²⁷ y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%²⁸ y-o-y.

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

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland, with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.

²⁵ Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

²⁶ Source: "Hotel Room Occupancy Report— Apr 2012", Research, Hong Kong Tourism Board.

²⁷ Source: "Hotel Room Occupancy Report — Apr 2012", Research, Hong Kong Tourism Board.

²⁸ RevPAR — Revenue per available room. Source: "Hotel Room Occupancy Report — Apr 2012" and "Hotel Room Occupancy Report — Apr 2011", Research, Hong Kong Tourism Board and Colliers.

- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

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

RHK enjoys strong demand for rooms from among business visitors, traders, exhibitors and multinational companies due to its location close to the Hong Kong Convention and Exhibition Centre. RHK also benefits from the close proximity to various corporations and businesses based in Causeway Bay and neighbouring areas which attract business visitors to stay at the hotel. In January to April 2012, demand from business visitors represented 64.6% of the total.

RHK is located close to shopping and entertainment facilities, such as the Sogo Department Store, Times Square, Fashion Walk and Lee Gardens, as well as a variety of restaurant facilities. The immediate neighbourhood includes sports and recreational facilities, such as the Hong Kong Stadium, Victoria Park, and Happy Valley Racecourse, which help to attract visitors attending different international events to stay in RHK. In January to April 2012, about 29.8% of the room demand of RHK came from leisure visitors.

The geographical customer market segmentation at RHK is made up of Mainland China visitors (46.6% in January to April 2012) and Asian visitors (excluding Mainland China, at 35.2% in January to April 2012). Visitors from the Americas, Europe and other regions represented 18.2% of the total demand in January to April 2012.

Future developments, such as the pedestrianisation of parts of Causeway Bay and the redevelopment of the Hysan Place (previously known as “Hennessy Centre”) to add more retail space, will also add to the attractiveness of Causeway Bay as one of the city’s major shopping areas.

Two new hotels, namely Best Western Hotel Causeway Bay and the Vela Hong Kong Causeway Bay, opened in 2011 providing a total of 291 rooms²⁹ in Causeway Bay. These new hotels are unlikely to apply significant pressure on RHK due to difference in target markets. Planned additions, namely

²⁹ Best Western Hotel Causeway Bay has 258 rooms and the Vela Hong Kong Causeway Bay has 33 rooms. Source: “Hotel Supply Situation — as at Dec 2011”, Research, Hong Kong Tourism Board.

the proposed hotel at 388 Jaffe Road with 92 rooms³⁰, the proposed Kong Link Hotel with 121 rooms³¹, the two proposed hotels at Tang Lung Street with a total of 107 rooms³² and the proposed hotel at 13 Pennington Street of 80 rooms³³, are not expected to directly affect RHK, due to differences in scale and target groups, supported by the generally high demand for hotel rooms as demonstrated by the high occupancy rates in Causeway Bay.

Based on the long-term outlook for hotel room demand in Hong Kong, anticipated growth in both leisure and business demand, the hotel's location and quality of services, strong distribution networks both worldwide and in Mainland China, and the strong Regal Group representation in Mainland China, it is anticipated that RHK would achieve modest growth in both occupancy and the average room rates.

6. Estimated Net Property Yield³⁴

2.9%

7. Market Value in existing state as at 30 April 2012³⁵

HK\$4,080,000,000

³⁰ Planned date of completion for the proposed 92-room hotel at 388 Jaffe Road will be July 2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

³¹ Planned date of completion for the proposed 121-room Kong Link Hotel will be September 2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

³² Planned dates of completion for the proposed 38-room and the proposed 69-room hotel at Tang Lung Street will be end-2012 and end-2014 respectively. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

³³ Planned date of completion for the proposed 80-room hotel at 13 Pennington Street will be end-2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

³⁴ The Estimated Net Property Yield of RHK is derived from the base rental receivable from May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the base and variable rental receivable in 2011 divided by the Market Value as at 31 December 2011, was 3.3%.

³⁵ The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in "Basis of Valuation", "Valuation Standards" and "Valuation Rationale" of this report.

Property 3

REGAL KOWLOON HOTEL

71 Mody Road,
Tsimshatsui, Kowloon, Hong Kong
Kowloon Inland Lot No. 10474

1. **Property Description**

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

| | | |
|-----------------------------|---|--|
| Site Area | : | 2,560 sq.m. |
| Gross Floor Area | : | 31,746 sq.m. |
| Covered Floor Area | : | Approx. 43,500 sq.m. |
| Town Planning Zoning | : | RKH falls within “Commercial” zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/26 dated 6 May 2011. |

Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|--------------------------|---------------------|
| Standard Room | 83 |
| Superior Room | 78 |
| Deluxe Room | 105 |
| Premier Room | 21 |
| Regal Club Superior Room | 98 |
| Regal Club Deluxe Room | 148 |
| Regal Club Premier Room | 29 |
| Executive Suite | 12 |
| Royal Suite | 19 |
| Deluxe Suite | 6 |
| Presidential Suite | 1 |
| Total | 600 |

Note: The room sizes range from 21 sq.m. to 162 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|---------------|------------------------------|----------------------|----------------------------|------------------------------|
| | | | Area (sq.m.) | No. of normal dining seating |
| 1/B | Café Allegro | International Buffet | 350 | 186 |
| G/F | V Bar & Lounge ³⁶ | Light Snack and Bar | 159 | 80 |
| G/F | Regala Healthy Cakes | Cake Shop | N/A | N/A |
| 1/F | Mezzo Grill | American Steakhouse | 199 | 70 |
| 2/F | Regal Court | Chinese Cuisine | 648 | 266 |
| Total: | | | 1,356 | 602 |

Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (sq.m.) | Seating Capacity (approx.) | |
|--------------|------------------------------|--------------------|--------------|--------------|---|---------------|
| | | | | | No. of Seating in Theatre/Boardroom Style | Banquet Style |
| 2/B | Meeting Room | Banquet/Convention | 1 | 156 | 150 | 72 |
| 2/F | Multi-purpose Function Rooms | Banquet/Convention | 6 | 331 | 320 | 240 |
| 3/F | Ballroom | Banquet/Convention | 1 | 353 | 349 | 349 |
| 3/F | Multi-purpose Function Rooms | Banquet/Convention | 5 | 284 | 233 | 192 |
| Total | | | 13 | 1,124 | 1,052 | 853 |

Other Facilities

Other facilities include a business centre, a fitness room, and a shopping arcade.

2. Ownership and Tenure

| | | |
|-------------------------|---|--|
| Registered Owner | : | Ricobem Limited, via an assignment dated 19 April 1989, registered vide Memorial No. UB4059154. |
| Lease Term | : | The Lot is held under Conditions of Sale No. 10983 for a term of 75 years commencing from 28 December 1976 and renewable for a further term of 75 years. |

³⁶ Outdoor seatings are provided on the G/F.

Major Registered Encumbrances

- Letter of Compliance from District Lands Office Kowloon West Kowloon Government Offices to Paliburg Project Management Limited dated 6 July 1982, registered vide Memorial No. UB3990407.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033162.
- Lease Agreement (No. 3 for Regal Kowloon Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910082. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 3 for Regal Kowloon Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510128.
- Ricobem Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Finance Parties dated 30 March 2012, registered vide Memorial No. 12041702590266.

3. Hotel Operation**Hotel Performance in January to Apr 2012**

Occupancy Rate : 90%
Average Room Rate : HK\$1,305

Lease Agreement

Lessor : Ricobem Limited
Lessee : Favour Link International Limited
Term of Lease Agreement : Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).

Rental

From 2011 to 2015, the Market Rent³⁷ to be determined (the “Market Rental Package Determination”) in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK\$65,000,000 per annum.

³⁷ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

According to the 2011 and 2012 Market Rental Package Determinations, Base Rents for RKH for the fiscal years of 2011 and 2012 are HK\$115,000,000 and HK\$130,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels³⁸ over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|--|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | Twenty (20) years from the Listing Date |
| Base Fee | : | One percent (1%) of Gross Revenue ³⁹ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| Incentive Fee | : | One percent (1%) of the excess of the Adjusted GOP ⁴⁰ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

4. Retail Tenancies/Licence Schedules

Retail⁴¹

| | | |
|---------------------------------|---|--|
| Retail Area (Lettable) | : | Approx. 38,918 sq.ft. (3,616 sq.m.) |
| Occupied Area (Lettable) | : | Approx. 34,490 sq.ft. (3,204 sq.m.) |
| Vacant Area (Lettable) | : | 4,428 sq.ft. (411 sq.m.) |
| Occupancy Rate | : | 88.6% |
| Monthly Base Rent | : | HK\$990,550 (all except five tenancies are exclusive of rates, management fees and air conditioning charges; three of the remaining tenancies are inclusive of management fees and air conditioning charges, but exclusive of rates; the remaining two tenancies are inclusive of management fees, air conditioning charges and rates) |

³⁸ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

³⁹ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁴⁰ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁴¹ The areas quoted exclude spaces which are used by RKH. The areas, rental and the number of tenancy quoted included a tenancy for term of 1 year commencing on 23 April 2011 and expiring on 22 April 2012 with a monthly rent of HK\$60,000. The lettable area for such tenancy is 699 sq.ft. and as advised by the Client, the landlord is negotiating the renewal with the tenant.

Tenancy Expiry Profile

| Year | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------|----------------------|-------------------|----------------------|-------------------|-----------------------|-------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 2,664 | 7.7% | 29,000 | 2.9% | 5 | 17.9% |
| Year Ending 2012 | 21,315 | 61.8% | 651,072 | 65.7% | 15 | 53.6% |
| Year Ending 2013 | 9,038 | 26.2% | 241,268 | 24.4% | 6 | 21.4% |
| Year Ending 2014 | 1,473 | 4.3% | 69,210 | 7.0% | 2 | 7.1% |
| Total | 34,490 | 100% | 990,550 | 100% | 28 | 100% |

Tenancy Duration Profile

| Tenancy Duration | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------------------------|----------------------|-------------------|----------------------|-------------------|-----------------------|-------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 2,664 | 7.7% | 29,000 | 2.9% | 5 | 17.9% |
| Less than and up to 1 year | 699 | 2.0% | 60,000 | 6.1% | 1 | 3.6% |
| More than 1 year and up to 2 years | 9,929 | 28.8% | 428,712 | 43.3% | 17 | 60.7% |
| More than 2 year and up to 3 years | 21,198 | 61.5% | 472,838 | 47.7% | 5 | 17.9% |
| Total | 34,490 | 100% | 990,550 | 100% | 28 | 100% |

Latest Expiry Date : 15 April 2014
Range of Rent Free Period : 0 to 3 months
Option to Renew : Nil
Summary of Terms : The Landlord⁴² is responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is responsible for the internal repairs of the Property.

Licences for Light-boxes, Showcase, Mobile Phone Base Stations, Antennae, etc.

Number of Licences : 5
Monthly Licence Fee : HK\$82,350
Latest Expiry Date : 30 November 2013

⁴² All tenancies are entered by Favour Link International Limited as Landlord.

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million⁴³ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million⁴⁴, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%⁴⁵ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%⁴⁶ in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%⁴⁷ y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%⁴⁸ y-o-y.

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

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland, with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.

⁴³ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁴⁴ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁴⁵ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

⁴⁶ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁴⁷ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁴⁸ RevPAR — Revenue per available room. Source: “Hotel Room Occupancy Report — Apr 2012” and “Hotel Room Occupancy Report — Apr 2011”, Research, Hong Kong Tourism Board and Colliers.

- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

RKH is located in the heart of Tsimshatsui East, a traditional tourism and commercial area in the Kowloon district of Hong Kong, with good accessibility through extensive transport links, such as the MTR, taxis and buses connecting to other districts of Hong Kong. RKH benefits from demand created by businesses located in Tsimshatsui, with business visitors representing 66.7% of the total demand in January to April 2012.

Shopping, restaurants, entertainment and recreational facilities are located nearby in such areas as Harbour City (includes four areas, namely: Ocean Terminal, Ocean Centre, Gateway Arcade and The Marco Polo Hongkong Hotel Arcade), iSquare, K11, The One, the Hong Kong Cultural Centre, 1881 Heritage and the Hong Kong Science Museum. In January to April 2012, about 33.2% of the demand for hotel rooms at RKH is from leisure visitors.

The geographical customer market segmentation at RKH is made up of Asian visitors (excluding Mainland China, at 40.5% in January to April 2012) and Mainland China visitors (31.8% in January to April 2012). Visitors from the Americas, Europe and other regions represented 27.7% of the total demand in January to April 2012.

The new hotel, namely Hotel ICON, opened in 2011 providing 262 rooms⁴⁹ may have pressure on the occupancy rate for RKH in short term, however, taken into the account the increasing demand in the area, it is expected the impact on RKH would be minor in the long run.

⁴⁹ Source: “Hotel Supply Situation — as at Dec 2011”, Research, Hong Kong Tourism Board.

Planned additions, namely Best Western Grand Hotel⁵⁰, the proposed hotel at Austin Avenue with 15 rooms⁵¹, the Austin Hotel⁵², the Ai Boutique Hotel⁵³, the proposed hotel at 5, 7 and 7A Hillwood Road with 59 rooms⁵⁴, the proposed hotel at 5 Observatory Court with 89 rooms⁵⁵, the proposed hotel at 114-116 Austin Road with 155 rooms⁵⁶, the proposed hotel at 6 Knutsford Terrace with 50 rooms⁵⁷ and the proposed hotel at 2 Carnarvon Road with 62 rooms⁵⁸, are unlikely to apply significant pressure on RKH due to difference in target markets.

Based on the long-term outlook for the hotel room demand in Hong Kong, the anticipated growth in both leisure and business demand, its location and quality of services, the strong distribution networks both worldwide and in Mainland China, and the strong Regal Group representation in Mainland China, it is anticipated that RKH would achieve modest growth in both occupancy and average room rate.

6. Estimated Net Property Yield⁵⁹

2.6%

7. Market Value in existing state as at 30 April 2012⁶⁰

HK\$4,570,000,000

⁵⁰ Planned date of completion for the proposed 396-room Best Western Grand Hotel will be 3rd Quarter 2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵¹ Planned date of completion for the proposed 15-room hotel at 2 Austin Avenue will be end-2012. Source: "Hotel Supply Situation — as at Mar-2012", Research, Hong Kong Tourism Board.

⁵² Planned date of completion for the proposed 100-room Austin Hotel will be end-2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵³ Planned date of completion for the proposed 76-room Ai Boutique Hotel will be end-2012. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁴ Planned date of completion for the proposed 59-room hotel at 5, 7 and 7A Hillwood Road will be mid-2013. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁵ Planned date of completion for the proposed 89-room hotel at 5 Observatory Court will be July 2013. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁶ Planned date of completion for the proposed 155-room hotel at 114-116 Austin Road will be July 2013. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁷ Planned date of completion for the proposed 50-room hotel at 6 Knutsford Terrace will be 4th Quarter 2013. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁸ Planned date of completion for the proposed 62-room hotel at 2 Carnarvon Road will be 4th Quarter 2014. Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁵⁹ The Estimated Net Property Yield of RKH is derived from the base rental receivable from May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the base and variable rental receivable in 2011 divided by the Market Value as at 31 December 2011, was 3.2%.

⁶⁰ The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in "Basis of Valuation", "Valuation Standards" and "Valuation Rationale" of this report.

Property 4**REGAL ORIENTAL HOTEL**

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

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

1. Property Description

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

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

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

| | | |
|-----------------------------|---|--|
| Site Area | : | New Kowloon Inland Lot No. 4917 — 741 sq.m. New Kowloon Inland Lot No. 5754 — 1,797 sq.m. |
| Gross Floor Area | : | 22,601 sq.m. |
| Covered Floor Area | : | Approx. 27,300 sq.m. |
| Town Planning Zoning | : | ROH falls within “Commercial” zone and Po Sing Court falls within “Residential (Group A) 2” zone under Ma Tau Kok Outline Zoning Plan No. S/K10/20 dated 14 November 2008. |

Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|---------------------------|---------------------|
| Standard Room | 32 |
| Superior Room | 38 |
| Deluxe Room | 236 |
| Premier Room | 25 |
| Regal iClub Superior Room | 38 |
| Regal iClub Deluxe Room | 47 |
| Executive Suite | 3 |
| Royal Suite | 1 |
| Deluxe Suite | 18 |
| Presidential Suite | 1 |
| Total | 439 |

Note: The room sizes range from 13 sq.m. to 106 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|-------|------------------------------|-----------------------------|-------------------------------|---------------------------------------|
| | | | Area (sq.m.) | No. of normal dining seating |
| 1/B | Café Neo | Breakfast and Dinner Buffet | 536 | 298 |
| G/F | Regal Patisserie | Cake Shop | N/A | N/A |
| G/F | China Coast Pub + Restaurant | Restaurant and Pub | 273 | 154 |
| 2/F | Regal Terrace | Cantonese Cuisine | 427 | 300 |
| 14/F | Five Continents Restaurant | Italian Cuisine | 326 | 120 |
| 14/F | Sky Lounge | Bar | 173 | 100 |
| | | Total | 1,735 | 972 |

Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Area (sq.m.) | Seating Capacity (approx.) | |
|-------|---------------------------------|------------------------|-----------------|-----------------|---|------------------|
| | | | | | No. of Seating in Theatre/ Boardroom Style | Banquet Style |
| 1/F | Ballroom | Banquet/Convention | 1 | 412 | 250 | 300 |
| 1/F | Multi-purpose Function Rooms | Banquet/Convention | 7 | 302 | 254 | 216 |
| 2/F | Multi-purpose Function Rooms | Banquet/Convention | 10 | 463 | 220 | 276 |
| 3/F | Meeting Room in Club Lounge | Meeting and Conference | 1 | 15 | 8 | N/A |
| | | Total | 19 | 1,192 | 732 | 792 |

Other Facilities

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

2. Ownership and Tenure**Registered Owner:****Regal Oriental Hotel (New Kowloon Inland Lot No. 5754)**

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

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

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

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

The Lot is held under Conditions of Sale No. 11240 for a term of 99 years less the last 3 days commencing from 1 July 1898 and had been statutorily extended to 30 June 2047.

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

The Lot is held under Conditions of Sale No. 8785 for a term of 99 years less the last 3 days commencing from 1 July 1898 and had been statutorily extended to 30 June 2047.

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

- Deed of Grant of Easement with Plan dated 23 June 1981, registered vide Memorial No. UB2111189.
- Modification Letter dated 26 August 1981, registered vide Memorial No. UB2144106.
- Letter of Compliance from District Lands Office Kowloon West to Paliburg Project Management Limited dated 27 July 1982, registered vide Memorial No. UB3990406.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. UB8033164.

- Lease Agreement (No. 4 for Regal Oriental Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910095. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510111.
- Gala Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Finance Parties dated 30 March 2012, registered vide Memorial No. 12041702590240.

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

- Management Agreement in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager) dated 28 November 1967, registered vide Memorial No. UB604982.
- Deed of Mutual Covenant dated 12 December 1967, registered vide Memorial No. UB607737.
- Lease Agreement (No. 4 for Regal Oriental Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910095. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510111.
- Gala Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Finance Parties dated 30 March 2012, registered vide Memorial No. 12041702590240.

3. Hotel Operation

Hotel Performance in January to April 2012

| | | |
|--------------------------|---|---------|
| Occupancy Rate | : | 87% |
| Average Room Rate | : | HK\$873 |

Lease Agreement

| | | |
|--------------------------------|---|--|
| Lessor | : | Gala Hotels Limited |
| Lessee | : | Favour Link International Limited |
| Term of Lease Agreement | : | Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive). |

Rental

From 2011 to 2015, the Market Rent⁶¹ to be determined (the “Market Rental Package Determination”) in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK\$30,000,000 per annum.

According to the 2011 and 2012 Market Rental Package Determinations, Base Rents for ROH for the fiscal years of 2011 and 2012 are HK\$50,000,000 and HK\$65,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels⁶² over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|--|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | Twenty (20) years from the Listing Date |
| Base Fee | : | One percent (1%) of Gross Revenue ⁶³ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| Incentive Fee | : | One percent (1%) of the excess of the Adjusted GOP ⁶⁴ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

4. Retail Tenancies/Licence Schedules**Retail⁶⁵**

| | | |
|---------------------------------|---|--|
| Retail Area (Lettable) | : | Regal Oriental Hotel — Approx. 12,263 sq.ft. (1,139 sq.m.) Po Sing Court — Approx. 4,052 sq.ft. (376 sq.m.) |
| Occupied Area (Lettable) | : | 0 sq.ft. (0 sq.m.) |

⁶¹ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

⁶² Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

⁶³ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁶⁴ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

⁶⁵ The areas quoted exclude spaces which are used by ROH.

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

Licences for Mobile Phone Base Stations and Antennae

| | | |
|----------------------------|---|------------------|
| Number of Licences | : | 4 |
| Monthly Licence Fee | : | HK\$72,328 |
| Latest Expiry Date | : | 31 December 2013 |

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million⁶⁶ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million⁶⁷, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%⁶⁸ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%⁶⁹ in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%⁷⁰ y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%⁷¹ y-o-y.

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

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.

⁶⁶ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁶⁷ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁶⁸ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

⁶⁹ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁷⁰ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁷¹ RevPAR — Revenue per available room. Source: “Hotel Room Occupancy Report — Apr 2012” and “Hotel Room Occupancy Report — Apr 2011”, Research, Hong Kong Tourism Board and Colliers.

- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland, with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

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

The proposed Shatin to Central Link⁷² by the MTR Corporation Limited, in which the construction is expected to start in 2012, is expected to improve the accessibility of ROH via the proposed Kai Tak Station to different parts of Hong Kong.

⁷² Source: MTR’s website. Available at www.mtr.com.hk.

ROH is also served by an arterial road — Prince Edward Road East — connecting Kowloon East with the nearby industrial and business districts, such as Kwun Tong, Kowloon Bay, Tsimshatsui and Mongkok in Kowloon. Kwun Tong and Kowloon Bay have been transformed from industrial areas into major decentralised office nodes that have enhanced commercial activity in Kowloon East. At ROH, commercial business represented 55.8% of the demand for hotel rooms in January to April 2012.

Tourist attractions such as the Chi Lin Nunnery, Wong Tai Sin Temple and the Hau Wong Temple are located nearby, along with nearby shopping, restaurant and entertainment facilities, as well as the major retail/leisure facility of Festival Walk at Kowloon Tong MTR Station. The demand for hotel rooms by leisure visitors represented 44.2% of the total in January to April 2012.

The geographical customer market segmentation at ROH is made up of Asian visitors (excluding Mainland China, at 60.2% in January to April 2012) and Mainland China visitors (25.3% in January to April 2012). Visitors from the Americas, Europe and other regions represented 14.5% of the total demand.

There is no planned project in the catchment area of ROH in the near future, and competition is expected to be limited.

Based on the long-term outlook for hotel room demand in Hong Kong, the limited competition in the area, future developments such as the Kai Tak Development and improvement of the infrastructure, the anticipated growth in both leisure and business demand, the hotel's location and quality of services, strong distribution networks both worldwide and in Mainland China, and also the strong Regal Group representation in Mainland China, it is anticipated that ROH would achieve modest to strong growth in both occupancy and average room rates.

6. Estimated Net Property Yield⁷³

3.1%

7. Market Value in existing state as at 30 April 2012⁷⁴

HK\$1,760,000,000

⁷³ The Estimated Net Property Yield of ROH is derived from the base rental receivable from May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the base and variable rental receivable in 2011 divided by the Market Value as at 31 December 2011, was 3.7%.

⁷⁴ The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in "Basis of Valuation", "Valuation Standards" and "Valuation Rationale" of this report.

Property 5

REGAL RIVERSIDE HOTEL

34-36 Tai Chung Kiu Road,
Shatin, New Territories, Hong Kong
Sha Tin Town Lot No. 160

1. Property Description

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

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

| | | |
|-----------------------------|---|---|
| Site Area | : | 4,956 sq.m. |
| Gross Floor Area | : | 59,668 sq.m. |
| Covered Floor Area | : | Approx. 69,000 sq.m. |
| Town Planning Zoning | : | RRH falls within “Commercial” zone under Sha Tin Outline Zoning Plan No. S/ST/26 dated 23 March 2012. |

Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|---------------------------|---------------------|
| Standard Room | 227 |
| Superior Room | 154 |
| Deluxe Room | 138 |
| Premier Room | 16 |
| Regal iClub Superior Room | 351 |
| Regal iClub Deluxe Room | 119 |
| Regal iClub Premier Room | 107 |
| Spa Standard Room | 4 |
| Spa Superior Room | 3 |
| Executive Suite | 11 |
| Royal Suite | 1 |
| Deluxe Suite | 6 |
| Presidential Suite | 1 |
| Total | <u>1,138</u> |

Note: The room sizes range from 10 sq.m. to 145 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|--------------|-------------------------------|-----------------------------|----------------------------|------------------------------|
| | | | Area (sq.m.) | No. of normal dining seating |
| G/F | Vi ⁷⁵ | Thai-Vietnamese Cuisine | 145 | 92 |
| G/F | Moon River | 24 hours Restaurant | 97 | 72 |
| G/F | Dragon Inn | Huai Yang Cuisine | 118 | 76 |
| G/F | Avanti Pizzeria ⁷⁶ | Italian Cuisine | 154 | 98 |
| G/F | Scene Bar ⁷⁷ | Wine and Snack | 210 | 88 |
| G/F | Regal Patisserie | Cake Shop | N/A | N/A |
| 1/F | Carnival Bar | Drink and Snack | 286 | 120 |
| 1/F | Aji Bou Izakaya | Japanese Cuisine | 328 | 180 |
| 2/F | Regal Terrace | Cantonese Cuisine | 726 | 460 |
| 2/F | Regal Court | Chinese Fine Dining Cuisine | 205 | 80 |
| 3/F | L'eau Restaurant | International Buffet | 409 | 220 |
| Total | | | 2,678 | 1,486 |

Meeting and Banquet Facilities

| Floor | Name of Function Room | Type of Facilities | No. of Rooms | Seating Capacity (approx.) | | |
|--------------|------------------------------|------------------------|--------------|----------------------------|-----------------|---|
| | | | | Area (sq.m.) | Boardroom Style | No. of Seating in Theatre/ Banquet Style |
| 1/F | Ballroom | Banquet/Convention | 1 | 474 | 450 | 456 |
| 1/F | Multi-purpose Function Rooms | Banquet/Convention | 2 | 108 | 70 | 72 |
| 1/F | Forum | Meeting and Convention | 1 | 529 | 500 | 432 |
| 2/F | Multi-purpose Function Rooms | Banquet/Convention | 4 | 319 | 140 | 264 |
| 3/F | Multi-purpose Function Rooms | Banquet/Convention | 5 | 421 | 170 | 240 |
| 15/F | Meeting Room in Club Lounge | Meeting and Conference | 1 | 14 | 8 | N/A |
| Total | | | 14 | 1,865 | 1,338 | 1,464 |

⁷⁵ Outside seating areas are provided on the G/F.

⁷⁶ Outside seating areas are provided on the G/F.

⁷⁷ Outside seating areas are provided on the G/F.

Other Facilities

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

2. Ownership and Tenure

- Registered Owner** : Regal Riverside Hotel Limited, via an assignment dated 24 August 1995, registered vide Memorial No. ST829937.
- Lease Term** : The Lot is held under New Grant No. 11571 for a term of 99 years less the last 3 days commencing from 1 July 1898 and had been statutorily extended to 30 June 2047.

Major Registered Encumbrances

- Modification Letter dated 1 June 1982, registered vide Memorial No. ST211142.
- Modification Letter dated 28 August 1986, registered vide Memorial No. ST353344.
- Letter of Compliance dated 18 July 1986, registered vide Memorial No. ST430228.
- Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide Memorial No. ST1145794.
- Lease Agreement (No. 5 for Regal Riverside Hotel) in favour of Favour Link International Limited dated 16 March 2007, registered vide Memorial No. 07041300910108. (Remarks: For the period commencing from 30 March 2007 to 31 December 2015)
- Modification Letter dated 14 November 2007, registered vide Memorial No. 07111601000553.
- First Supplemental Agreement amending Lease Agreement No. 5 for Regal Riverside Hotel in favour of Favour Link International Limited dated 12 February 2010, registered vide Memorial No. 10052602510131.
- Regal Riverside Debenture in favour of Hang Seng Bank Limited as Agent and Security Trustee for the Finance Parties dated 30 March 2012, registered vide Memorial No. 12041702590250.

3. Hotel Operation

Hotel Performance in January to April 2012

| | | |
|--------------------------|---|---------|
| Occupancy Rate | : | 90% |
| Average Room Rate | : | HK\$782 |

Lease Agreement

| | | |
|--------------------------------|---|--|
| Lessor | : | Regal Riverside Hotel Limited |
| Lessee | : | Favour Link International Limited |
| Term of Lease Agreement | : | Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive). |

Rental

From 2011 to 2015, the Market Rent⁷⁸ to be determined (the “Market Rental Package Determination”) in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK\$70,000,000 per annum.

According to the 2011 and 2012 Market Rental Package Determinations, Base Rents for RRH for the fiscal years of 2011 and 2012 are HK\$105,000,000 and HK\$131,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels⁷⁹ over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|--|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | Twenty (20) years from the Listing Date |
| Base Fee | : | One percent (1%) of Gross Revenue ⁸⁰ (for so long as the Lease Agreement is in subsistence); or Two percent (2%) of Gross Revenue (for other cases during the Operating Term) |
| Incentive Fee | : | One percent (1%) of the excess of the Adjusted GOP ⁸¹ over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or Five percent (5%) of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term) |

⁷⁸ According to the Lease Agreement, the Market Rent to be determined includes the Base Rent, Variable Rent and the Lessee’s contribution to the FF&E Reserve.

⁷⁹ Namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

⁸⁰ According to the Hotel Management Agreement, “Gross Revenue” means all revenue derived from the Hotel.

⁸¹ According to the Hotel Management Agreement, “Adjusted GOP” means the aggregate of Gross Operating Profit and Net Rental Income.

4. Retail Tenancies/License Schedules

Retail⁸²

| | | |
|---------------------------------|---|--|
| Retail Area (Lettable) | : | Approx. 3,663 sq.ft. (340 sq.m.) |
| Occupied Area (Lettable) | : | Approx. 3,663 sq.ft. (340 sq.m.) |
| Vacant Area (Lettable) | : | 0 sq.ft. (0 sq.m.) |
| Occupancy Rate | : | 100% |
| Monthly Base Rent | : | HK\$103,440 (all are exclusive of rates, management fees and air conditioning charges) |

Tenancy Expiry Profile

| Year | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------|----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 966 | 26.4% | 10,000 | 9.7% | 1 | 33.3% |
| Year Ending 2012 | 2,697 | 73.6% | 93,440 | 90.3% | 2 | 66.7% |
| | | 100% | | 100% | | 100% |
| Total | <u>3,663</u> | <u>(rounded)</u> | <u>103,440</u> | <u>(rounded)</u> | <u>3</u> | <u>(rounded)</u> |

Tenancy Duration Profile

| Tenancy Duration | Lettable | | Monthly | | No. of Tenancy | % of Total |
|------------------------------------|----------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Area (sq.ft.) | % of Total | Rental (HK\$) | % of Total | | |
| Monthly | 966 | 26.4% | 10,000 | 9.7% | 1 | 33.3% |
| More than 1 year and up to 2 years | 724 | 19.8% | 43,440 | 42.0% | 1 | 33.3% |
| More than 2 year and up to 3 years | 1,973 | 53.9% | 50,000 | 48.3% | 1 | 33.3% |
| | | 100% | | 100% | | 100% |
| Total | <u>3,663</u> | <u>(rounded)</u> | <u>103,440</u> | <u>(rounded)</u> | <u>3</u> | <u>(rounded)</u> |

| | | |
|----------------------------------|---|---|
| Latest Expiry Date | : | 14 November 2012 |
| Range of Rent Free Period | : | 0 to 1 month |
| Option to Renew | : | N/A |
| Summary of Terms | : | The Landlord ⁸³ is responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is responsible for the internal repairs of the Property. |

⁸² The areas quoted exclude spaces which are used by RRH.

⁸³ All tenancies are entered by Favour Link International Limited as Landlord.

Licenses for Mobile Phone Base Stations/Antennae

| | | |
|----------------------------|---|---------------|
| Number of Licenses | : | 5 |
| Monthly Licence Fee | : | HK\$212,000 |
| Latest Expiry Date | : | 31 March 2013 |

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million⁸⁴ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million⁸⁵, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%⁸⁶ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%⁸⁷ in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%⁸⁸ y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%⁸⁹ y-o-y.

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

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

⁸⁴ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁸⁵ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁸⁶ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

⁸⁷ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁸⁸ Source: “Hotel Room Occupancy Report — Apr 2012”, Research, Hong Kong Tourism Board.

⁸⁹ RevPAR — Revenue per available room. Source: “Hotel Room Occupancy Report — Apr 2012” and “Hotel Room Occupancy Report — Apr 2011”, Research, Hong Kong Tourism Board and Colliers.

- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland, with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.
- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

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

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

As mentioned earlier, future development of the Shatin to Central Link is expected to improve the accessibility of RRH to other districts of Hong Kong.

Being the largest hotel in Shatin, RRH enjoys bookings from tourist group, and corporations/ organisations that have close business links in Mainland China. The majority of the demand for rooms at RRH is from leisure visitors (63.1% in January to April 2012) and business visitors (33.6% in January to April 2012).

The geographical customer market segmentation at RRH is made up of Mainland China visitors (62.8% in January to April 2012), Asian visitors (excluding visitors from Mainland China) (30.4% in January to April 2012). Visitors from the Americas, Europe and other regions represented 6.8% of the total demand in January to April 2012.

There is only one planned addition to the supply of hotel rooms in the catchment area, which is the 548-room⁹⁰ Courtyard Marriott Hotel at the junction of On Lai Street and On Ping Street, scheduled to be completed in 2nd Quarter 2012. As such, competition is expected to be limited. Although upon its completion, it may have pressure on RRH for both the occupancy rates and average room rates in the short terms, taken into account the increasing demand and limited supply in the area, it is expected the impact on RRH would only be minor in the long run.

Based on the long-term outlook for hotel room demand in Hong Kong, the anticipated growth in both leisure and business demand; its central location in the New Territories, strong distribution networks both worldwide and in Mainland China, and the strong Regal Group presentation in Mainland China, it is anticipated that RRH would achieve modest to strong growth in both occupancy and average rates.

6. Estimated Net Property Yield⁹¹

3.2%

7. Market Value in existing state as at 30 April 2012⁹²

HK\$3,520,000,000

⁹⁰ Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

⁹¹ The Estimated Net Property Yield of RRH is derived from the base rental receivable from May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the base and variable rental receivable in 2011 divided by the Market Value as at 31 December 2011, was 4.0%.

⁹² The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in "Basis of Valuation", "Valuation Standards" and "Valuation Rationale" of this report.

Property 6**REGAL iCLUB HOTEL**

Shops A, B and C on G/F, Flat Roof on 3/F, whole of 5-12/F, 15-23/F and 25-29/F,
 Eastern and Western Elevations of External Walls,
 Architectural Feature at Roof Top and Upper Roof,
 211 Johnston Road, Wanchai, Hong Kong
 3,062/3,637th undivided shares of and in the Remaining Portion and
 the Sub-Section 1 of Section F, and the Remaining Portion and
 the Sub-Section 1 of Section G, of Inland Lot No. 2769

1. Property Description

Regal iClub Hotel comprises a major portion of the Ground Floor, 22 entire floors (from the 5th to 29th Floors, of which the 13th, 14th and 24th Floors are omitted), a flat roof of the 3rd Floor and upper roof, together with the eastern and western elevations of external walls and architectural feature at roof top of a 26-storey composite building completed in 1997. The immediate locality is predominantly office buildings.

An Asset Enhancement Programme (“AEP”) was undertaken by Paliburg Development BVI Holdings Limited and was completed in 2009. AEP involved a conversion of nine office floors into hotel usage with a total of 50 rooms. A hotel licence was obtained on 24 December 2009 and the 50-room hotel started operation on 25 December 2009. Further, a conversion project (the “Conversion Project”) was undertaken by Sonnix Limited for the purpose of converting another ten office floors into 49 guestrooms. The Conversion Project was completed in November 2010. The hotel licence was obtained and the 99-room High Tariff B Regal iClub Hotel started its full-operation on 17 December 2010.

The 99-room hotel portion includes a portion of the Ground Floor, the whole of the 5th to 26th Floors of the building (of which the 13th, 14th and 24th Floors are omitted). Portion of the Ground Floor comprises the hotel lobby and a shop/restaurant which is let to an independent third party. The mechanical floor is situated on the 3rd Floor. As advised by the Client, 27th to 29th Floors have been occupied for retail/restaurant/F&B outlet/Bar/Karaoke use and the relevant approvals have been obtained from Buildings Department, and such floors have been leased to independent third parties.

The Financial Secretary Incorporated, the property agent of the Government of HKSAR, owns the remaining portion of the Ground Floor, and 1st and 2nd Floors of the building, which are not part of Regal iClub Hotel.

| | | |
|-----------------------------|---|--|
| Site Area | : | 413 sq.m. |
| Gross Floor Area | : | 5,326 sq.m. |
| Covered Floor Area | : | Approx. 5,530 sq.m. |
| Town Planning Zoning | : | Regal iClub Hotel falls within “Commercial” zone under Wan Chai Outline Zoning Plan No. S/H5/26 dated 24 September 2010. |

Hotel Guestroom Configuration

| Room Type | No. of Rooms |
|------------------|---------------------|
| iSelect | 29 |
| iPlus | 29 |
| iBusiness | 28 |
| iSuite | 5 |
| iResidence | 8 |
| Total | 99 |

Note: The room sizes range from 16 sq.m. to 51 sq.m.

Food and Beverage Outlets

| Floor | Name of Outlet | Type of Facilities | Seating Capacity (approx.) | |
|--------------|-----------------------|---------------------------|---------------------------------------|---|
| | | | Area (sq.m.) | No. of normal dining seating |
| 5/F | iClub Lounge | Drink & Snack | 51 | 16 |
| | | Total | 51 | 16 |

2. Ownership and Tenure

Registered Owner : Sonnix Limited, via an assignment dated 21 August 1992, registered vide Memorial No. UB5430069.

Lease Term : The Lot is held under Government Lease for a term of 99 years commencing on 25 May 1929 and renewable for a further term of 99 years.

Major Registered Encumbrances

- Licence in favour of Sonnix Limited by the District Lands Officer/Hong Kong West for & on behalf of the Governor of Hong Kong dated 22 November 1994, registered vide Memorial No. UB6186840.
- Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide Memorial No. UB7020522.
- Occupation Permit No. H73/97 dated 20 November 1997, registered vide Memorial No. UB7355437.

- Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 28 November 1997, registered vide Memorial No. UB7376631.
- Supplemental Deed of Mutual Covenant and Management Agreement in favour of Paliburg Estate Management Limited dated 19 October 2009, registered vide Memorial No. 09103001380118.
- Debenture and Mortgage in favour of The Bank of East Asia, Limited dated 28 February 2012, registered vide Memorial No. 1203062360191.

3. Hotel Operation

Hotel Performance in January to April 2012

| | | |
|--------------------------|---|-----------|
| Occupancy Rate | : | 97% |
| Average Room Rate | : | HK\$1,346 |

Hotel Management Agreement (“HMA”)

| | | |
|----------------------|---|---|
| Hotel Manager | : | Regal Hotels International Limited |
| Term of HMA | : | From the Effective Date ⁹³ , and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020. |
| Base Fee | : | Two percent (2%) of the Gross Revenues ⁹⁴ |
| Incentive Fee | : | Five percent (5%) of the excess of the Gross Operating Profit ⁹⁵ over the Base Fee and the Fixed Charges. |

4. Retail/Office Tenancies

Retail

| | | |
|-----------------------------------|---|--|
| Retail Area (gross area) | : | 1,800 sq.ft. (167 sq.m.) |
| Occupied Area (gross area) | : | 1,800 sq.ft. (167 sq.m.) |
| Vacant Area (gross area) | : | 0 sq.ft. (0 sq.m.) |
| Occupancy Rate | : | 100% |
| Monthly Base Rent | : | HK\$138,000 (the tenancy is exclusive of rates, government rent, management fees, air-conditioning charges and all other charges and outgoings). |

⁹³ According to the Hotel Management Agreement, “Effective Date” means 1 January 2011.

⁹⁴ According to the Hotel Management Agreement, “Gross Revenues” means all revenue derived from the Hotel.

⁹⁵ According to the Hotel Management Agreement, “Gross Operating Profit” means Total Hotel Revenue less Hotel Operating Expenses during the same period.

Tenancy Expiry Profile

| Year | Gross area (sq.ft.) | % of Total | Monthly | | No. of Tenancy | % of Total |
|------------------|--------------------------------|-----------------------|--------------------------|-----------------------|---------------------------|-----------------------|
| | | | Rental (HK\$) | % of Total | | |
| Year Ending 2014 | <u>1,800</u> | <u>100%</u> | <u>138,000</u> | <u>100%</u> | <u>1</u> | <u>100%</u> |
| Total | <u>1,800</u> | <u>100%</u> | <u>138,000</u> | <u>100%</u> | <u>1</u> | <u>100%</u> |

Tenancy Duration Profile

| Tenancy Duration | Gross area (sq.ft.) | % of Total | Monthly | | No. of Tenancy | % of Total |
|---------------------------------------|--------------------------------|-----------------------|--------------------------|-----------------------|---------------------------|-----------------------|
| | | | Rental (HK\$) | % of Total | | |
| More than 2 year and up to 3 years | <u>1,800</u> | <u>100%</u> | <u>138,000</u> | <u>100%</u> | <u>1</u> | <u>100%</u> |
| Total | <u>1,800</u> | <u>100%</u> | <u>138,000</u> | <u>100%</u> | <u>1</u> | <u>100%</u> |

| | | |
|---------------------------|---|---|
| Latest Expiry Date | : | 9 March 2014 |
| Rent Free Period | : | 0 months |
| Option to Renew | : | The tenancy has an option to renew for two years at market rent but within pre-determined range. |
| Summary of Terms | : | The Landlord ⁹⁶ and/or other responsible party is/are to be responsible for the structural and external repairs whilst the Tenant is to be responsible for the internal repairs of the Property. |

Office

| | | |
|-----------------------------------|---|---|
| Office Area (gross area) | : | 8,304 sq.ft. (771 sq.m.) |
| Occupied Area (gross area) | : | 8,304 sq.ft. (771 sq.m.) |
| Vacant Area (gross area) | : | 0 sq.ft. (0 sq.m.) |
| Occupancy Rate | : | 100% |
| Monthly Base Rent | : | HK\$298,944 (all tenancies are inclusive of air conditioning charges and management fee, but exclusive of rates). |

⁹⁶ The tenancy is entered by Sonnix Limited as Landlord.

Tenancy Expiry Profile

| Year | Gross area (sq.ft.) | % of Total | Monthly Rental (HK\$) | % of Total | No. of Tenancy | % of Total |
|------------------|--------------------------------|-----------------------|--------------------------------------|-----------------------|---------------------------|-----------------------|
| Year Ending 2014 | 8,304 | 100% | 298,944 | 100% | 3 | 100% |
| Total | 8,304 | 100% | 298,944 | 100% | 3 | 100% |

Tenancy Duration Profile

| Tenancy Duration | Gross area (sq.ft.) | % of Total | Monthly Rental (HK\$) | % of Total | No. of Tenancy | % of Total |
|---------------------------------------|--------------------------------|-----------------------|--------------------------------------|-----------------------|---------------------------|-----------------------|
| More than 3 year and up to 4 years | 8,304 | 100% | 298,944 | 100% | 3 | 100% |
| Total | 8,304 | 100% | 298,944 | 100% | 3 | 100% |

| | | |
|---------------------------|---|---|
| Latest Expiry Date | : | 28 February 2014 |
| Rent Free Period | : | 4 months |
| Option to Renew | : | All the tenancies have an option to renew for two years at market rent. |
| Summary of Terms | : | The Landlord ⁹⁷ and/or other responsible party is/are to be responsible for the structural and external repairs whilst the Tenant is to be responsible for the internal repairs of the Property. |

5. Hotel Market Commentary

In the first four months of 2012, a total of 15.1 million⁹⁸ visitors came to Hong Kong, representing a year-on-year (“y-o-y”) increase of 15.3%. Mainland visitors continue to be the largest source of visitors, contributing to about 70% of the total number of visitors, and amounted to 10.5 million⁹⁹, representing growth of 21.8% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (1.8% y-o-y); Europe, Africa and the Middle East (4.7% y-o-y); Australia, New Zealand and South Pacific (0.9% y-o-y); North Asia (9.3% y-o-y); and South & Southeast Asia (3.4% y-o-y).

⁹⁷ All tenancies are entered by Sonnix Limited and/or Real Charm Investment Limited as Landlord.

⁹⁸ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

⁹⁹ Source: “Visitor Arrivals Statistics — Apr 2012”, Research, Hong Kong Tourism Board.

Despite the increase in the number of visitor arrivals which turns into strong room demand, the available room supply is expected to increase 10.4%¹⁰⁰ in 2012, which leads to the average occupancy of all hotels in Hong Kong to stand at 88%¹⁰¹ in January to April 2012. On the other hand, average achieved hotel room rate for all hotels rose by 12.7%¹⁰² y-o-y during the same period. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 12.7%¹⁰³ y-o-y.

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

- The expansion of the Hong Kong Convention and Exhibition Centre which was completed in April 2009.
- The planning and commencement of major infrastructure development projects, such as Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Rail Link, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District and Kai Tak Development.
- The opening of the new SkyPier at HKIA providing high-speed ferries connecting to eight ports in the Mainland, with a maximum capacity of eight million passengers annually.
- The completion of 10 additional air cargo parking stands and a planned new air cargo terminal scheduled to open in 2013 with the capacity to handle 2.6 million tons of cargo.
- The midfield development project of HKIA, in which the \$9 billion Phase 1 development will include the building of a five-level midfield concourse with 20 aircraft parking stands, a cross-field taxiway and the extension of the existing automated people mover to the midfield concourse. The Phase 1 midfield development project is expected to be completed by the end of 2015, and will be able to handle 10 million more passengers per annum.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.
- The development of a new cruise terminal at the former Kai Tak runway with two berths, which can accommodate the largest cruise vessel in the world.

¹⁰⁰ Source: "Hotel Supply Situation — as at Mar 2012", Research, Hong Kong Tourism Board.

¹⁰¹ Source: "Hotel Room Occupancy Report — Apr 2012", Research, Hong Kong Tourism Board.

¹⁰² Source: "Hotel Room Occupancy Report — Apr 2012", Research, Hong Kong Tourism Board.

¹⁰³ RevPAR — Revenue per available room. Source: "Hotel Room Occupancy Report — Apr 2012" and "Hotel Room Occupancy Report — Apr 2011", Research, Hong Kong Tourism Board and Colliers.

- Relaxation of the entry regulations to Hong Kong allowing Russian visitors to enter Hong Kong visa-free, one-year multiple entry permits for Shenzhen residents and for eligible non-Shenzhen residents, and the expansion of the Individual Visit Scheme covering 49 Mainland cities.
- The success of creating a marketing platform in 2011 - “Hong Kong Food and Wine Year” - and promoting Hong Kong as Asia’s wine and gourmet centre in the long run.

Looking ahead, notwithstanding uncertainty in the global economic environment, hotel room demand in Hong Kong during 2012 is expected to be strong, which will have a positive impact on hotel performance.

Regal iClub Hotel is located in Wanchai and has good accessibility via extensive transport links, namely the MTR, taxis, buses and trams, as well as roads. The Wan Chai MTR Station is just a few minutes’ walk from Regal iClub Hotel.

With its close proximity to the Hong Kong Convention and Exhibition Centre, Regal iClub Hotel enjoys strong demand for rooms from among business visitors, traders and exhibitors. The majority of the demand for room at Regal iClub Hotel is from business visitors (94.1% in January to April 2012).

Regal iClub Hotel is located within easy reach of such shopping and entertainment facilities as Times Square and the Sogo Department Store in the nearby Causeway Bay District, and Pacific Place Shopping Mall in Admiralty District. In January to April 2012, demand from leisure visitors represented 5.9% of the total.

The geographical customer market segmentation at Regal iClub Hotel is made up of Asian visitors (excluding Mainland China, at 34.4% in January to April 2012) and Mainland China visitors (25.3% in January to April 2012). Visitors from the Americas, Europe and other regions represented 40.3% of the total demand.

Planned additions of approximately 717 rooms include the proposed 79-room¹⁰⁴ hotel at 135-139 Thomson Road, scheduled to be completed in 2nd Quarter 2012, the 69-room¹⁰⁵ Brighton Hotel and the 150-room¹⁰⁶ Hotel Indigo, both scheduled to be completed in end-2012, the proposed 299-room¹⁰⁷ hotel at 373 Queen’s Road East, scheduled to be completed in 3rd Quarter 2015, and the proposed 120-room¹⁰⁸ hotel at Low Block, 26 Harbour Road, scheduled to be completed in May 2016. Although upon completion of these hotels, there may be pressure on Regal iClub Hotel for both the occupancy rates and average room rates in short terms, taken into account the increasing demand in the area, it is expected the impact on Regal iClub Hotel would only be minor in the long run.

¹⁰⁴ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

¹⁰⁵ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

¹⁰⁶ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

¹⁰⁷ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

¹⁰⁸ Source: “Hotel Supply Situation — as at Mar 2012”, Research, Hong Kong Tourism Board.

Based on the long-term outlook for hotel room demand in Hong Kong, anticipated growth in both leisure and business demand, the hotel's location and quality of services, strong distribution networks both worldwide and in Mainland China, and the strong Regal Group representation in Mainland China, it is anticipated that Regal iClub Hotel would achieve modest growth in both occupancy and the average room rates.

6. Estimated Net Property Yield¹⁰⁹

4.2%

7. Market Value in existing state as at 30 April 2012¹¹⁰

HK\$776,000,000

¹⁰⁹ The Estimated Net Property Yield of Regal iClub Hotel is derived from the net income receivable in May-2011 to April-2012 divided by the Market Value; while the Estimated Net Property Yield as at 31 December 2011, which was derived from the net income receivable in 2011 divided by the Market Value as at 31 December 2011, was 4.2%.

¹¹⁰ The market value of the property is derived from Discounted Cash Flow Analysis, the rationale and basis are mentioned in "Basis of Valuation", "Valuation Standards" and "Valuation Rationale" of this report.

1. RESPONSIBILITY STATEMENT

The Paliburg Directors and the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Offer Document (other than those relating to the Regal REIT Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Offer Document (other than those expressed by the Regal REIT Manager and the Regal REIT Manager Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Offer Document, the omission of which would make any statements in this Composite Offer Document misleading.

The Regal REIT Manager and the Regal REIT Manager Directors jointly and severally accept full responsibility for the accuracy of the information relating to the Regal REIT Group contained in this Composite Offer Document, and confirm, having made all reasonable enquiries, that to the best of their knowledge, the opinions expressed by the Regal REIT Manager and the Regal REIT Manager Directors in this Composite Offer Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Offer Document, the omission of which would make any statement in this Composite Offer Document misleading.

2. REGAL REIT UNITS

As at the Latest Practicable Date, there were 3,257,431,189 Regal REIT Units in issue. No Regal REIT Units were issued during the period from 31 December 2011 (being the end of the last financial year of Regal REIT) to the Latest Practicable Date.

All of the Regal REIT Units currently in issue rank *pari passu* in all respects with each other, including the rights in respect of dividend, voting and capital. The Regal REIT Units are listed and traded on the main board of the Stock Exchange.

As at the Latest Practicable Date, there were no outstanding options, warrants or conversion rights affecting or convertible into Regal REIT Units.

3. DISCLOSURE OF INTERESTS AND DEALINGS RELATING TO PALIBURG AND THE OFFEROR

(a) Interests

As at the Latest Practicable Date, the interests of the Paliburg Concert Group (including the Offeror) in the Regal REIT Units are set out below:

| | Number of Regal REIT Units | Approximate % |
|---|---|--------------------------|
| The Regal Hotels Group (<i>Note 1</i>) | 2,428,262,739 | 74.55 |
| The Century City Group (<i>Note 2</i>) | <u>5,287,000</u> | <u>0.16</u> |
| <i>Total for the Paliburg Concert Group (Note 3)</i> | <u>2,433,549,739</u> | <u>74.71</u> |

Notes:

1. The 2,428,262,739 Regal REIT Units are held by Complete Success Investments Limited, Great Prestige Investments Limited, Honormate Nominees Limited, Kaybro Investments Limited and Regal Portfolio Management Limited, all wholly-owned subsidiaries of Regal Hotels.
2. The 5,287,000 Regal REIT Units are held by Aikford Financial Services Limited, a wholly-owned subsidiary of Century City, of which Paliburg is a listed subsidiary.
3. The Offeror itself had no interests in Regal REIT Units as at the Latest Practicable Date.

(b) As at the Latest Practicable Date, save as disclosed above,

- (i) none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) held, owned, controlled or was interested in any Regal REIT Units, securities of Regal REIT which carry voting rights, convertible securities, warrants, options and derivatives in respect of Regal REIT Units (collectively, the “**relevant securities of Regal REIT**”);
- (ii) none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) had borrowed or lent any relevant securities of Regal REIT;
- (iii) save for the Regal REIT Offer Units that may be acquired by the Offeror under the Regal REIT Offer and to be pledged to SHKIS as security for the Facility, there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Regal REIT Offer would be transferred, charged or pledged to any other persons;

- (iv) there is no agreement or arrangement to which any member of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Regal REIT Offer;
 - (v) no person who owned or controlled any Regal REIT Units or relevant securities of Regal REIT had irrevocably committed themselves to accept or reject the Regal REIT Offer;
 - (vi) none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) have entered into any arrangement of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person; and
 - (vii) there is no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between any members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) and associates of Paliburg and the Offeror on the one hand with any other person on the other.
- (c) Dealings

Paliburg and the Offeror confirmed that, during the Relevant Period,

- (i) save for the 37,344,000 Regal Hotels Shares which had been repurchased under the RH Share Repurchase Programme, the 16 Regal Hotels Shares which had been sold by Sun Hung Kai (Nominees) Limited* at HK\$2.50 per Regal Hotels Share on 28 October 2011 and the non-discretionary dealings in Regal Hotels Shares for and on behalf of its individual clients by SHKIS and/or its associates which are presumed to be parties acting in concert with the Offeror and except as disclosed in (ii) below, none of Paliburg, the Offeror, their respective directors and the parties acting in concert with any of them had dealt in Regal Hotels Shares, options, derivatives, warrants or other securities convertible into Regal Hotels Shares;
- * Sun Hung Kai (Nominees) Limited is presumed to be acting in concert with the Offeror under class (5) of the definition of “acting in concert” under the Takeovers Code.
- (ii) H.P. Nominees Limited (“**HP Nominees**”), a wholly-owned subsidiary of Paliburg, entered into a contract (the “**Equity Swap Contract**”) with an independent third party financial institution (the “**Equity Swap Counterparty**”) on 20 June 2012, in relation to cash settled equity swap transaction referenced to Regal Hotels Shares with a notional amount of HK\$10 million for a period of one year from the effective date on 21 June 2012 to the valuation date on 21 June 2013. The Equity Swap Contract will be settled in cash only, and there is no right for any party to elect

physical settlement. Under Part XV of the SFO, HP Nominees is deemed to have interests in the Regal Hotels Shares purchased by the Equity Swap Counterparty (as hedging party) as set out below to which the Equity Swap Contract is referenced:

| Date | Regal Hotels Shares purchased by the Equity Swap Counterparty (as hedging party) | VWAP* | Total value of Regal Hotels Shares purchased by the Equity Swap Counterparty (at VWAP*) |
|--------------|---|--------------|--|
| 21 June 2012 | 800,000 | HK\$2.9038 | HK\$2,323,020 |
| 22 June 2012 | 1,250,000 | HK\$2.9080 | HK\$3,635,000 |
| 25 June 2012 | 800,000 | HK\$2.8929 | HK\$2,314,340 |
| 26 June 2012 | 400,000 | HK\$2.8922 | HK\$1,156,880 |
| 27 June 2012 | <u>184,000</u> | HK\$2.8853 | <u>HK\$530,900</u> |
| Total | <u><u>3,434,000</u></u> | | <u><u>HK\$9,960,140</u></u> |

* VWAP denotes the volume weighted average price per Regal Hotels Share based on trades executed on the relevant dates by the Equity Swap Counterparty.

- (iii) no person who owned or controlled any Regal REIT Units or relevant securities of Regal REIT had irrevocably committed themselves to accept or reject the Regal REIT Offer;
- (iv) save for the non-discretionary dealings in Regal REIT Units for and on behalf of its individual clients by SHKIS and/or its associates which are presumed to be parties acting in concert with the Offeror, none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) had dealt in Regal REIT Units and relevant securities of Regal REIT;
- (v) none of the members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) have entered into any arrangement of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person; and
- (vi) there is no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code which exist between any members of the Paliburg Concert Group (including the Paliburg Directors and the directors of the Offeror) and associates of Paliburg and the Offeror on the one hand with any other person on the other.

4. DISCLOSURE OF INTERESTS AND DEALINGS RELATING TO REGAL REIT

- (a) (i) As at the Latest Practicable Date, the interests of the Regal REIT Manager and Regal REIT Manager Directors in Regal REIT Units were set out below:

| | Number of Regal REIT Units | Approximate % |
|------------------------------------|-------------------------------|------------------|
| Mr. LO (<i>Note</i>) | 2,433,549,739 | 74.71 |
| Regal REIT Manager (<i>Note</i>) | 120,381,598 | 3.70 |

Note: The interest in 2,433,549,739 Regal REIT Units, including 120,381,598 Regal REIT Units held by the Regal REIT Manager, are the same parcel of Regal REIT Units held through the Paliburg Concert Group, as disclosed in section 3(a) of this Appendix IV, in which Mr. LO is an indirect controlling shareholder of the Paliburg Concert Group.

- (ii) As at the Latest Practicable Date, the interests of the Regal REIT Manager Directors in Paliburg were set out below:

| | Number of shares in Paliburg | Approximate % |
|----------------------|---------------------------------|------------------|
| Mr. LO | 821,999,817 | 73.20% |
| Mr. Jimmy LO Chun To | 2,274,600 | 0.20% |
| Mr. Donald FAN Tung | 556 | 0.000% |

- (b) As at the Latest Practicable Date, save as disclosed in this Appendix IV,
- (i) the Trustee, the Regal REIT Manager and the Regal REIT Manager Directors did not have any interests in any relevant securities of Regal REIT;
- (ii) the Trustee, Regal REIT, the Regal REIT Manager and the Regal REIT Manager Directors did not have any interests in any shares, securities which carry voting rights, convertible securities, warrants, options and derivatives in respect of or in Paliburg and the Offeror (collectively, the “**relevant securities of Paliburg and the Offeror**”);
- (iii) none of the subsidiaries of Regal REIT, any pension funds of the Regal REIT Group, or any adviser to Regal REIT and the Regal REIT Manager as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders) owned or controlled any relevant securities of Regal REIT;
- (iv) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Regal REIT or with any person who was an associate of Regal REIT by virtue of classes (1), (2), (3), (4), (8) and (9) of the definition of “associate” under the Takeovers Code;

- (v) no relevant securities of Regal REIT were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with Regal REIT;
 - (vi) none of the Regal REIT Manager and the Regal REIT Manager Directors was or would be an Independent Regal REIT Unit Holder, and as such the Regal REIT Offer will not be made to any of them; and
 - (vii) none of the Regal REIT Manager and the Regal REIT Manager Directors had borrowed or lent the relevant securities of Regal REIT.
- (c) Dealings

During the Relevant Period:

- (i) none of the Trustee, the Regal REIT Manager, and the Regal REIT Manager Directors and Regal REIT Group had dealt in any relevant securities of Regal REIT;
- (ii) none of the Trustee, the Regal REIT Manager, and the Regal REIT Manager Directors and Regal REIT Group had dealt in any relevant securities of Paliburg and the Offeror;
- (iii) no subsidiaries of Regal REIT, pension funds of any member of the Regal REIT Group or advisers to Regal REIT as specified in class (2) of the definition of “associate” under the Takeovers Code (excluding exempt principal traders) had dealt in the relevant securities of the Regal REIT;
- (iv) no person, if any, who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Regal REIT or with a person who was an associate of Regal REIT by virtue of classes (1), (2), (3), (4), (8) and (9) of the definition of “associate” under the Takeovers Code had dealt in the relevant securities of the Regal REIT; and
- (v) other than exempt fund manager, no fund managers managing funds on a discretionary basis who are connected with Regal REIT had dealt in any relevant securities of Regal REIT.

5. ARRANGEMENTS IN CONNECTION WITH THE REGAL REIT OFFER OR AFFECTING AND RELATING TO REGAL REIT MANAGER DIRECTORS

(a) As at the Latest Practicable Date:

- (i) no benefit (other than statutory compensation) was or would be given to the Regal REIT Manager or any of the Regal REIT Manager Director as compensation for his loss of office or otherwise in connection with the Regal REIT Offer; and
- (ii) there was no agreement, arrangement or understanding (including any compensation arrangement) between Paliburg, the Offeror or any parties acting in concert with any of them on one hand and the Regal REIT Manager, any of the Regal REIT Manager Directors, the recent Regal REIT Manager Directors, the Regal REIT Unit Holders or the recent Regal REIT Unit Holders on the other hand, having any connection with or dependence upon the Regal REIT Offer.

(b) As at the Latest Practicable Date:

- (i) no benefit was or would be given to the Regal REIT Manager or any of the Regal REIT Manager Directors as compensation for his loss of office or otherwise in connection with the Regal REIT Offer;
- (ii) no agreement or arrangement existed between the Regal REIT Manager or any of the Regal REIT Manager Directors and any other person which was conditional or dependent upon the outcome of the Regal REIT Offer or otherwise connected with the Regal REIT Offer; and
- (iii) there was no material contract entered into by Paliburg or the Offeror in which the Regal REIT Manager or any of the Regal REIT Manager Directors had a material personal interest.

6. SERVICE CONTRACTS

In relation to Regal REIT or any of its subsidiaries or associated companies, there is no (i) service contract in force entered into between the Regal REIT Manager and any of the Regal REIT Manager Directors; or (ii) contract in force in whatever form with the Regal REIT Manager in such capacity (a) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before 20 April 2012 (being the date of commencement of the Offer Period); (b) which is a continuous contract with a notice period of 12 months or more; or (c) which is fixed term contract with more than 12 months to run irrespective of the notice period.

7. MARKET PRICES

- (a) The table below shows the closing price per Regal REIT Unit as quoted on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) 19 April 2012, being the Last (First Announcement) Trading Day; (iii) 7 May 2012, being the Last Trading Day; and (iv) the Latest Practicable Date.

| Date | Closing price per Regal REIT Unit (HK\$) |
|---|---|
| 31 October 2011 | 1.83 |
| 30 November 2011 | 1.77 |
| 30 December 2011 | 1.79 |
| 31 January 2012 | 1.98 |
| 29 February 2012 | 2.16 |
| 30 March 2012 | 1.96 |
| 19 April 2012, being the Last (First Announcement) Trading Day | 1.98 |
| 30 April 2012 | 1.98 |
| 7 May 2012, being the Last Trading Day | 1.99 |
| 31 May 2012 | 1.73 |
| 29 June 2012 | 1.80 |
| 6 July 2012, being the Latest Practicable Date | 1.85 |

- (b) The highest and lowest closing prices of the Regal REIT Units as quoted on the Stock Exchange during the Relevant Period were HK\$2.17 per Regal REIT Unit on 20 February 2012 and HK\$1.69 per Regal REIT Unit on 4 June 2012 and 6 June 2012.

8. LITIGATION

As at the Latest Practicable Date, no member of the Regal REIT Group was engaged in any litigation of material importance and no litigation of material importance was known to the Regal REIT Manager or any of the Regal REIT Manager Directors to be pending or threatened by or against any member of the Regal REIT Group.

9. MATERIAL CONTRACTS

No contract (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Regal REIT Group) had been entered into by the Regal REIT Group within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date which were, or might be, material.

10. EXPERTS AND CONSENTS

The following are the qualification of the experts who have given opinions or advice contained in this Composite Offer Document:

| Name | Qualification |
|---|---|
| SHK | a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Colliers International (Hong Kong) Limited ("Colliers") | the principal valuer of Regal REIT appointed by the Trustee according to the provisions of the REIT Code |
| KBC Bank N.V. Hong Kong Branch | KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee in relation to the Regal REIT Offer |

Each of SHK, Colliers and the KBC Bank N.V. Hong Kong Branch has given and has not withdrawn its written consent to the issuance of this Composite Offer Document with the inclusion herein of its opinion or letter (as the case may be) and references to its name, in the form and context in which it is included.

As at the Latest Practicable Date, none of the experts had any interest in Regal REIT or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in Regal REIT.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since 30 March 2007, being the date on which the Regal REIT Units were first listed on the Stock Exchange, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to Regal REIT.

11. MISCELLANEOUS

- (a) The principal members of the Paliburg Concert Group are Mr. LO, Century City, Paliburg and Regal Hotels. The business address of Mr. LO is located at 12th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and the head offices and principal places of business in Hong Kong of Century City, Paliburg and Regal Hotels are located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

- (b) The entire issued share capital of the Offeror was indirectly held by Paliburg, which in turn is a listed subsidiary of Century City. Mr LO is the ultimate controlling shareholder of Century City. The Century City Board comprises Mr. LO (Chairman and Chief Executive Officer), Mr. Kenneth NG Kwai Kai (Chief Operating Officer), Mr. Donald FAN Tung, Mr. Kelvin LEUNG So Po, Mr. Jimmy LO Chun To and Miss LO Po Man as executive directors and Mr. Anthony CHUANG, Mr. NG Siu Chan and Mr. WONG Chi Keung as independent non-executive directors.
- (c) The registered office of the Regal REIT Manager is located at Unit No.1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.
- (d) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. The correspondence address of the Offeror is located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong. The head office and principal place of business in Hong Kong of Paliburg are located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.
- (e) The directors of the Offeror are Mr. LO, Mr. Donald FAN Tung, Mr. Jimmy LO Chun To, Miss LO Po Man, Mr. Kenneth NG Kwai Kai and Mr. Kenneth WONG Po Man. The Paliburg Directors are Mr. LO (Chairman and Chief Executive Officer), Mr. Donald FAN Tung (Chief Operating Officer), Mr. Jimmy LO Chun To, Miss LO Po Man, Mr. Kenneth NG Kwai Kai and Mr. Kenneth WONG Po Man as the executive Paliburg Directors and Mr. Bowen Joseph LEUNG Po Wing, GBS, JP, Mr. NG Siu Chan, Hon Abraham SHEK Lai Him, SBS, JP and Mr. WONG Chi Keung as the independent non-executive Paliburg Directors.
- (f) SHK is making the Regal REIT Offer for and on behalf of the Offeror and is also the financial adviser to Paliburg and the Offeror in respect of the Regal REIT Offer. The address of SHK is located at 42/F., The Lee Gardens, 33 Hsyan Avenue, Causeway Bay, Hong Kong.
- (g) The Independent Financial Adviser's address is located at 39/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (h) The Registrar is Computershare Hong Kong Investor Services Limited, whose address is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (i) The Secretary of the Regal REIT Manager is Ms. Peony Choi Ka Ka.
- (j) The Regal REIT Offer is not a securities exchange offer.
- (k) The Regal REIT Offer does not involve issue of any unlisted securities.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours (public holidays excepted) at the registered office of the Regal REIT Manager at Unit No.1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong; (ii) on the website of the SFC at www.sfc.hk; (iii) on the website of the Regal REIT Manager at www.regalreit.com; and (iv) on the website of Paliburg at www.paliburg.com.hk, from the date of this Composite Offer Document until the end of Offer Period:

- (a) the Trust Deed;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of Regal REIT for the two financial years ended 31 December 2011;
- (d) the letter from SHK, the text of which is set out on pages 7 to 16 of this Composite Offer Document;
- (e) the letter from the Regal REIT Manager Board, the text of which is set out on pages 17 to 22 of this Composite Offer Document;
- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this Composite Offer Document;
- (g) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 25 to 37 of this Composite Offer Document;
- (h) the valuation reports on the property interests of the Regal REIT Group prepared by Colliers, which are set out in Appendix III to this Composite Offer Document;
- (i) the written consents from each of the experts referred to in the paragraph headed “Experts and consents” in this Appendix; and
- (j) the facility letter dated 3 May 2012 in relation to the Facility.