REGAL REIT
富豪產業信託

Regal Real Estate Investment Trust

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

2011
ANNUAL REPORT

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

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CORPORATE INFORMATION

MANAGER OF REGAL REIT

Regal Portfolio Management Limited
(the "REIT Manager")

DIRECTORS OF THE REIT MANAGER

Non-executive Directors

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

Executive Directors

Francis Chiu
Simon Lam Man Lim

Independent Non-executive Directors

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

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Kai Ole Ringenson
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

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

AUDITORS OF REGAL REIT

Ernst & Young

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
The Bank of East Asia, Limited
Cathay United Bank, Hong Kong Branch
Chinatrust Commercial Bank, Ltd.
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
Credit Agricole CIB, Hong Kong Branch
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
The Royal Bank of Scotland N.V.
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Taiwan Cooperative Bank, Ltd, Hong Kong Branch
United Overseas Bank Limited

LEGAL ADVISERS

Baker & McKenzie

UNIT REGISTRAR

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Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
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Hong Kong.

REGISTERED OFFICE OF THE REIT MANAGER

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Chairman – Y.S. Lo

Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2011 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2011, Regal REIT achieved a consolidated net profit before distributions to Unitholders of HK$2,997.3 million, an increase of 200.6% over the comparative amount of HK$997.1 million recorded for the year 2010. The profit achieved for the year under review included a gain of HK$2,625.3 million arising from the changes in the fair values of Regal REIT's investment properties, while for the preceding year, a gain of HK$478.6 million was recorded in respect of such fair value changes.

Total distributable income for the year amounted to approximately HK$397.9 million, as compared to HK$682.9 million last year. On account of the fact that the total base rent for 2010 of HK$780.0 million was predetermined based on earlier projections in 2007 and part of the minimum guaranteed variable rent for the period from the date of listing of Regal REIT in 2007 to 31st December, 2010 of HK$118.4 million was recognised in 2010, the total distributable income for 2010 was comparatively higher than that in the year under review.

The Directors of the REIT Manager have resolved to declare a final distribution of HK$0.063 per Unit for the year ended 31st December, 2011, which will bring the total distributions per Unit for 2011 to HK$0.120, as compared to HK$0.190 per Unit distributed for 2010. Total distributions for the year, including both the interim and final distributions, will amount to HK$390.9 million and represent a payout ratio of 98.2% of the total distributable income for 2011. In view of the significant appreciation in the market valuations of the hotel properties, the net asset value per Unit attributable to Unitholders has increased to HK$3.884 as at 31st December, 2011, as compared to HK$3.060 per Unit as at the year end of 2010.

The first half of 2011 saw positive signs of global recovery, but towards the second half of 2011, the recovery was generally stalled by the sovereign debt crisis spreading across the Euro zone. By the end of 2011, the US economy gained momentum as a result of an improved labour market and its government's policy to continue with a low interest environment. Amidst the uncertainty in economic prospects, global output is still projected to expand by 3.25% in 2012 with higher economic growth potential for Asian economies.

During 2011, China's growth in GDP was sustained at 9.2% with the rollout of the 12th Five-year Plan (2011-2015), although the growth rate has slowed down as compared to the past few years. Benefited from China's relatively buoyant development rate, Hong Kong's GDP grew by about 5.0%, as Hong Kong's domestic economy was relatively resilient, which provided a cushion effect for the fall-off in exports.

Hong Kong has been positioned as the Renminbi offshore clearing centre in China's 12th Five-year Plan, complementing Shanghai's role as global Renminbi hub by 2015. Under the Supplement VIII to Closer Economic Partnership Arrangement (CEPA), tourism co-operation between Hong Kong and Mainland China will further be enhanced.

During the year, tourist arrivals to Hong Kong hit a historical record of approximately 41.9 million, with China's visitors accounted for about 67.0% of the total count. As China continues to extend its liberalisation policy to relax restrictions on overseas travel for the Mainland residents through the Individual Visit Scheme, this will further boost Hong Kong's tourism industry.

The hotel property portfolio of Regal REIT now commands an aggregate of 3,929 hotel guestrooms and suites, which accounts for about 10% of the total hotel room inventory of High Tariff A and B Hotels presently available in Hong Kong. The total valuation of the portfolio amounted to about HK$17,769.0 million as at 31st December, 2011, representing an increase of about 19.4% as compared with that at the preceding year end.

During the year, there were 451 hotel guestrooms and suites in Regal REIT's investment properties having been upgraded, and approximately 2,600 square meters of banqueting and function areas renovated to cater to the anticipated demand on wedding banquets and business functions, particularly for the much favoured Year of the Dragon.

Recently, government approvals have been obtained for the conversion of part of the second floor and the fourteenth floor at the Regal Oriental Hotel into 56 new additional rooms and interior fitting out plans are being finalised to convert these areas, which are now being used for food and beverage operations, into more lucrative room business.

For the years 2011 to 2015, the rental package for the five Initial Hotels is subject to annual review and is to be determined by an independent professional property valuer to be jointly appointed by the lessors and the lessee. The rental review process for 2012 has been completed in August 2011 and the aggregate base rent was determined at HK$645.0 million, with variable rent based on a sharing of 50% of the excess of the aggregate net property income of the Initial Hotels over the aggregate fixed base rent. Based on present forecast and barring any unforeseen circumstances, the net property income of the five Initial Hotels in 2012 should well exceed the base rent level.

On 7th March, 2012, Regal REIT entered into a new facility agreement in respect of a new facility of HK$4,500.0 million for a term of three years, which will be wholly used for refinancing the existing term loan facility of the same amount that will mature on 30th March, 2012. Due to the changes in the financial market, the interest margin for the new term loan facility will be higher than that under the existing term loan facility, but the interbank interest rate is now much lower than the level when the interest rate swap and hedging arrangements were put in place for the existing loan in 2007. Therefore, it is expected that there would be overall savings in the finance costs for the bank loans of Regal REIT, as compared with the effective loan interest paid in the previous years. Management will closely monitor the interest rate market to determine whether and when it will be beneficial to put in place new interest hedging arrangements for the new term loan facility.

Despite the uncertainty over the pace of recovery of the global economy and the anticipated slowdown in the GDP growth in China, Hong Kong is still forecasting to have an increase of about 5.5% in the number of visitor arrivals to reach a level of 44 million in 2012.

In the bid to maintain its prominence as a favoured tourist destination and as an international financial centre, Hong Kong has taken initiatives to undertake a wide array of infrastructural developments. For further integration with Mainland China, particularly the southern provinces, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge are already under construction. To uphold Hong Kong's competitive edge as a leading aviation hub, Hong Kong is beginning to embark on building a third runway in its international airport. As for the tourism sector, the construction of the Kai Tak cruise terminal, the redevelopment of the Ocean Park and the expansion project at the Hong Kong Disneyland should help foster tourism growth.

To cope with Hong Kong's economic development and increase in the Grade A offices demand, Hong Kong Government has announced in 2011 the initiative of Energizing Kowloon East to be the second Central Business District of Hong Kong in future, which the REIT Manager will expect to bring catalytic effect to Regal REIT's investment properties located in the proximity of Kowloon East, such as the Regal Oriental Hotel as well as the Regal Kowloon Hotel and Regal Riverside Hotel. Regal REIT, having invested in Hong Kong with six hotel properties, shall be well positioned to benefit from these long term developments in Hong Kong.

The Directors are optimistic that the tourism and hotel industries in Hong Kong will further prosper, which will in turn positively benefit Regal REIT in the growth of its future capital value and profit earnings. Regal REIT will continue to actively seek appropriate acquisition opportunities to expand its investment portfolio in the upcoming years.

Finally, I would like to express my gratitude to my fellow Directors as well as all the management and staff members for their continual support and contribution during the past year.

Lo Yuk Sui
Chairman

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

Hong Kong, 20th March, 2012

Properties Portfolio

Location of the Hotel Properties in Hong Kong

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

Key to Hotel Facility Icons

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

REGAL AIRPORT HOTEL

- The only hotel connected directly to the airport passenger terminals
- State-of-the-art meeting and conference venues of approximately 3,300 sq. m.
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- World's Best Airport Hotel and Best Airport Hotel Asia in the Skytrax Awards (2011)
- Best Airport Hotel in the World by Business Traveller UK Magazine for four consecutive years (2008-2011)
- Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for eleven consecutive years (2001-2011)
- Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for seven consecutive years (2005-2011)
- Best Airport Hotel of China of the 6th China Hotel Starlight Award (2010)
- Five Star Golden Diamond Award - Global Best Airport Hotel by Global Hotel Forum (2009)
- Five Star Golden Diamond Award - Global Best Conference Hotel by Global Hotel Forum (2008)
- Top 10 Convention & Exhibition Hotels of China of the China Hotel Starlight Award for two consecutive years (2007-2008)
- Best Airport Hotel in Asia by TravelWeekly (Asia) Magazine (2007)
- Best Conference Hotel in Hong Kong by Capital CEO Magazine (2007)
- Best International Airport Hotel of China of the 3rd China Hotel Starlight Award (2007)
- One of the world's Best Airport Hotels listed on Forbestraveler.com (2007)
- OM Spa - One of the Best Airport Facilities in the World ranked by Travel+Leisure Magazine (2008)

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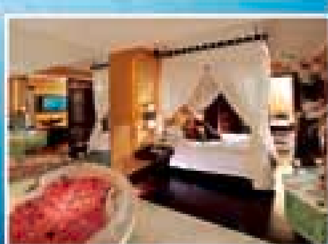
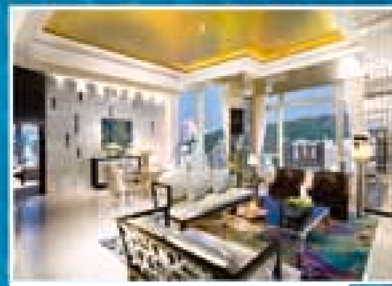
1,171	1
1999	1
83,400 sq. m.	5
71,988 sq. m.	2
24	1
960 sq. m.	1

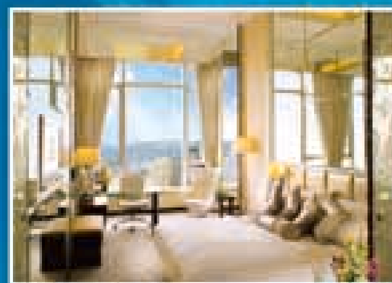

Grand Ballroom


Hotel Lobby

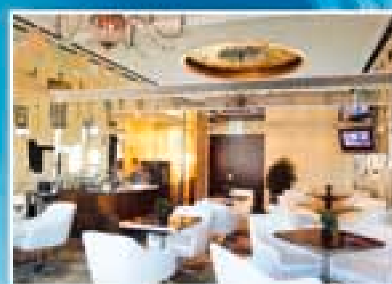

OM Spa - Spa Suite



■ Regal Royale Presidential Suite



■ Regal Royale Summit Guestroom



■ Regal Royale Club Lounge

REGAL HONGKONG HOTEL

- Located in the heart of Causeway Bay, the busiest shopping and commercial district in Hong Kong, and within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Sevens Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention and Exhibition Centre
- The Forum, meeting and conference centre, provides full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Regal Royale features a collection of 82 tastefully appointed guestrooms and suites, all with views over Hong Kong. With a private lounge on 31st floor and a series of luxurious privileges and amenities, Regal Royale adds up to an exclusive experience of “a hotel within a hotel”
- Top 10 Business Hotels in China of the 7th China Hotel Starlight Award (2012)
- Best Hotel for International Business Travelers in China of the 11th China Hotel Golden Horse Award (2011)
- Five Star Golden Diamond Award – Global Best Business Hotel by Global Hotel Forum (2008)
- Regal Palace Restaurant - One-star Honour in Michelin Guide on Hong Kong & Macau for three consecutive years (2009-2011)

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482	1
1993	1
C 31,900 sq. m.	3
G 25,083 sq. m.	1
14	1
239 sq. m.	

REGAL KOWLOON HOTEL

- Conveniently located in Tsimshatsui East, a commercial and tourist district
- Within walking distance from Tsim Sha Tsui ("TST"), TST East and Hung Hom MTR stations, with easy access to Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including the Avenue of Stars, Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art, Hong Kong Cultural Centre, Clock Tower and the Star Ferry, etc.
- Best Business Hotel of China of the 12th China Hotel Golden Horse Award (2012)
- Gold Circle Award by agoda.com (2011)
- Best Business Hotel Award in China Hotel Golden Dragon Award (2010)
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)

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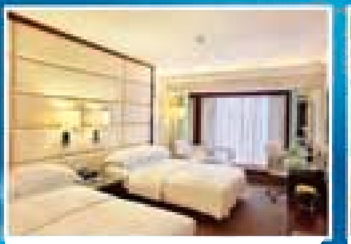
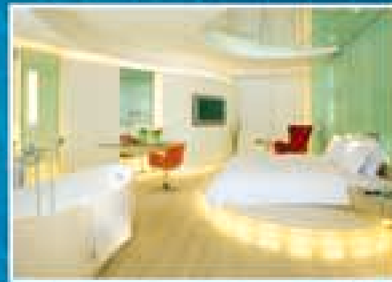
600	1
1982	1
43,500 sq. m.	3
31,746 sq. m.	12
353 sq. m.	1



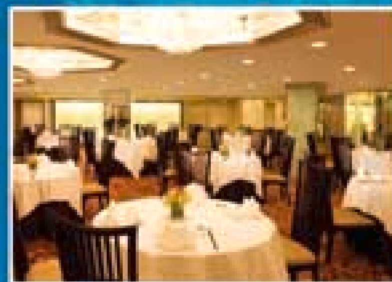
Regal Club Premium Room

Regal Club Lounge

V Bar & Lounge



Regal iClub Executive Suite



Regal Terrace

Conference Room

Regal Oriental Hotel

- Located in Kowloon City, facing the 328 hectares (810 acres) Kai Tak development site planned for a new urban centre to include a cruise terminal and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to Mong Kok, Kowloon Bay and Kwun Tong
- Façade upgraded to give the property a new and fresh look
- Regal iClub floor is tailored for busy travellers appreciating trendy ambience, décor and friendly service, yet seek true value for money. Privileges include private lounge, gymnasium and business centre in a compact and cosy environment
- Most Charming Hotel of China of the 12th China Hotel Golden Horse Award (2012)
- Best Business Hotel of China of the 11th China Hotel Golden Horse Award (2011)
- Top 10 City-Nova Hotels of China of the China Hotel Starlight Award (2008)

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439	2
1982	1
C 27,300 sq. m.	3
G 22,601 sq. m.	18
412 sq. m.	1

Regal Riverside Hotel

- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland border
- Close to the Hong Kong Science & Technology Parks, the Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- Regal iClub floor is the smart choice for business travellers. The trendy guestrooms are smart and hip with full amenities and modern facilities. In simple contemporary design, the Regal iClub Lounge provides exclusive business services and meeting room that brings a truly comfortable and convenient stay
- Hong Kong 2009 East Asian Games Headquarters Hotel and official hotel of 2008 Olympic Equestrian Events
- Best Business Traveler-Beloved Business Hotel in Guangdong Hongkong Macau of Golden Pearl Award by Let's Go Magazine for two consecutive years (2010-2011)
- Best Convention & Exhibition Hotel in China in the 9th China Hotel Forum & 2009 Annual Meeting of China Hotel Industry (2009)

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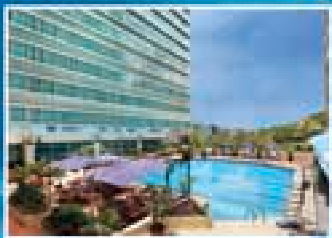
1,138	2
1986	1
69,000 sq. m.	8
59,668 sq. m.	1
13	1
474 sq. m.	1



Outdoor Swimming Pool

The Forum

Deluxe Room

Regal Royale Club Lounge

REGAL iCLUB HOTEL

- Regal iClub Hotel is a contemporary boutique business hotel opened in December 2009
- Conveniently and centrally located in the commercial district of Wan Chai
- Within walking distance from the Wan Chai MTR station and the Hong Kong Convention and Exhibition Centre
- 99 chic and trendy guestrooms and suites with interactive services and innovative facilities
- Cutting-edge style and comfort for tech-savvy business travellers
- The first carbon neutral hotel in Hong Kong, providing smoke-free environment to travellers
- Best Green Hotel of China of the 6th China Hotel Starlight Award (2010)
- Prime Awards for Eco Business by Metro Box Magazine (2011)
- Top 25 Trendiest Hotels in China of 2012 Travelers' Choice Award by TripAdvisor (2012)
- Best Boutique Hotel in China in the 10th China Hotel Forum & Annual Meeting of China Hotel Industry (2010)

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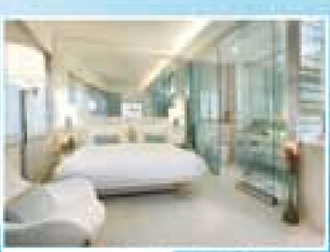
99

2009

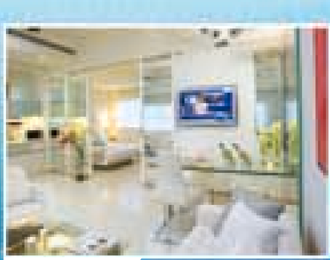
5,530 sq. m.

5,326 sq. m.

1



iBusiness



iSuite

Hotel Lobby

The Directors of the REIT Manager herein present their report together with the audited financial statements of Regal REIT and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2011.

VISION AND LONG-TERM OBJECTIVES OF REGAL REIT

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

Regal REIT's and the REIT Manager's vision is to build up the existing portfolio of hotel properties in Hong Kong and to be a pre-eminent owner of quality international hotels as well as to reinforce Regal REIT's status as a growing attractive option for investors.

ORGANISATION AND STRUCTURE OF REGAL REIT

Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by first supplemental deed dated 2nd March, 2007, second supplemental deed dated 15th May, 2008, third supplemental deed dated 8th May, 2009, fourth supplemental deed dated 23rd July, 2010, fifth supplemental deed dated 3rd May, 2011 and sixth supplemental deed dated 21st July, 2011) (collectively, the "Trust Deed") entered into between the REIT Manager and the Trustee. Regal REIT is a collective investment scheme established in the form of a unit trust under Hong Kong laws and its units (the "Units") have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30th March, 2007 (the "Listing Date").

Regal REIT is regulated by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), the Code on Real Estate Investment Trusts (the "REIT Code") and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As at 31st December, 2011, the portfolio of investment properties of Regal REIT comprised of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels") and Regal iClub Hotel.

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

The REIT Manager is licensed by the Securities and Futures Commission in Hong Kong (the "SFC") to undertake the regulated activity of asset management. The REIT Manager does not manage the Initial Hotels or Regal iClub Hotel directly.

The current leases of the Initial Hotels with a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL", together with its subsidiaries, the "RHIHL Group") will last until 31st December, 2015 under the relevant lease agreements (the "RHIHL Lease Agreements"). For the years 2011 to 2015, the rental package in respect of the Initial Hotels will be determined on a yearly basis by a jointly appointed independent professional property valuer (expenses to be split equally between Favour Link International Limited (the "RHIHL Lessee") and Regal REIT). The determinations will include the amount of market rents (inclusive of the amount of base rent (the "Base Rent") for each Initial Hotel, the variable rent (the "Variable Rent") sharing percentage and the RHIHL Lessee's contribution to the furniture, fixtures and equipment reserve (the "FF&E Reserve") calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2015, together with the amount of the security deposit required (collectively, the "Market Rental Package").

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the "Hotel Manager") under the long-term hotel management agreements to operate the Initial Hotels (the "RHIHL Hotel Management Agreements") for a term of 20 years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the operation of the hotel portion of Regal iClub Hotel for a term of 10 years from 1st January, 2011 to 31st December, 2020 (the "iClub Hotel Management Agreement"). Since 1st January, 2011 onwards, the operating results of the Regal iClub Hotel have been accounted for directly by Regal REIT.

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO. In this role, the Trustee holds the assets of Regal REIT in trust for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and all regulatory requirements.

REVENUE STRUCTURE

Initial Hotels - Rental Revenue Derived from Hotel Operations

A substantial portion of all the rental revenues, represented by Base Rent and Variable Rent, are derived from the hotel operations, that is, from the hotel business leased to the RHIHL Group and managed by the Hotel Manager. The financial performance of Regal REIT with regard to operating results and net asset value rely on the underlying performance of the hotel businesses managed by the RHIHL Lessee and the Hotel Manager.

Specifically, total hotel revenue consists of the following:

- Room revenue, which is primarily driven by hotel room occupancy rates and achieved average room rates;
- Food and beverage revenue ("F&B Revenue"), which is primarily driven by banquet business, local patrons' and hotel room guests' usage of bars and restaurants; and
- Other income, which consists of ancillary hotel revenue and other items, which is mainly driven by the hotel room occupancy rates which, in turn affect telephone, internet and business centre usage, spa and health centres, parking and dry cleaning/laundry services.

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

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

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

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

Initial Hotels - Rental Structure and Market Rental Package

Regal REIT received rental income, comprising of Base Rent and Variable Rent in respect of the Initial Hotels for the year 2011, from the RHIHL Lessee in accordance with the Market Rental Package for 2011.

Base Rent

Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the year, Regal REIT received an aggregate Base Rent of approximately HK$561.1 million, representing fixed cash Base Rent of HK$560.0 million and additional cash base rent (the "Additional Base Rent") of approximately HK$1.1 million.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels operations over the Base Rent payments. For the year, as the aggregate net property income ("NPI") from hotel operations of the Initial Hotels was approximately HK$792.1 million, Variable Rent of approximately HK$116.0 million was earned by Regal REIT based on a sharing of 50% of the excess of the aggregate NPI over the aggregate fixed Base Rent according to the Market Rental Package for 2011.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the RHIHL Lease Agreements to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels. To maintain this reserve, the relevant lessors contribute an amount equal to 2% of the total hotel revenue of the relevant Initial Hotels. For the year ended 31st December, 2011, approximately HK$53.5 million had been expended for the purposes intended.

Market Rental Package for 2012

Mr. David Faulkner, as an independent professional property valuer, was jointly appointed in June 2011 to conduct a rent review for the year 2012. According to the determination of the Market Rental Package for the year 2012, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK$645.0 million with Variable Rent calculated based on a sharing of 50% of the excess of the aggregate NPI of the Initial Hotels over the aggregate Base Rent from the operations thereof in 2012. According to the Market Rental Package determined for 2012, no FF&E Reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessors.

The RHIHL Lessee is required to deliver a third party guarantee as security deposit, for an amount of HK$322.5 million which is equivalent to six months' Base Rent for the year 2012, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for 2012 can be referred to in an announcement published on 9th September, 2011.

Regal iClub Hotel - Revenue Structure

Hotel Portion

The hotel portion of Regal iClub Hotel has been operated by the Hotel Manager under the iClub Hotel Management Agreement. Since 1st January, 2011 onwards, gross hotel revenue and the associated operating costs and expenses are accounted for directly by Regal REIT.

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.

Other Portions

Regal iClub Hotel - Other portions, comprising portion of the ground floor and other areas on the 27th to 29th floors of the premises, are let out to independent third parties which generated rental income of approximately HK$4.9 million for the year under review.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the iClub Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the hotel portion of the Regal iClub Hotel. For the year ended 31st December, 2011, approximately HK$0.1 million had been expended for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2011 are set out in the consolidated financial statements on pages 48 to 100.

Review of the Economic Environment in 2011

The first half of 2011 saw positive sign of global recovery, but towards the second half of 2011, the recovery was generally stalled. The economic outlook reversal was partially caused by the sovereign debt crisis in the US and on the European Continent which led to tightened liquidity, fragility in confidence and intensifying downside risks in most advanced economies.

Growth in the emerging and developing economies was gradually slowing down due to weakening internal demand and the worsening external environment. While most of the advanced economies avoid falling back into recession, the US Federal Reserve announced the adoption of operation twist[1] as a means to lower interest rates and to stimulate the economy; and European Central Bank decided to implement the longer-term refinancing operations[2] to increase liquidity in the Euro zone. Towards the end of 2011, US unemployment rate showed a sign of improvement and regional growth in the US and Europe gained momentum.

In contrast, Asia's economies were continuing their steady growth but inflation remains a concern. Developing Asia maintained a growth rate by 7.5% over the year of 2011[3] due to strong domestic demand and intra-regional trade to sustain business momentum. Meanwhile, China's growth in GDP reached 9.2% in 2011[4] and Hong Kong's GDP grew by 5.0%[5].

To take a leading role in the Renminbi's internationalisation process and China's reforms in the banking and finance sectors, Hong Kong features itself in China's 12th Five-year Plan (2011-2015) through its deepened positioning and development into its core role as an international asset management centre and offshore Renminbi business centre to complement Shanghai's positioning as a global Renminbi hub by 2015. This will certainly promote bilateral trade and travel, business co-operations, financing business activities, etc. in Hong Kong; and will have a positive impact on Regal REIT's portfolio which is primarily invested in Hong Kong's commercial hotel properties toward the demand for lodging and dining of international business and leisure travellers.

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1 Under the maturity extension program, the Federal Reserve intends to sell US$400 billion of shorter-term Treasury securities by the end of June 2012 and use the proceeds to buy longer-term Treasury securities. This will extend the average maturity of the securities in the Federal Reserve's portfolio.
Source: Current FAQs, http://federalreserve.gov, "What is the Federal Reserve's maturity extension program (referred to by some as "operation twist") and what is its purpose?", 15th November, 2011.

2 With private funding markets for Euro area banks under severe strain, the ECB took extraordinary steps to stabilize funding conditions. Measures included offering 3-year longer-term refinancing operations (LTROs) to mitigate the effects of funding stress on credit provision to the private sector. While market functioning remains far from normal, several of these measures – most notably the 3-year LTRO – have had positive effects on market sentiment and funding conditions.
Source: Publications, International Monetary Fund, "Global Financial Stability Report Market Update - January 2012 Market Update: Deeply into the Danger Zone", 24th January, 2012.

3 Source: Publications, Asian Development Bank, "Asian Development Outlook 2011 Update: Preparing for Demographic Transition", September 2011.

4 Source: Ma Jiantang, National Bureau of Statistics of China, "National Economy Maintained Steady and Fast Development in the Year of 2011", 17th January, 2012.

5 Source: Press Release, Census and Statistics Department, "Gross Domestic Product for the 4th quarter 2011 (Advanced preliminary figures)", 22nd February, 2012.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, 2011 versus 2010[6]

Visitors to Hong Kong by Geographical Regions	2011 (Percentage of total visitors)	2011 (No. of visitors)	2010 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	67.0%	28,100,129	22,684,388	5,415,741	23.9%
South & Southeast Asia	8.9%	3,751,149	3,500,882	250,267	7.1%
North Asia	5.5%	2,304,683	2,207,642	97,041	4.4%
Taiwan	5.1%	2,148,733	2,164,750	(16,017)	(0.7)%
Europe, Africa & the Middle East	5.2%	2,194,319	2,174,199	20,120	0.9%
The Americas	4.3%	1,821,096	1,749,558	71,538	4.1%
Australia, New Zealand & South Pacific	1.8%	757,871	768,524	(10,653)	(1.4)%
Macau SAR/Not Identified	2.0%	843,330	780,388	62,942	8.1%
Total	100% (rounded)	41,921,310	36,030,331	5,890,979	16.4%

During 2011, visitor arrivals to Hong Kong registered a historic high record of 41.9 million, representing a 16.4% increase over last year. Visitors from Mainland China represented the strongest growth segment and continues to drive the market demand for Hong Kong's retail, tourism and lodging businesses. In aggregate, the visitor arrivals from the China market surged by 23.9% reaching 28.1 million or 67.0% of the total number of visitors to Hong Kong during the year. This growth is a result of strong GDP growth in China, the strong Renminbi currency exchange rate relative to Hong Kong dollar; and the ever-growing affluence of Chinese consumers over the past years.

Arrivals from other Asian regions (including North Asia, South & Southeast Asia and Taiwan) were modest and accounted for 8.2 million visitors or a steady growth rate of about 4.2% year-on-year. Among them, the South Korean market recorded steady growth during the year, and the Japanese consumer sentiment for outbound travel recovered gradually from the tsunami which occurred during the first half of 2011.

For long haul markets, cumulative arrivals were higher year-on-year despite the slow recovery of the American economy and the dampened travel propensity of consumers due to the European debt crisis. An increase in arrivals was noted from the Americas with 1.8 million visitors registering a rise of 4.1% and representing 4.3% of the total number of visitors. Arrivals from Europe, Africa and the Middle East aggregated 2.2 million, rising by 0.9% and taking up about 5.2% of the total visitor arrivals. In short, visitors from these two long haul markets accounted for about 9.5% of the total number of visitors to Hong Kong in 2011.

6 Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2011", January 2012; the REIT Manager.

Review of Hotel Rooms Supply in Hong Kong in 2011 and Forecast for 2012

In 2011, Hong Kong's supply of hotel rooms reported an increase from 60,428 to 62,830, representing an increase of 2,402 rooms or approximately 4%. During the year, there were 15 new hotel properties opened in Hong Kong. The number of hotel properties in Hong Kong increased from 175 to 190, showing an increase of about 8.6% in terms of numbers. For 2012, there are 26 new hotels planning to open in Hong Kong with an additional 5,342 hotel guestrooms and suites. This will represent a projected increase in supply of 8.5% in total hotel room inventory or an aggregate of 68,172 hotel rooms available in Hong Kong by the end of 2012[7].

Industry Performance

Room Occupancy Rates, Average Room Rates and RevPAR (Revenue per available room)

Hong Kong Hotel Market Performance (2011 versus 2010)[8]

	Room Occupancy Rates		**Average Room Rates**		**RevPAR**	
	2011	2010	**2011**	2010	**2011**	2010
Category	**%**	%	**HK$**	HK$	**HK$**	HK$
High Tariff A	**85**	81	**2,229**	1,965	**1,895**	1,592
High Tariff B	**91**	88	**1,129**	946	**1,027**	832
Medium Tariff	**93**	90	**710**	585	**660**	527
All Hotels	**89**	87	**1,356**	1,165	**1,207**	1,014

For 2011, the overall Hong Kong Hotel occupancy rate attained an average of 89%, an increase of 2 percentage points year-on-year. The average room rate climbed to HK$1,356 per night and reported a gain of 16.4% as compared with last year. The industry-wide RevPAR accelerated to HK$1,207 per night, recording a growth of approximately 19.0% year-on-year.

7 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2011", February 2012; the REIT Manager.
8 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2011", January 2012; the REIT Manager.

Performance of the Initial Hotels

Total Hotel Revenue, Gross Operating Profit and Net Property Income For the Initial Hotels for FY2011 versus FY2010

	FY2011 HK$'million	FY2010 HK$'million	Variance HK$'million	Variance (%)
Operating Results				
Room revenue	1,194.2	927.9	266.3	28.7%
Food and beverage revenue	448.8	415.4	33.4	8.0%
Other income	45.5	44.7	0.8	1.8%
Total hotel revenue	1,688.5	1,388.0	300.5	21.6%
Operating expenses	(865.8)	(745.2)	(120.6)	16.2%
Gross operating profit	822.7	642.8	179.9	28.0%
Other expenses	(55.9)	(46.6)	(9.3)	20.0%
Net rental income	25.3	23.9	1.4	5.9%
Net property income	792.1	620.1	172.0	27.7%
Statistics				
Average room rate	HK$941.50	HK$773.72	HK$167.78	21.7%
Occupancy rate	90.7%	85.8%	4.9%	5.7%
RevPAR	HK$854.25	HK$663.74	HK$190.51	28.7%
Total available room nights	1,397,950	1,397,950	—	—
Occupied room nights	1,268,395	1,199,236	69,159	5.8%

During 2011, total hotel revenue of the Initial Hotels reached HK$1,688.5 million from HK$1,388.0 million in 2010 for an increase of 21.6% year-on-year. During the same period, gross operating profit grew from HK$642.8 million to HK$822.7 million or an uplift by 28.0% year-on-year. Likewise, net property income surged from HK$620.1 million to HK$792.1 million, and, thereby, contributing to a 27.7% year-on-year increase.

Performance Highlights of Regal REIT

On the whole, performance of the properties portfolio of Regal REIT delivered solid growth in 2011 compared with 2010. The management of the REIT Manager is optimistic that the tourism and hotel industry can sustain.

Initial Hotels

With the booming hotel and tourism market in 2011, and continued investment in the Initial Hotels' capital addition projects to enhance competitiveness of guestrooms, dining and conference venues, Initial Hotels' occupancy rate rose by 4.9 percentage points to 90.7% in 2011, as compared with the average occupancy rate of 85.8% in 2010.

The average room rate of the Initial Hotels surged from HK$773.72 to HK$941.50, up by 21.7% year-on-year. Also, RevPAR of the Initial Hotels recorded a high growth rate of 28.7% year-on-year to HK$854.25 in 2011, representing a jump of HK$190.51 per night in 2011 as compared to HK$663.74 in 2010.

In 2011, 41.9% of guests staying in the Initial Hotels were business travellers, while leisure travellers accounted for 46.7%. In contrast, business travellers accounted for 16.0% of the total number of visitors to Hong Kong in 2011, whereas leisure travellers represented 60.0%[9]. This reflects the fact that the Initial Hotels benefit from their prime commercial locations in core districts and successfully received a higher proportion of commercial clientele such as business travellers who conventionally provide better yield to hoteliers.

Regal iClub Hotel

Regal iClub Hotel commenced full operations with 99 hotel guestrooms and suites in December 2010, and it has received positive feedback from customers since then. During 2011, the average occupancy rate reached 96.0% and average room rate was over HK$1,250, delivering a RevPAR of approximately HK$1,200. Regal iClub Hotel attracts increasing number of business and leisure travellers from around the globe. Web-based reservations were popular for this hotel property. Internet bookings have been on the rise with evidence that the repeated customers to Regal iClub Hotel are technology-enabled, chic and trendy executives. Regal iClub Hotel – Other portions, comprising portion of the ground floor and other areas on the 27th to 29th floors of the premises, were let out with monthly rentals of approximately HK$0.4 million.

9 Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", February 2012.

Performance of Regal REIT

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the year ended 31st December, 2011 compared to the prior year is set out below.

	2011		2010	
	HK$'million	**%**	HK$'million	%
Base Rent				
Cash Base Rent	**560.0**	**76.1**	780.0	85.7
Cash Additional Base Rent	**1.1**	**0.1**	11.9	1.3
Difference in accounting Base Rent and actual contractual cash Base Rent	**—**	**—**	(60.7)	(6.6)
Variable Rent	**116.0**	**15.8**	118.4	13.0
Other rental-related income				
FF&E Reserve contribution	**—**	**—**	27.8	3.1
Other	**9.9**	**1.3**	8.6	0.9
Regal iClub Hotel				
Gross hotel revenue	**44.1**	**6.0**	—	—
Rental income	**4.9**	**0.7**	24.0	2.6
Gross rental and hotel revenue	**736.0**	**100.0**	910.0	100.0
Property operating expenses	**(12.1)**	**(1.6)**	(10.7)	(1.2)
Hotel operating expenses	**(16.9)**	**(2.3)**	—	—
Net rental and hotel income	**707.0**	**96.1**	899.3	98.8

During the year, net rental and hotel income represented approximately 96.1% of the gross rental and hotel revenue, after the deduction of property and hotel operating expenses. The property management of Regal REIT is handled by the hotel manager under the relevant hotel management agreements with respect to the Initial Hotels and Regal iClub Hotel - Hotel portion.

Distributable Income and Distribution Policy

Total Distributable Income (as defined in the Trust Deed) is "the amount calculated by the REIT Manager (based on the audited financial statements of the Trust for that Financial Year) as representing the consolidated audited net profit after tax of the Trust and the Special Purpose Vehicles (as defined in the offering circular dated 19th March, 2007 issued in connection with the listing of Units (the "Offering Circular")) for that Financial Year, as adjusted for the Adjustments". Adjustments are made to the distributable income to eliminate the effects of certain non-cash items and cash items which have been recorded in Regal REIT's consolidated income statement, including "fair value changes on investment properties", "fair value changes on derivative financial instruments", "difference in accounting Base Rent and actual contractual cash Base Rent", "amounts set aside for the FF&E Reserve", "amortisation of debt establishment costs", "REIT Manager fees paid/payable in the form of Units", "depreciation" and "deferred tax charge".

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 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.

Distributions for 2011

The Directors of the REIT Manager have resolved to declare a final distribution of HK$0.063 per Unit for the period from 1st July, 2011 to 31st December, 2011. The interim distribution for the period from 1st January, 2011 to 30th June, 2011 was HK$0.057 per Unit thereby making total distributions per Unit for 2011 of HK$0.120, representing an annualised yield of 6.70% based on the Unit closing price of HK$1.79 on the last trading day of 2011. The final distribution of HK$0.063 per Unit will be payable to Unitholders on the Register of Unitholders on 14th May, 2012.

Total Distributable Income for the year ended 31st December, 2011 was approximately HK$397.9 million. The total amount of distributions for the year, including the interim distribution of approximately HK$185.7 million and the final distribution of approximately HK$205.2 million, amount to approximately HK$390.9 million or approximately 98.2% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Thursday, 10th May, 2012 to Monday, 14th May, 2012, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Regal REIT's Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 9th May, 2012. The relevant distribution warrants are expected to be despatched on or about 23rd May, 2012.

Valuation of Investment Properties Portfolio

As at 31st December, 2011, Regal REIT's investment properties portfolio, comprised of the Initial Hotels, other portions of Regal iClub Hotel and the owner-occupied hotel portion of Regal iClub Hotel that was classified as property, plant and equipment, was valued at HK$17,769.0 million, as compared to the valuation of HK$14,880.0 million as at 31st December, 2010.

The valuation of the investment properties portfolio as at 31st December, 2011 was conducted by Colliers International (Hong Kong) Limited ("Colliers"), the principal valuer of Regal REIT appointed by the Trustee according to the provisions of the REIT Code.

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

Capital Additions Projects

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

In 2011, Regal REIT committed to various capital additions projects for the Initial Hotels with the goal of increasing its market competitiveness and to proactively rejuvenate the hotel asset life cycles in the highly demanding and sophisticated hotel operating environment. During the year under review, a total of 451 guestrooms and suites were renovated or renewed in the five Initial Hotels. There were also five restaurants or ballrooms renovated including the Regal Palace Restaurant at Regal Hongkong Hotel, the Grand Ballrooms and associated function rooms at Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel, and the conversion of the existing bar to an executive club lounge at Regal Kowloon Hotel.

Recently, government approvals have been obtained for the conversion of part of the second floor and the fourteenth floor at the Regal Oriental Hotel into 56 new additional rooms and interior fitting out plans are being finalised to convert these areas, which are now being used for food and beverage operations, into the more lucrative room business.

Financial Strategy

The REIT Manager has been adopting a prudent approach to ensure that the leverage ratios do not exceed the thresholds prescribed under the REIT Code and relevant financial facilities.

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

As at 31st December, 2011, Regal REIT had loan facilities aggregating HK$4,780.0 million comprised of a term loan of HK$4,500.0 million, secured by the Initial Hotels and loan facilities of HK$280.0 million secured by Regal iClub Hotel.

Financing for the Initial Hotels

The term loan facility of HK$4,500.0 million, secured by the Initial Hotels, bears interest at a floating rate of 60 basis points above the three-month HIBOR. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK$4,350.0 million in 2007. Under such arrangements, the interest rates effectively borne by Regal REIT with regard to the term loan were subject to a cap of 7.15% and a floor of 3.80% per annum up to 18th January, 2012. The HK$150.0 million balance of the HK$4,500.0 million term loan was not hedged.

At 31st December, 2011, the net aggregate fair value of the interest rate hedging arrangements was reported as a current liability of approximately HK$32.0 million in the consolidated statement of financial position.

At 31st December, 2011, the loan-to-value ratio for this term loan was 26.5%, being the ratio of the outstanding term loan balance of HK4,500.0 million as compared to the aggregate market value of the Initial Hotels of HK$17,010.0 million, based on the independent valuation as at 31st December, 2011. This loan-to-value ratio is below the 40% allowed under the facility agreement with the lenders.

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 a new facility of HK$4,500.0 million (the "New Term Loan Facility") for a term of three years, which will bear interest at 210 basis points above HIBOR per annum. The New Term Loan Facility will be wholly used for refinancing the existing term loan facility of the same amount 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.

Financing for Regal iClub Hotel

After completion of the acquisition of the remaining 25% interest in the Regal iClub Hotel on 31st December, 2010, the 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, 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 loan facilities. The iClub Existing Facilities bear HIBOR-based interest and no interest rate hedging has been arranged.

At 31st December, 2011, the loan-to-value ratio for the HK$280.0 million loan facilities was 36.3%, being the ratio of the aggregate amount of the loan outstanding of HK$275.5 million as compared to the market value of the Regal iClub Hotel of HK$759.0 million, based on the independent valuation as at 31st December, 2011. This loan-to-value ratio is below the 50% allowed under the loan agreement with the lender.

On 24th February, 2012, Regal REIT, through Sonnix Limited, entered into a 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 then term loan and revolving credit facilities in the amount of HK$280.0 million. The New iClub Facility also bears HIBOR-based interest and no interest rate hedging has been arranged.

Gearing and Cash

At 31st December, 2011, the gearing ratio of Regal REIT was 26.6% (2010: 31.1%), representing the gross amount of the outstanding loans of HK$4,775.5 million (2010: HK$4,705.0 million) as compared to the total gross assets of Regal REIT of approximately HK$17,922.3 million (2010: HK$15,107.3 million), which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK$23.8 million in unrestricted and HK$69.2 million in restricted cash balances and bank deposits at 31st December, 2011. At 31st December, 2011, Regal REIT's current liabilities exceeded its current assets by approximately HK$4,588.3 million, primarily as a result of the existing term loan facility of HK$4,500.0 million being repayable in full on 30th March, 2012 and, therefore, required to be classified as a current liability. It is expected that the full drawdown of the principal amount under the New Term Loan Facility will take place on or before 30th March, 2012 to repay the existing term loan facility in full. Accordingly, the Directors of the REIT Manager believe that Regal REIT will have sufficient resources to satisfy its working capital requirements.

At 31st December, 2011, Regal REIT's investment properties and property, plant and equipment, with an aggregate carrying value of HK$17,769.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

OUTLOOK FOR 2012

Although the global economy faced uncertainties during the second half of 2011, global output is still projected to expand by 3.25% in 2012[10], which is partly attributable to the contribution by developing economies, and an expected bounce back in economic activities in Japan and the US. It is noted that the US economy was on an upswing toward the end of 2011; and the bailout plans for Greece lessened the tension of the sovereign debt crisis in the Euro zone to a certain extent at the beginning of 2012 bodes well for the ensuing year. As such, long haul visitors to Hong Kong are expected to be sustained at similar levels to 2011.

In Hong Kong, the number of visitor arrivals for 2012 is forecasted to increase by 5.5% and to reach a level of 44 million during the year[11]. Demand for hotel rooms is expected to grow further over the next few years, with a number of tourism-related projects including the expansions of the scales of Ocean Park and Hong Kong Disneyland and a new cruise terminal at Kai Tak to be opened in 2013 to draw more tourist arrivals internationally. The Guangzhou-Shenzhen-Hong Kong Express Rail Link, which is scheduled for completion in 2015 will also gradually improve Hong Kong's connectivity to various provinces in Mainland China.

The Asian Development Bank considers that trade between regional nations and rising domestic consumption will be fuelled by fast-growing middle classes and these factors should shield the region from the worst of any global fall-out. Despite faltering exports, softening domestic demand and slowdowns in production, a moderate growth is expected in Asia in 2012. China, as the world's second largest economy, experienced a slow down of GDP growth to 9.2% in 2011 from the 10.4% in 2010[12]; China also indicates its GDP growth rate in 2012 will be 7.5% given its domestic issues[13]. This might slightly affect spending from the Mainland visitors.

In Hong Kong, the signing of Supplement VIII to the Mainland and Hong Kong Closer Economic Partnership Arrangement in 2011, provides preferential measures in areas of co-operation including finance, investment facilitation, tourism, etc. between Hong Kong and China. This includes but is not limited to the improvement of quality of bilateral tourism services, arrangement of joint overseas tourism promotion, support the expansion of co-operation of tourism enterprises and to support the development of Hong Kong's cruise toursim[14]. This is anticipated to further enhance the tourism co-operation between Hong Kong and Mainland China in long term.

Hong Kong government's initiative of Energizing East Kowloon as the second Central Business District, the linking of China's High Speed Train network, the Hong Kong-Zhuhai-Macau bridge, development of the Qianhai zone, construction of the third runway to uphold Hong Kong's competitive edge as a leading aviation hub and travel destination globally; in the long run, all should support Hong Kong's business and tourism growth. Hong Kong will continue to strengthen its role as a leading financial centre and as Mainland's offshore Renminbi centre.

Regal REIT, having invested in Hong Kong with six hotel properties, should benefit from the medium and long term developments in China's Renminbi internationalisation process, the 12th Five-year Plan and its inseparable connectivity with the economy of the Mainland through its wide array of infrastructure developments.

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10 Source: Publications, International Monetary Fund, "World Economic Outlook Update – Global Recovery Stalls, Downside Risks Intensify", 24th January, 2012.
11 Source: Commissioner for Tourism Philip Yung, Information Services Department, "Initiatives underway to bolster tourism", 29th February, 2012.
12 Source: Agence France-Presse in Hong Kong, SCMP, "Asia shines as year ends under euro zone cloud", 30th December, 2011.
13 Source: An, Xinhua News Agency, "China's 2012 GDP growth rate at 7.5%", 5th March, 2012.
14 Source: CEPA Legal Text, Trade and Industry Department, "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) – Supplement VIII to CEPA (signed on 13 December 2011)", 22nd December, 2011.

GROWTH STRATEGY

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

- Internal Growth Strategy: The core growth strategy for the hotel portfolio is to maximise value for Unitholders through pro-active asset management achieving higher total revenue, RevPAR and NPI performance.
- External Growth Strategy: The core strategy for growing the portfolio of hotels is to selectively acquire additional hotel properties that meet the REIT Manager's investment criteria.

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

- The expected yield enhances returns to Unitholders;
- Target Greater China with a focus on Hong Kong, Macao and Mainland China and on markets and locations in urban centres and popular resort areas with growth potential;
- Value-adding opportunities, e.g. properties that may be undermanaged or in need of capital investment and/or which may benefit from market re-positioning and the Regal brand and/or which may be extended or have other asset enhancement opportunities;
- Majority ownership of the asset acquired; and
- Targeting income and cashflow generating properties.

While Regal REIT will focus on hotels and hospitality-related properties in Greater China, its investment scope includes serviced apartments, offices and retail and entertainment complexes and the geographical scope goes beyond Greater China. Regal REIT's investment scope allows for flexibility in its growth through acquisition of, for example, mixed-use developments containing hotels, and other investment opportunities overseas.

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

The REIT Manager continues to actively monitor target markets for opportunities, while remaining committed to the set investment criteria.

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

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

There were no repurchases, sales or redemptions of Units during the year.

EMPLOYEES

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

MAJOR REAL ESTATE AGENTS

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

MAJOR CONTRACTORS

In 2011, the aggregate value of service contracts of the top three contractors engaged by Regal REIT and their respective value of services rendered and percentages were as follows:

Contractors	**Nature of Services**	**Value of Services HK$'000**	**Percentage**
Regal Hotels International Limited	Hotel management fees	2,313	8.0%
Regal Hotels International Holdings Limited	Marketing fee	441	1.5%
Paliburg Holdings Limited	Building management fee	387	1.3%
		3,141	10.8%

Save for the above three transactions, there were no other major contractors engaged by Regal REIT during the year.

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

Francis Chiu and Simon Lam Man Lim
Executive Directors

Hong Kong, 20th March, 2012

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 67, Chairman and Non-executive Director – Mr. Lo was appointed as the Chairman and Non-executive Director of the REIT Manager in 2006. He has over 41 years of experience in the real estate and hospitality sectors. He is the chairman and chief executive officer of Regal Hotels International Holdings Limited ("RHIHL") of which Regal REIT is a listed subsidiary. He has held the position as the chairman of RHIHL since 1989 when RHIHL was established in Bermuda as the holding company for the RHIHL Group and was designated as chief executive officer in January 2007. He has been the managing director and chairman of the predecessor listed company of the RHIHL Group since 1984 and 1987, respectively. He is also the chairman and chief executive officer of Century City International Holdings Limited ("CCIHL") and Paliburg Holdings Limited ("PHL"), of which RHIHL is a listed associate. He is a qualified architect.

Mr. Francis Chiu, aged 49, Executive Director and Responsible Officer – Mr. Chiu was appointed as an Executive Director and a Responsible Officer of the REIT Manager with effect from 1st March, 2010. He is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT. He is also responsible, jointly with Mr. Simon Lam Man Lim, for making the disclosures and communications of Regal REIT to investors. He has over 23 years of commercial experience in real estate, hospitality and related businesses. Prior to joining the REIT Manager, he held senior positions, including general manager, executive director and regional director with various hotels and companies in Hong Kong and China, focusing on corporate management, joint-venture operations, international marketing, commercial asset, hotel real estate development projects and special investment projects. Mr. Chiu commenced his career with a Hong Kong listed property developer New World Group in 1987 and its listed infrastructure and services conglomerate NWS in 2000, where he worked until 2010.

Mr. Chiu is a Member of the Royal Institution of Chartered Surveyors, a Fellow of The Chartered Institute of Housing, a Fellow of CPA Australia, a Fellow of The Chartered Institute of Management Accountants, a Chartered Global Management Accountant (AICPA-CIMA JV), a Fellow of The Hong Kong Institute of Directors, a Member of Hong Kong Institute of Real Estate Administrators, a Member of Urban Land Institute, a U.S. Certified Hotel Administrator and a Fellow of Institute of Hospitality. Mr. Chiu is currently committee members of RICS Hong Kong's Commercial Property Professional Group and Valuation Professional Group; and Committee Member of CIMA Hong Kong Branch. He is a graduate of the ESSEC Business School Paris, France and Cornell University, USA, with a joint Master's degree majored in International Hospitality Management and minored in Real Estate and Finance. He also studied Housing Management at The University of Hong Kong; Real Estate and Construction Project Management with Heriot-Watt University. Mr. Chiu holds a MBA and a BA in Business and Finance.

Mr. Simon Lam Man Lim, aged 55, Executive Director and Responsible Officer - Mr. Lam joined the REIT Manager as the Director of Finance and Investment and Investor Relations in September 2010. He was appointed as an Executive Director with effect from 1st April, 2011. Mr. Lam is responsible for, among other things, overseeing and managing the finance, accounting and investment activities of Regal REIT. He is also responsible, jointly with Mr. Francis Chiu, for making the disclosures and communications of Regal REIT to investors. Mr. Lam holds a Master of Business Administration degree and is a Fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of The Chartered Institute of Management Accountants. Mr. Lam has over 30 years of finance and commercial experience in various business sectors and industries. Prior to joining the REIT Manager, he was an executive director and chief financial officer of Binhai Investment Company Limited, a listed company on the GEM Board of The Stock Exchange of Hong Kong Limited. Prior to that, he held various management positions in different major Hong Kong listed companies and other multinationals, including The Link Management Limited (the REIT Manger of The Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

Mr. John William Crawford, JP, aged 69, Independent Non-executive Director – Mr. Crawford was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He was one of the founders of Ernst & Young, Hong Kong office and vice-chairman of the firm when he retired at the end of 1997. During his 25 years in public practice, he was also the chairman of the audit division of Ernst & Young and was active in a number of large private and public company takeover and/or restructuring exercises. He has continued to undertake consultancy/advisory work in a private capacity since retirement, is active in the education sector and is the chairman of International Quality Education Limited. He also remains active in various community service areas such as being a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed a Justice of the Peace in Hong Kong. He currently acts as an independent non-executive director on the board of two Hong Kong listed companies, namely e-Kong Group Limited and Titan Petrochemicals Group Limited, where he also chairs the audit committees. He is also an independent non-executive director of Entertainment Gaming Asia Inc. which is listed on the American Stock Exchange.

Mr. Donald Fan Tung, aged 55, Non-executive Director – Mr. Fan was appointed as a Non-executive Director of the REIT Manager in 2006. He is an executive director of CCIHL, PHL and RHIHL. He is also the chief operating officer of PHL. He is involved in the property development, architectural design and project management functions of PHL and in charge of all hotel project work in RHIHL. He is a qualified architect.

Mr. Alvin Leslie Lam Kwing Wai, aged 67, Independent Non-executive Director – Mr. Lam was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He is the chairman and managing director of Golden Resources Development International Limited, which is listed on the Hong Kong Stock Exchange. He holds a Master of Business Administration degree from the University of California, Berkeley, U.S.A.. He has extensive experience in financial management and investment planning.

Mr. Jimmy Lo Chun To, aged 38, Non-executive Director – Mr. Lo was appointed as a Non-executive Director of the REIT Manager in 2006. He is an executive director of CCIHL, PHL and RHIHL. He graduated from Cornell University, New York, U.S.A. with a Bachelor of Architecture degree. In addition to his involvement in the design of RHIHL Group property and hotel projects, he also undertakes responsibilities in the business development functions of CCIHL, PHL and RHIHL. He is the son of Mr. Lo Yuk Sui.

Mr. Kai Ole Ringenson, aged 62, Non-executive Director – Mr. Ringenson was redesignated as a Non-executive Director of the REIT Manager with effect from 1st March, 2010. He was the Chief Executive Officer and Executive Director of the REIT Manager from 2006 and a Responsible Officer of the REIT Manager from 2007 until he became a Non-executive Director on 1st March, 2010. He has extensive experience in international hotel management and asset management. He has managed hotels in Asia, Europe and the United States and has managed numerous hotel turn-around situations. He obtained a Bachelor of Science (Hotel) degree from Cornell University, New York, U.S.A.. He joined the RHIHL Group in 2001 and was an executive director of RHIHL and the chief operating officer of Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, from 2002 until he became a non-executive director of RHIHL in January 2004. He resigned as a non-executive director of RHIHL in 2006 to become the sole Executive Director and Chief Executive Officer of the REIT Manager in 2006.

Hon. Abraham Shek Lai Him, SBS, JP, aged 66, Independent Non-executive Director – Mr. Shek was appointed as an Independent Non-executive Director of the REIT Manager in 2006. He holds a Bachelor of Arts degree from the University of Sydney. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region and vice chairman of the Independent Police Complaints Council. He is also a member of the Court of The Hong Kong University of Science & Technology, a member of the Court of The University of Hong Kong, a director of The Hong Kong Mortgage Corporation Limited. He is the vice chairman, independent non-executive director and audit committee member of ITC Properties Group Limited and an independent non-executive director and a member of the audit committee of Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Kosmopolito Hotels International Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL (of which RHIHL is a listed associate), SJM Holdings Limited and Titan Petrochemicals Group Limited and the chairman and independent non-executive director of Chuang's China Investments Limited, all of which are companies listed on the Hong Kong Stock Exchange. He also currently acts as an independent non-executive director of China Resources Cement Holdings Limited, Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited and MTR Corporation Limited, which are listed on the Hong Kong Stock Exchange. He is an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust, the units of which are listed on the Hong Kong Stock Exchange.

EXECUTIVE OFFICER PROFILES

Mr. Yip Yat Wa, Responsible Officer and Senior Property and Technical Manager – Mr. Yip is responsible for, among other things, monitoring the actual completion of the asset enhancement programme from a technical point of view, receiving and interpreting technical reports and keeping the Executive Directors informed of the ongoing progress of the programme. He is also responsible for reviewing proposals from the Hotel Manager in relation to capital additions projects, expenditures for the replacement of furniture, fixtures and equipment and assisting the Executive Directors to assess the justification and feasibility of such expenditures. Furthermore, he inspects and reviews all potential and new acquisitions from a structural and technical point of view. Mr. Yip has over 26 years of engineering experience. He has been involved in several large projects during his 26 year working career, responsible for coordinating and monitoring building services installations and builder's work, maintenance, repairs and renovation work for hotels and commercial buildings.

Ms. Peony Choi Ka Ka, Compliance Manager and Company Secretary – Ms. Choi is responsible for, among other things, ensuring that the REIT Manager and Regal REIT complies with the Trust Deed, the REIT Code, the Listing Rules and other applicable laws, regulations and rules and corporate secretarial functions. She holds a Bachelor of Laws degree and a Master of Arts degree in Professional Accounting and Information Systems in Hong Kong. She is also an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is familiar with compliance matters under the rules and laws of Hong Kong that are applicable to private and listed companies.

Ms. Charlotte Cheung Wing Shan, Internal Auditor – Ms. Cheung is responsible for, among other things, reviewing the accuracy and completeness of records of the operations and transactions of Regal REIT and ensuring that the internal control systems function properly and effectively. She holds a Bachelor of Business Administration degree majoring in Professional Accountancy and is an associate member of the Hong Kong Institute of Certified Public Accountants. Before joining the REIT Manager, she worked in an international audit firm for 5 years where she provided audit services to local and multinational companies in a variety of industries and including listed companies. She is familiar with internal audit matters and internal control systems for companies in various business sectors.

Regal REIT is committed to maintaining the highest level of corporate governance practices and procedures. The REIT Manager has adopted a compliance manual for use in relation to the management and operation of Regal REIT (the "Compliance Manual") which sets out the key processes, systems, and policies and procedures to guide operations and, thereby, set a high standard of corporate governance to ensure relevant regulations and legislation are adhered to. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Regal REIT.

AUTHORISATION STRUCTURE

Regal REIT is a collective investment scheme authorised by the Securities and Futures Commission (the "SFC") under section 104 of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and regulated by the provisions of the Code on Real Estate Investment Trusts (the "REIT Code") and constituted by the trust deed (the "Trust Deed").

The REIT Manager is licensed by the SFC under the SFO to conduct the regulated activities related to asset management. During the year under review, Mr. Francis Chiu, Mr. Simon Lam Man Lim and Mr. Yip Yat Wa were duly appointed as the Responsible Officers of the REIT Manager.

The Trustee is registered as a trust company and is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

ROLES OF THE TRUSTEE AND THE REIT MANAGER

The Trustee is responsible under the Trust Deed for the safe custody of the assets of Regal REIT for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and regulatory requirements.

The REIT Manager was appointed under the Trust Deed to manage Regal REIT and, in particular, to ensure that the financial and economic aspects of Regal REIT's assets are professionally managed in the sole interests of the Unitholders.

The Trustee and the REIT Manager are functionally independent of each other.

BOARD OF DIRECTORS OF THE REIT MANAGER

Functions of the Board

The board of directors of the REIT Manager (the "Board") is responsible for overseeing the overall governance of the REIT Manager and the day-to-day management of the REIT Manager's affairs and the conduct of its business. The Board has established a framework for the management of Regal REIT, including systems of internal control and business risk management processes.

Board Composition

With the objective of creating a Board structure that is both effective and balanced, the size of the Board was set to provide for a minimum of five directors and a maximum of twenty directors. Pursuant to a specific REIT Manager corporate governance policy, independent non-executive directors must be individuals who fulfill the independence criteria as set out in the Compliance Manual.

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

- the Chairman of the Board must be a Non-executive Director of the REIT Manager;
- at least one-third of the Board should be Independent Non-executive Directors with a minimum of three Independent Non-executive Directors; and
- the Board must comprise Directors with a broad range of commercial experience including expertise in hotel investment and management, in fund and asset management and/or in the property industry.

The Board presently comprises two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors, as follows:

Chairman and Non-executive Director
Lo Yuk Sui

Executive Directors
Francis Chiu
Simon Lam Man Lim

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

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

At a meeting of the Board held on 23rd March, 2011, Mr. Simon Lam Man Lim was appointed as an Executive Director of the REIT Manager with effect from 1st April, 2011.

The names and biographical details of the Directors, together with any relationships among them, are disclosed in the preceding section "Director Profiles" contained in this Annual Report.

Appointment and Removal of Directors

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

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

Directors' Interests in Contracts

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

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

Conflicts of Interest

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

(i) The REIT Manager is a dedicated manager to Regal REIT and will not manage any other real estate investment trusts or be involved in any other real property businesses.

(ii) All of the Executive Officers will be employed by the REIT Manager on a full time basis and will not maintain any other roles apart from their roles within the REIT Manager.

(iii) All connected party transactions are to be managed in accordance with the provisions set out in the Compliance Manual.

(iv) Where any Director or executive officer has a material interest in any transaction relating to Regal REIT or the REIT Manager which gives rise to an actual or potential conflict of interest in relation to such transaction, he or she shall not advise on or deal in relation to such transaction unless he or she has disclosed such material interest or conflict to the Board and has taken all reasonable steps to ensure fair treatment of both the REIT Manager and Unitholders.

Independence of Independent Non-executive Directors

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

Board Meetings

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

Four full Board meetings of the REIT Manager were held during the year ended 31st December, 2011 and the attendance rates of the individual Board members were as follows:

Name of Directors	**Attendance/ No. of Meetings**
Chairman and Non-executive Director	
Lo Yuk Sui	4/4
Executive Directors	
Francis Chiu	4/4
Simon Lam Man Lim (appointed on 1st April, 2011)	3/3
Non-executive Directors	
Donald Fan Tung	4/4
Jimmy Lo Chun To	4/4
Kai Ole Ringenson	4/4
Independent Non-executive Directors	
John William Crawford, JP	4/4
Alvin Leslie Lam Kwing Wai	4/4
Abraham Shek Lai Him, SBS, JP	4/4

AUDIT COMMITTEE

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

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

Non-executive Director
Kai Ole Ringenson

The Audit Committee is responsible for, among other matters, (a) reviewing the completeness, accuracy, clarity and fairness of Regal REIT's financial statements; (b) considering the scope, approach and nature of both internal and external audit reviews; (c) the overall adequacy of risk management measures; (d) reviewing and monitoring connected party transactions; and (e) nominating external auditors including the approval of their remuneration, reviewing the adequacy of external audits and guiding management to take appropriate actions to remedy faults or deficiencies in any issues of internal control which may be identified.

In addition to informal or ad hoc meetings and discussions, three formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2011 and the attendance rates of the individual Audit Committee members were as follows:

Name of Audit Committee Members	**Attendance/ No. of Meetings**
John William Crawford, JP (Chairman of the Committee)	3/3
Alvin Leslie Lam Kwing Wai	3/3
Kai Ole Ringenson	3/3
Abraham Shek Lai Him, SBS, JP	3/3

DISCLOSURE COMMITTEE

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

The Disclosure Committee currently comprises the following Directors:

Independent Non-executive Director
John William Crawford, JP (Chairman of the Committee)

Executive Directors
Francis Chiu
Simon Lam Man Lim

Non-executive Directors
Donald Fan Tung
Kai Ole Ringenson

Two formal Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2011 and the attendance rates of the individual Disclosure Committee members were as follows:

Name of Disclosure Committee Members	**Attendance/ No. of Meetings**
John William Crawford, JP (Chairman of the Committee)	2/2
Francis Chiu	2/2
Simon Lam Man Lim (appointed on 1st April, 2011)	1/1
Donald Fan Tung	2/2
Kai Ole Ringenson	2/2

Mr. Simon Lam Man Lim was appointed as an additional member of the Disclosure Committee with effect from 1st April, 2011.

REPORTING AND TRANSPARENCY

Regal REIT prepares its financial statements in accordance with Hong Kong Financial Reporting Standards based on a financial year end of 31st December with a six months interim period ended each 30th June. In accordance with the REIT Code, the annual report and financial statements for Regal REIT are to be published and despatched to Unitholders no later than four months following each financial year end and the interim results no later than two months following each financial half year period end.

As required by the REIT Code, the REIT Manager ensures all public announcements of material information and developments with respect to Regal REIT are made on a timely basis in order to keep Unitholders appraised of the position of Regal REIT.

GENERAL MEETINGS

Regal REIT will hold a general meeting each year as its annual general meeting in addition to any other meetings deemed necessary during the year. The Trustee or the REIT Manager may (and the REIT Manager will at the request in writing of not less than two Unitholders registered as together holding not less than 10% of the Units for the time being in issue and outstanding) at any time convene a meeting of the Unitholders. Except as otherwise provided in the Trust Deed, at least 14 days' notice in writing of every meeting will be given to Unitholders where an ordinary resolution is proposed for consideration at such meeting, and at least 21 days' notice in writing will be given to Unitholders where a special resolution is proposed for consideration at such meeting, and such notices will specify the time and place of the meetings and the resolutions to be proposed. With effect from 1st January, 2009, certain amendments were made to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that all listed issuers should arrange for the notice to shareholders be sent, in the case of annual general meetings, at least 20 clear business days before the meeting and be sent at least 10 clear business days in the case of all other general meetings. In accordance with the Circular in respect of the Clarification on the application of various Listing Rules amendments to SFC - authorised REITs issued by the SFC on 16th March, 2009, Regal REIT has complied with such notice periods for general meeting requirements.

MATTERS TO BE DECIDED BY THE UNITHOLDERS BY SPECIAL RESOLUTION

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of special resolution. Such matters include:

(a) any change in the REIT Manager's investment policies/strategies for Regal REIT;

(b) disposal of any real estate investment of Regal REIT or shares in any special purpose vehicles holding such real estate investment within two years of acquisition;

(c) any increase in the rate of the REIT Manager fees above the permitted limit or any change in the structure of the REIT Manager fees;

(d) any increase in the rate of the Trustee fees above the permitted limit or any change in the structure of the Trustee fees;

(e) any increase in the rate of the acquisition fees above the permitted limit or any change in the structure of the acquisition fees;

(f) any increase in the rate of the divestment fees above the permitted limit or any change in the structure of the divestment fees;

(g) certain modifications of the Trust Deed;

(h) termination of Regal REIT;

(i) merger of Regal REIT;

(j) removal of Regal REIT's external auditor; and

(k) removal of the Trustee.

The quorum for passing a special resolution is two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units in issue and outstanding. A special resolution may only be passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting and the votes shall be taken by way of poll.

ISSUE OF FURTHER UNITS POST-LISTING

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

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

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

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

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

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

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

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

AND

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

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

(i) the Connected Person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder; or

(ii) Units are issued to a Connected Person under Clauses 14.1.1 and/or 14.1.2 of the Trust Deed in or towards the satisfaction of the REIT Manager fees; or

(iii) Units and/or Convertible Instruments are issued to a Connected Person within 14 days after such Connected Person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is/are not its associate(s) (other than any Excluded Associate (as defined in the Trust Deed)), provided always that (a) the new Units and/or Convertible Instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of the placing); and (b) the number of Units and/or Convertible Instruments issued to the Connected Person must not exceed the number of Units and/or Convertible Instruments placed by it; or

(iv) the Connected Person is acting as underwriter or sub-underwriter of an issue or offer of Units or other securities by or on behalf of Regal REIT or any Special Purpose Vehicle (as defined in the Trust Deed), provided that:

    (a) the issue or offer is made under and in accordance with Clause 5.1.6 of the Trust Deed; and

    (b) the issue or offer is in compliance with any applicable provisions of the Listing Rules where a Connected Person is acting as an underwriter or sub-underwriter of an offer of shares or other securities by a listed company, with necessary changes being made, as if the provisions therein are applicable to real estate investment trusts; or

(v) the excess application and the taking up of pro rata entitlements by the Connected Person in respect of a pro rata issue of Units and/or Convertible Instruments under Clause 5.1.6 of the Trust Deed or an open offer by Regal REIT on a pro rata basis; or

(vi) Units are issued to a Connected Person pursuant to a reinvestment of a distribution in accordance with Clause 11.10 of the Trust Deed.

During the year, Regal REIT allotted and issued 15,871,088 new Units to the REIT Manager in payment of REIT Manager fees in respect of 2010.

CODE GOVERNING DEALINGS IN UNITS BY DIRECTORS, THE REIT MANAGER OR SIGNIFICANT UNITHOLDERS

The REIT Manager has adopted the "Code Governing Dealings in Units by Directors or the REIT Manager" (the "Units Dealings Code") governing dealings in the securities of Regal REIT by the Directors and the REIT Manager as set out in the Compliance Manual, on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code").

Pursuant to the Units Dealings Code, any Directors or the REIT Manager who wish to deal in the securities of Regal REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Regal REIT. In addition, a Director or the REIT Manager must not make any disclosures of confidential information or make any use of such information for the advantage of himself/itself or others.

Directors or the REIT Manager who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are designated transactions or connected party transactions under the REIT Code or notifiable transactions or connected transactions under the Listing Rules or any price-sensitive information must refrain from dealing in the Units as soon as they become aware of or privy to such information until proper disclosure thereof in accordance with the REIT Code and any applicable Listing Rules. Directors and the REIT Manager who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors or the REIT Manager who are not so privy that there may be unpublished price-sensitive information and that they must not deal in Regal REIT's securities for a similar period.

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

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

The REIT Manager has also adopted procedures for the monitoring of disclosures of interests by Directors and the REIT Manager. The relevant provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager and the Directors of the REIT Manager and each Unitholder and all persons claiming through or thereunder.

Under the Trust Deed and by virtue of the deemed application of Part XV of the SFO, Unitholders with a holding of 5% or more of the Units will be required to notify the Stock Exchange, the REIT Manager and the Trustee of their holdings in Regal REIT. The REIT Manager shall keep a register for these purposes and it shall record in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection at all times by the Trustee and any Unitholder.

Following specific enquiries, the Directors and the REIT Manager have confirmed that they have complied with the required standards under the Model Code and the Units Dealings Code during the year ended 31st December, 2011.

PUBLIC FLOAT

As at 31st December, 2011, there were 3,257,431,189 Units in issue.

Based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders as at 31st December, 2011.

COMPLIANCE

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

REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the annual report of Regal REIT for the year ended 31st December, 2011, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 101 to 102.

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

(i) the REIT Manager and the other companies or entities held or controlled by Regal Hotels International Holdings Limited ("RHIHL") (collectively, the "RHIHL Connected Persons Group");

(ii) the companies and entities held or controlled by Paliburg Holdings Limited ("PHL") (collectively, the "PHL Connected Persons Group"); and

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

RHIHL CONNECTED PERSONS GROUP

(i) RHIHL Lease Agreements

Each of Bauhinia Hotels Limited, in relation to Regal Airport Hotel, Cityability Limited, in relation to Regal Hongkong Hotel, Gala Hotels Limited, in relation to Regal Oriental Hotel, Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel and Ricobem Limited, in relation to Regal Kowloon Hotel, the direct owners of the Initial Hotels, respectively, (collectively, the "Initial Hotel – Property Companies" and each referred to as the "Initial Hotel – Property Company") entered into the separate RHIHL Lease Agreements with Favour Link International Limited (the "RHIHL Lessee") in relation to the leasing of the Initial Hotels on 16th March, 2007. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The terms of the RHIHL Lease Agreements expire on 31st December, 2015.

Under the terms of each RHIHL Lease Agreement, the RHIHL Lessee makes lease payments to the Initial Hotel – Property Company and is entitled to operate and manage the Initial Hotel owned by the Initial Hotel – Property Company and, accordingly, all income received from the operation of the relevant Initial Hotel shall, during the terms of the RHIHL Lease Agreements, be retained by the RHIHL Lessee.

During the year, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK$687.0 million including cash Base Rent, cash Additional Base Rent, Variable Rent and other rental-related income.

(ii) Initial Hotels Management Agreements

Under the terms of each RHIHL Lease Agreement, the RHIHL Lessee has delegated the operation and management of the relevant Initial Hotel to Regal Hotels International Limited (the "Hotel Manager") by entering into the Initial Hotels Management Agreement among (1) the relevant Initial Hotel – Property Company, (2) the RHIHL Lessee, (3) the Hotel Manager, (4) Regal Asset Holdings Limited and (5) RHIHL, for a term of 20 years from 16th March, 2007.

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

Regal Asset Holdings Limited, the indirect holding company of each Initial Hotel – Property Company, is a party to the Initial Hotels Management Agreements. During the term of the RHIHL Lease Agreements, Regal Asset Holdings Limited shall maintain a cash reserve for furniture, fixtures and equipment for the respective Initial Hotels.

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

(iii) RHIHL Lease Guarantees

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

(iv) RHIHL Deed of Trade Mark Licence

Regal International Limited, a member of the RHIHL Connected Persons Group, entered into a deed of trade mark licence (the "RHIHL Deed of Trade Mark Licence") with the REIT Manager and the Regal REIT Group on 2nd March, 2007. Regal International Limited granted to the REIT Manager and each Initial Hotel – Property Company, inter alia, a non-exclusive and non-transferable licence to use its registered trade marks or service marks, in any jurisdiction where such marks are registered and free of any royalty, for the purpose of describing the ownership of each Initial Hotel and/or use in connection with the business of each Initial Hotel.

(v) iClub Hotel Management Agreement

On 23rd December, 2010, Regal REIT (via Sonnix Limited (the "Regal iClub Hotel – Property Company")) entered into the iClub Hotel Management Agreement with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of Regal iClub Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020, at a management fee comprised of a base fee which is equal to 2% of the gross hotel revenue derived from Regal iClub Hotel and an incentive fee which is equal to 5% of the excess of the gross operating profit of Regal iClub Hotel over the base fee and certain fixed charges for each fiscal year during the term of the iClub Hotel Management Agreement. Reference can be made to the announcement dated 23rd December, 2010 published by the REIT Manager in relation to this connected party transaction.

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK$75.5 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waiver from Strict Compliance

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

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

PHL CONNECTED PERSONS GROUP

PHL Sale and Purchase Agreement

On 10th September, 2009, Regal REIT, acting through the Trustee, entered into a sale and purchase agreement (the "PHL S&P Agreement") with Paliburg Development BVI Holdings Limited (the "PHL Vendor"), a member of the PHL Connected Persons Group, PHL and the REIT Manager, pursuant to which the Trustee conditionally agreed to acquire, inter alia, 75% of the total issued share capital of Twentyfold Investments Limited, which directly held the Regal iClub Hotel – Property Company that owns major portions of Regal iClub Hotel located at No.211 Johnston Road, Wanchai, Hong Kong, for a total consideration of approximately HK$198.0 million. The above acquisition was completed on 20th October, 2009.

Pursuant to the terms of the PHL S&P Agreement, the Trustee as the purchaser was granted a call option, which it could exercise at its sole and absolute discretion and at the direction of the REIT Manager, to acquire the remaining 25% of the total issued share capital of Twentyfold Investments Limited based on certain pre-agreed terms at any time during the period commencing from 1st November, 2010 and expiring on 28th February, 2011 (both dates inclusive). On 10th December, 2010, the Trustee exercised the call option by serving the call notice at an initial consideration of approximately HK$90.1 million to the PHL Vendor. The acquisition of the remaining 25% of the total issued share capital of Twentyfold Investments Limited pursuant to the exercise of the call option took place on 31st December, 2010. On 1st March, 2011, the Call Consideration Statement (as defined in the PHL S&P Agreement) was finalized, based on an audit of the consolidated accounts of Twentyfold Investments Limited. The final call consideration was agreed and determined to be HK$90.5 million. References can be made to the related announcements dated 10th December, 2010, 31st December, 2010 and 1st March, 2011 published by the REIT Manager for further details of this transaction.

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

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

Ordinary Banking Services

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

The Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. For services rendered in this capacity, Regal REIT paid the Trustee fees aggregating approximately HK$2.6 million pursuant to the Trust Deed for the year ended 31st December, 2011.

Waiver from Strict Compliance

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

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

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors of the REIT Manager have reviewed the terms of all relevant connected party transactions including those connected party transactions with the RHIHL Connected Persons Group, the PHL Connected Persons Group and the Trustee Connected Persons Group and were satisfied that those transactions were entered into:

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

(b) on normal commercial terms (to the extent that they are comparable transactions) or, where there are insufficient comparable transactions to assess whether they are on normal commercial terms, on terms no less favourable to Regal REIT than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreements and deeds and the REIT Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of Unitholders as a whole.

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of Regal REIT to disclose their interests in the Units. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to the REIT Manager, the directors or the chief executives of the REIT Manager, and to persons interested in the Units.

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 31st December, 2011, the following significant Unitholders (as defined in paragraph 8.1 of the REIT Code) (not being a director or chief executive of the REIT Manager) had an interest in the Units as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2011
Century City International Holdings Limited ("CCIHL")	2,433,549,739 (Note i)	74.71%
Century City BVI Holdings Limited ("CCBVI")	2,433,549,739 (Notes i & ii)	74.71%
Paliburg Holdings Limited ("PHL")	2,428,262,739 (Notes iii & iv)	74.55%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,428,262,739 (Notes iii & v)	74.55%
Regal Hotels International Holdings Limited ("RHIHL")	2,428,262,739 (Notes iii & vi)	74.55%
Regal International (BVI) Holdings Limited ("RBVI")	2,428,262,739 (Notes iii & vii)	74.55%
Complete Success Investments Limited	1,817,012,072 (Note viii)	55.78%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.45%

Notes:

(i) The interests in 2,433,549,739 Units held by each of CCIHL and CCBVI were the same parcel of Units which were directly held by wholly-owned subsidiaries of CCBVI and RBVI, respectively.

(ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.

(iii) The interests in 2,428,262,739 Units held by each of the Unitholders as named above were the same parcel of Units which were directly held by wholly-owned subsidiaries of RBVI.

(iv) PHL is a listed subsidiary of CCIHL, which held approximately 60.30% shareholding interest in PHL as at 31st December, 2011, and PHL's interests in Units are deemed to be the same interests held by CCIHL.

(v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.

(vi) RHIHL is a listed associate of PDBVI, which held approximately 49.28% shareholding interest in RHIHL as at 31st December, 2011, and its interests in Units are deemed to be the same interests held by PDBVI.

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

(viii) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.

Save as disclosed herein, there were no other persons who, as at 31st December, 2011, had interests in Units which are recorded in the register required to be kept under section 336 of the SFO.

HOLDINGS OF THE REIT MANAGER, DIRECTORS AND CHIEF EXECUTIVE OF THE REIT MANAGER

As at 31st December, 2011, the interests of the REIT Manager, directors and chief executives of the REIT Manager in Units, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the REIT Manager and the Stock Exchange pursuant to the Model Code in the Listing Rules, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 31st December, 2011
LO Yuk Sui	2,433,549,739 (Note i)	74.71%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

(i) The interests in 2,433,549,739 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 56.63% shareholding interest as at 31st December, 2011.

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

Save as disclosed herein, as at 31st December, 2011, none of the REIT Manager, the directors and chief executive of the REIT Manager had any interests in Units, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the REIT Manager and the Stock Exchange. Save as disclosed herein, the REIT Manager is not aware of any other connected persons (as defined under the REIT Code) of Regal REIT holding any Units.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2011

	Notes	2011 HK$'000	2010 HK$'000
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

	Notes	2011 HK$'000	2010 HK$'000
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		**128,079**	128,895
		106,686	59,719
Gain on revaluation of property	12	**182,916**	—
Income tax effect	21	**(30,181)**	—
		152,735	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**259,421**	59,719
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS		**3,256,684**	1,077,271
Represented by:			
Unitholders		**3,256,684**	1,056,812
Non-controlling interest		**—**	20,459
		3,256,684	1,077,271

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2011

	Notes	31st December, 2011 HK$'000	31st December, 2010 HK$'000
Non-current assets			
Property, plant and equipment	12	**615,000**	—
Investment properties	13	**17,154,000**	14,880,000
Total non-current assets		**17,769,000**	14,880,000
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	**23,797**	27,151
Total current assets		**153,306**	227,343
Total assets		**17,922,306**	15,107,343
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		**2,718**	15,758
Total current liabilities		**4,741,639**	187,669
Net current assets/(liabilities)		**(4,588,333)**	39,674
Total assets less current liabilities		**13,180,667**	14,919,674

	Notes	31st December, 2011 HK$'000	31st December, 2010 HK$'000
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 48 to 100 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 20th March, 2012 and were signed on its behalf by:

FRANCIS CHIU
Executive Director

LO YUK SUI
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December, 2011

	Attributable to Unitholders					
	Units HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
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	**8,432,356**	**15,876**	**(31,991)**	**152,735**	**4,082,873**	**12,651,849**

For the year ended 31st December, 2010

	Note	Attributable to Unitholders						
		Units HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
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		8,432,356	15,876	(138,677)	1,610,056	9,919,611	—	9,919,611

DISTRIBUTION STATEMENT

For the year ended 31st December, 2011

	Notes	2011 HK$'000	2010 HK$'000
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)	**397,886**	682,879
		HK$	HK$
Distributions per Unit:			
Interim	(a)	**0.057**	0.086
Final	(b), (c) & (d)	**0.063**	0.104
		0.120	0.190

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

	Notes	2011 HK$'000	2010 HK$'000
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**	—
		629,366	940,868
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		**(30,930)**	39,510
Cash generated from operations		**749,391**	859,519
Interest received		**77**	103
Interest paid		**(172,402)**	(169,798)
Hong Kong profits tax paid		**(42,191)**	(21,130)
Net cash flows from operating activities		**534,875**	668,694
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		**(9,233)**	(8,168)
Cash flows used in investing activities		**(95,061)**	(119,526)

	Notes	2011 HK$'000	2010 HK$'000
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		**12,124**	(11,776)
Net cash flows used in financing activities		**(443,168)**	(590,322)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3,354)**	(41,154)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**27,151**	68,305
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**23,797**	27,151
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	**23,797**	27,151

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)	*Related Party Disclosures*
Improvements to HKFRSs 2010	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	*Financial Instruments*[3]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[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-generatlng 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-generatlng 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 HK$'000	**Mixed Use Property HK$'000**	**Total HK$'000**
Segment revenue			
Gross rental revenue	**687,038**	**4,929**	**691,967**
Gross hotel revenue	**—**	**44,067**	**44,067**
Total	**687,038**	**48,996**	**736,034**
Segment results	**675,310**	**31,719**	**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			**3,070,523**

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

	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000
Segment revenue			
Gross rental revenue	885,974	24,000	909,974
Segment results	875,267	23,992	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			1,120,407

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 Properties HK$'000	**Mixed Use Property HK$'000**	**Total HK$'000**
Capital expenditures	**85,630**	**198**	**85,828**

	Year ended 31st December, 2010		
	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000
Capital expenditures	86,358	25,000	111,358

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:

	Notes	2011 HK$'000	2010 HK$'000
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		**9,922**	8,600
		691,967	909,974
Property operating expenses		**(12,150)**	(10,715)
Net rental income		**679,817**	899,259
Gross hotel revenue	(d)	**44,067**	—
Hotel operating expenses		**(16,855)**	—
Net hotel income		**27,212**	—
Net rental and hotel income		**707,029**	899,259

Notes:

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

	2011	2010
	HK$'000	HK$'000
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	**—**	(60,660)
	561,078	731,231
Variable Rent	**116,038**	118,384
	677,116	849,615

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 HK$'000	2010 HK$'000
Bank interest income	**77**	103
Sundry	**7,396**	35
	7,473	138

7. REIT MANAGER FEES

	2011 HK$'000	2010 HK$'000
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
	75,518	75,381
Total REIT Manager Fees:		
In the form of Units	**—**	70,340
In the form of cash	**75,518**	5,041
	75,518	75,381

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.

8. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2011 HK$'000	2010 HK$'000
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
	9,541	14,045

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 HK$'000	2010 HK$'000
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
	182,922	179,429

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 HK$'000	2010 HK$'000
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	**73,260**	102,855

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 HK$'000	2010 HK$'000
Profit before tax and distributions to Unitholders	**3,070,523**	1,120,407
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	**(250)**	(2,574)
Tax charge at the Group's effective rate	**73,260**	102,855

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 HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
31st December, 2011			
At 1st January, 2011:			
Transfer from investment properties, at valuation or deemed cost (note 13)	437,000	—	437,000
Accumulated depreciation	—	—	—
Net carrying amount	437,000	—	437,000
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	(5,049)	(14)	(5,063)
At 31st December, 2011, net of accumulated depreciation	614,867	133	615,000
At 31st December, 2011:			
Cost or valuation	614,867	147	615,014
Accumulated depreciation	—	(14)	(14)
Net carrying amount	614,867	133	615,000

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.

Further particulars of the Group's hotel property are included on page 155.

13. INVESTMENT PROPERTIES

	HK$'000
At 1st January, 2010	14,290,000
Fair value changes	478,642
Capital expenditures for the year	111,358
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	85,681
At 31st December, 2011	17,154,000

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).

Further particulars of the Group's investment properties are included on pages 154 to 155.

14. ACCOUNTS RECEIVABLE

	2011 HK$'000	2010 HK$'000
Variable Rent receivables	**52,221**	118,384
FF&E Reserve contribution receivables	**—**	2,975
Accounts receivable	**714**	—
	52,935	121,359

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 HK$'000	2010 HK$'000
Prepayments	**971**	152
Deposits	**1,648**	1,702
Other receivables	**74**	5,000
	2,693	6,854

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
	HK$'000	HK$'000
Amounts due to related companies	**87,513**	9,685
Other accounts payable	**93**	—
	87,606	9,685

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 HK$'000	2010 HK$'000
Interest-bearing bank borrowings	**4,775,500**	4,705,000
Debt establishment costs	**(3,180)**	(12,346)
	4,772,320	4,692,654
Portion classified as current liabilities	**(4,563,301)**	(75,413)
Non-current portion	**209,019**	4,617,241
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	**203,467**	—
	4,772,320	4,692,654

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
	HK$'000	HK$'000
Interest rate swaps - cash flow hedges	**31,991**	142,423
Portion classified as non-current	**—**	142,423
Current portion	**31,991**	—

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 HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
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)	—	(26,979)	(34,697)	(61,676)
Gross deferred tax assets/(liabilities) at 31st December, 2010	—	(268,975)	30,610	(238,365)
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)	**—**	**(28,945)**	**(19,819)**	**(48,764)**
Gross deferred tax assets/(liabilities) at 31st December, 2011	**(30,181)**	**(297,920)**	**10,791**	**(317,310)**

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	**15,871,088**	37,165,917
At end of the year	**3,257,431,189**	3,241,560,101

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 **HK$'000**	2010 HK$'000
Within one year	**657,595**	569,645
In the second to fifth years, inclusive	**33,370**	32,385
After five years	**31,812**	37,969
	722,777	639,999

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
	HK$'000	HK$'000
Within one year	**7,667**	6,157
In the second to fifth years, inclusive	**27,510**	24,629
After five years	**31,812**	37,969
	66,989	68,755

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
	HK$'000	HK$'000
Authorised and contracted for	**—**	3,008
Authorised, but not contracted for	**37,280**	30,284
	37,280	33,292

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
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)	**(846)**	(931)

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:

	Notes	2011 HK$'000	2010 HK$'000
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)	**40,271**	31,253

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
	HK$'000	HK$'000
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	**23,797**	27,151
	147,680	227,191

Financial liabilities

	2011		
	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	**—**	**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**
	31,991	**4,918,438**	**4,950,429**

	2010		
	Financial liabilities at fair value through profit or loss – designated as hedging instruments HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts payable	—	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
	142,423	4,791,186	4,933,609

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 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	—	31,991	—	31,991

As at 31st December, 2010:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	—	142,423	—	142,423

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 HK$'000	**Less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
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**
	87,513	**4,669,109**	**218,016**	**4,974,638**

* 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 HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
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
	9,685	334,592	4,674,489	5,018,766

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.

ERNST & YOUNG
安 永

To the Unitholders of Regal Real Estate Investment Trust
(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We have audited the consolidated financial statements of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 100, which comprise the consolidated statement of financial position as at 31st December, 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets, the consolidated statement of cash flows and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 11th December, 2006, as supplemented by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, 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 (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the Manager of Regal REIT determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

To the Unitholders of Regal Real Estate Investment Trust
(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31st December, 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

Ernst & Young
Certified Public Accountants

22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

20th March, 2012

As at 31st December, 2011

	Notes	**Year ended 31st December, 2011**	Year ended 31st December, 2010	Year ended 31st December, 2009	Year ended 31st December, 2008	Period from 11th December, 2006 (date of establishment) to 31st December, 2007
Net assets attributable to Unitholders (HK$'million)		**12,651.8**	9,919.6	9,329.0	9,121.6	12,486.8
Net asset value per Unit attributable to Unitholders (HK$)		**3.884**	3.060	2.911	2.903	4.008
The highest traded price during the year/period (HK$)	1	**2.66**	2.24	1.70	2.37	2.79
The lowest traded price during the year/period (HK$)		**1.43**	1.65	0.84	0.66	1.99
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		**63.18%**	46.08%	71.14%	77.26%	50.35%
Distribution yield per Unit	2	**6.70%**	8.52%	10.30%	17.28%	7.20%
Annualised distribution yield per Unit		**6.70%**	8.52%	10.30%	17.28%	9.48%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit attributable to Unitholders reported at the end of those periods. Accordingly, no premium on the traded price to net asset value per Unit attributable to Unitholders is presented.

2. Distribution yield per Unit for the year ended 31st December, 2011 is calculated by dividing the total distributions per Unit of HK$0.120 over the closing price of HK$1.79 as at 31st December, 2011, being the last trading day for the year. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 54.

TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

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

We hereby confirm that, in our opinion, the Manager of Regal Real Estate Investment Trust ("Regal REIT") has, in all material respects, managed Regal REIT in accordance with the provisions of the Trust Deed dated 11 December 2006 (as amended by first supplemental deed dated 2 March 2007, second supplemental deed dated 15 May 2008, third supplemental deed dated 8 May 2009, fourth supplemental deed dated 23 July 2010, fifth supplemental deed dated 3 May 2011 and sixth supplemental deed dated 21 July 2011), for the period from 1 January 2011 to 31 December 2011.

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

Hong Kong, 21 March 2012

22 FEBRUARY 2012

Colliers International (Hong Kong) Ltd
Company Licence No: C-006052
Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong
高力國際物業顧問(香港)有限公司
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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 31 December 2011 (the "date of valuation").

We hereby confirm that:

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

Basis of Valuation

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

Valuation Standards

The valuations have been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors; the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2010.

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.

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

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

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 December 2011 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	4,000,000,000
3	**Regal Kowloon Hotel** 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong	4,490,000,000
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	3,460,000,000
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	759,000,000
	Total:	**17,769,000,000**

Property 1

REGAL AIRPORT HOTEL

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

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

1. PROPERTY DESCRIPTION

Regal Airport Hotel ("RAH") is a 14-storey (including one basement floor) High Tariff A 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	**1,171**

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	**2,903**	**1,223**

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	**25**	**3,269**	**1,963**	**1,784**

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)
- Bauhinia Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850013.
- Mortgage and Assignment of Rights in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850060.
- 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)

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate	:	87%
Average Room Rate	:	HK$919

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).

[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.

Rental		From 2011 to 2015, the Market Rent[3] 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 Hotels[4] 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[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)

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.
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.

4. RETAIL TENANCIES/LICENCE SCHEDULES

Retail[7]

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$291,744 (All tenancies except one are exclusive of rates, management fees and air conditioning charges; the remaining tenancy is inclusive of management fees and air conditioning charges, but exclusive of rates)

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Monthly	794	8.5%	27,790	9.5%	1	12.5%
Year Ending 2011	4,662	50.1%	97,903	33.6%	1	12.5%
Year Ending 2012	2,860	30.8%	115,614	39.6%	4	50.0%
Year Ending 2013	429	4.6%	22,737	7.8%	1	12.5%
Year Ending 2014	554	6.0%	27,700	9.5%	1	12.5%
Total	**9,299**	**100% (rounded)**	**291,744**	**100% (rounded)**	**8**	**100% (rounded)**

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Monthly	794	8.5%	27,790	9.5%	1	12.5%
More than 1 year and up to 2 years	8,505	91.5%	263,954	90.5%	7	87.5%
Total	**9,299**	**100% (rounded)**	**291,744**	**100% (rounded)**	**8**	**100% (rounded)**

7 The areas quoted exclude spaces which are used by RAH. The areas, rental and the number of tenancy quoted included a tenancy for terms of 2 years commencing on 16 April 2012 and expiring on 15 April 2014 with a monthly rent of HK$27,700. The lettable area for such tenancy is 554 sq.ft. (51 sq.m.)

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 Landlord[8] is responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is responsible for the internal repairs of the Property.

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

Number of Licences	:	5
Monthly Licence Fee	:	HK$223,388 per month
Latest Expiry Date	:	14 February 2013

5. HOTEL MARKET COMMENTARY

In 2011, a total of 41.9 million[9] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[10], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[11] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[12] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[13]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[14] y-o-y.

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

9 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.

10 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.

11 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

12 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.

13 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.

14 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

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.
- 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 53.9 million[15] (increase 5.9% y-o-y) in 2011, 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 leisure visitors (36.8% in 2011), and business visitors (34.9% in 2011) 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.

The geographical customer market segmentation at RAH is made up of Mainland China visitors (38.8% in 2011) and Asian visitors (excluding Mainland China, at 36.7% in 2011). Visitors from the Americas, Europe and other regions represented 24.5% of the total demand in 2011.

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 YIELD[16]

5.9%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$3,300,000,000

15 Source: "Provisional Civil International Air Traffic Statistics at HKIA, Dec-2011" Hong Kong International Airport.

16 The Estimated Net Property Yield of RAH is derived from the rental receivable in 2011 divided by the Market Value.

Property 2

REGAL HONGKONG HOTEL

88 Yee Wo Street,
Causeway Bay, Hong Kong

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

1. PROPERTY DESCRIPTION

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

RHK also comprises ancillary hotel spaces on the portions of Ground Floor, 1st, 2nd and 3rd Floors and Unit Shop Nos. 301 to 304 on the 3rd Floor of 68 Yee Wo Street[17].

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.

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:	**482**

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

[17] 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. As at the date of valuation, the owner of RHK is paying a monthly rent of HK$97,980.

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	**1,507**	**870**

Meeting and Banquet Facilities

				Seating Capacity (approx.)		
Floor	**Name of Function Room**	**Type of Facilities**	**No. of Rooms**	**Area (sq.m.)**	**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.
- Cityability Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850058.
- 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.

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate	:	91%
Average Room Rate	:	HK$1,425

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 Rent[18] 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 Hotels[19] 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[20] (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[21] 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$221,200 per month
Latest Expiry Date	:	15 August 2011[22]

[18] 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.

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

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

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

[22] As advised by the Client, the licensor is negotiating the renewals of the licenses with respective licensees.

5. HOTEL MARKET COMMENTARY

In 2011, a total of 41.9 million[23] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[24], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[25] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[26] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[27]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[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.

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23 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
24 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
25 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.
26 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
27 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
28 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

- 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 2011, demand from business visitors represented 59.5% 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 2011, about 34.0% of the room demand of RHK came from leisure visitors.

The geographical customer market segmentation at RHK is made up of Mainland China visitors (45.9% in 2011) and Asian visitors (excluding Mainland China, at 36.0% in 2011). Visitors from the Americas, Europe and other regions represented 18.1% of the total demand in 2011.

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 rooms[29] in Causeway Bay. These new hotels are unlikely to apply significant pressure on RHK due to difference in target markets. Planned additions, namely the proposed hotel at 388 Jaffe Road with 92 rooms[30], the proposed Kong Ling Hotel with 121 rooms[31], the two proposed hotels at Tang Lung Street with a total of 107 rooms[32] and the proposed hotel at 13 Pennington Street of 80 rooms[33], 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.

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.

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 Dec 2011", 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 Dec 2011", 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 Dec 2011", 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 Dec 2011", 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 RHK would achieve modest growth in both occupancy and the average room rates.

6. ESTIMATED NET PROPERTY YIELD[34]

3.3%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$4,000,000,000

34 The Estimated Net Property Yield of RHK is derived from the rental receivable in 2011 divided by the Market Value.

Property 3

REGAL KOWLOON HOTEL

71 Mody Road,
Tsimshatsui, Kowloon, Hong Kong

Kowloon Inland Lot No. 10474

1. PROPERTY DESCRIPTION

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

Site Area	:	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[35]	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.

35 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)
- Ricobem Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850038.
- 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.

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate	:	93%
Average Room Rate	:	HK$1,186

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 Rent[36] 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. 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 Hotels[37] 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.

[36] 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.

[37] 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[38] (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[39] 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

Retail[40]

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$976,204 (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 According to the Hotel Management Agreement, "Gross Revenue" means all revenue derived from the Hotel.
39 According to the Hotel Management Agreement, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.
40 The areas quoted exclude spaces which are used by RKH.

Tenancy Expiry Profile

Year	Lettable Area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Monthly	2,664	7.7%	29,000	3.0%	5	17.9%
Year Ending 2012	22,788	66.1%	705,936	72.3%	17	60.7%
Year Ending 2013	9,038	26.2%	241,268	24.7%	6	21.4%
Total	**34,490**	**100% (rounded)**	**976,204**	**100% (rounded)**	**28**	**100% (rounded)**

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Monthly	2,664	7.7%	29,000	3.0%	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%	414,366	42.4%	17	60.7%
More than 2 year and up to 3 years	21,198	61.5%	472,838	48.4%	5	17.9%
Total	**34,490**	**100% (rounded)**	**976,204**	**100% (rounded)**	**28**	**100% (rounded)**

Latest Expiry Date : 9 October 2013

Range of Rent Free Period : 0 to 3 months

Option to Renew : One of the tenancies has an option to renew for one year at market rent.

Summary of Terms : The Landlord[41] 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$80,310 per month

Latest Expiry Date : 30 November 2013

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

5. HOTEL MARKET COMMENTARY

In 2011, a total of 41.9 million[42] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[43], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[44] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[45] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[46]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[47] 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.

42 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
43 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
44 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.
45 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
46 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
47 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

- 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 Mass Transit Railway ("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 54.4% of the total demand in 2011.

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 2011, about 39.7% 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 40.8% in 2011) and Mainland China visitors (28.6% in 2011). Visitors from the Americas, Europe and other regions represented 30.6% of the total demand in 2011.

The new hotel, namely Hotel ICON, opened in 2011 providing 262 rooms[48] 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.

Planned additions, namely the proposed hotel at 5, 7 and 7A Hillwood Road with 59 rooms[49], the proposed hotel at 6 Knutsford Terrace with 50 rooms[50], the three proposed hotel at Austin Avenue with a total of 511 rooms[51], the proposed hotel at 114-116 Austin Road with 155 rooms[52], and the proposed hotel at 2 Carnarvon Road with 62 rooms[53], are unlikely to apply significant pressure on RKH due to difference in target markets.

48 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

49 Planned date of completion for the proposed 59-room hotel at Hillwood Road will be mid-2013. Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

50 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 Dec 2011", Research, Hong Kong Tourism Board.

51 Planned dates of completion for the 396-room Magnificent International Hotel Kowloon will be mid-2012, and for the proposed 15-room hotel at 2 Austin Avenue and the 100-room Austin Hotel will be both end-2012. Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

52 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 Dec 2011", Research, Hong Kong Tourism Board.

53 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 Dec 2011", Research, Hong Kong Tourism Board.

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 YIELD[54]

3.2%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$4,490,000,000

54 The Estimated Net Property Yield of RKH is derived from the rental receivable in 2011 divided by the Market Value.

Property 4

REGAL ORIENTAL HOTEL

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

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

1. PROPERTY DESCRIPTION

Regal Oriental Hotel ("ROH") is a 17-storey (including two basement floors) High Tariff B Hotel completed in 1982. An Asset Enhancement Programme 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

				Seating Capacity (approx.)		
					No. of Seating in	
Floor	Name of Function Room	Type of Facilities	No. of Rooms	Area (sq.m.)	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)
- Gala Hotels Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No.07042400850026.
- 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.

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)
- Gala Hotels Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850026.
- 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.

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate	:	94%
Average Room Rate	:	HK$841

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 Rent[55] 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 Hotels[56] 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.

[55] 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.

[56] 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[57] (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[58] 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

Retail[59]

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.)
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$70,000
Latest Expiry Date	:	30 June 2013

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

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

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

5. HOTEL MARKET COMMENTARY

In 2011, a total of 41.9 million[60] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[61], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[62] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[63] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[64]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[65] 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.

60 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
61 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
62 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.
63 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
64 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
65 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

- 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 Link[66] 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.

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 49.3% of the demand for hotel rooms in 2011.

Tourist attractions such as the Chi Lin Nunnery, Wong Tai Sin Temple and the Hau Wong Temple are located nearby, along with nearby shopping, restaurant and entertainment facilities, as well as the major retail/leisure facility of Festival Walk at Kowloon Tong Mass Transit Railway Station. The demand for hotel rooms by leisure visitors represented 49.1% of the total in 2011.

The geographical customer market segmentation at ROH is made up of Asian visitors (excluding Mainland China, at 61.4% in 2011) and Mainland China visitors (23.3% in 2011). Visitors from the Americas, Europe and other regions represented 15.3% 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 YIELD[67]

3.7%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$1,760,000,000

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

67 The Estimated Net Property Yield of ROH is derived from the rental receivable in 2011 divided by the Market Value.

Property 5

REGAL RIVERSIDE HOTEL

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

Sha Tin Town Lot No. 160

1. PROPERTY DESCRIPTION

Regal Riverside Hotel ("RRH") is a 20-storey (including two basement floors) High Tariff B Hotel completed 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/25 dated 30 June 2011.

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	**1,138**

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[68]	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[69]	Italian Cuisine	154	98
G/F	Scene Bar[70]	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

				Seating Capacity (approx.)		
Floor	Name of Function Room	Type of Facilities	No. of Rooms	Area (sq.m.)	No. of Seating in Theatre/ Boardroom Style	No. of Seating in 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**

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.

68 Outside seating areas are provided on the G/F.
69 Outside seating areas are provided on the G/F.
70 Outside seating areas are provided on the G/F.

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, registered vide Memorial No. ST430228 dated 18 July 1986.
- 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)
- Regal Riverside Debenture in favour of ABN AMRO Bank N.V., Singapore Branch dated 30 March 2007, registered vide Memorial No. 07042400850040.
- Modification Letter dated 14 November 2007, registered vide Memorial No. 07111601000553.
- 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.

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate	:	93%
Average Room Rate	:	HK$673

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 Rent[71] 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 Hotels[72] 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[73] (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[74] 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/LICENSE SCHEDULES

Retail[75]

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)

71 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.

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

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

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

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

Tenancy Expiry Profile

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

Tenancy Duration Profile

Tenancy Duration	Lettable Area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Monthly	966	26.4%	10,000	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%
Total	**3,663**	**100% (rounded)**	**103,440**	**100% (rounded)**	**3**	**100% (rounded)**

Latest Expiry Date : 14 November 2012

Range of Rent Free Period : 0 to 1 month

Option to Renew : N/A

Summary of Terms : The Landlord[76] is responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is responsible for the internal repairs of the Property.

Licenses for Mobile Phone Base Stations/Antennae

Number of Licenses : 5

Monthly Licence Fee : HK$212,000 per month

Latest Expiry Date : 31 March 2013

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

5. HOTEL MARKET COMMENTARY

In 2011, a total of 41.9 million[77] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[78], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[79] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[80] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[81]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[82] 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.

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77 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
78 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
79 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.
80 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
81 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
82 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

- 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 Mass Transit Railway Station, which provides good accessibility to both Kowloon and Mainland China.

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

As mentioned earlier, future development of the Shatin to Central Link is expected to improve the accessibility of RRH to 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 (64.1% in 2011) and business visitors (31.8% in 2011).

The geographical customer market segmentation at RRH is made up of Mainland China visitors (60.7% in 2011), Asian visitors (excluding visitors from Mainland China) (31.8% in 2011). Visitors from the Americas, Europe and other regions represented 7.5% of the total demand in 2011.

There is only one planned addition to the supply of hotel rooms in the catchment area, which is the 548-room[83] Courtyard Marriott Hotel at the junction of On Lai Street and On Ping Street, scheduled to be completed in May 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 YIELD[84]

4.0%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$3,460,000,000

83 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

84 The Estimated Net Property Yield of RRH is derived from the rental receivable in 2011 divided by the Market Value.

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

			Seating Capacity (approx.)	
Floor	**Name of Outlet**	**Type of Facilities**	**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 31 January 2011, registered vide Memorial No. 11022502720205.

3. HOTEL OPERATION

Hotel Performance in 2011

Occupancy Rate : 96%

Average Room Rate : HK$1,251

Hotel Management Agreement ("HMA")

Hotel Manager : Regal Hotels International Limited

Term of HMA : From the Effective Date[85], 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[86]

Incentive Fee : Five percent (5%) of the excess of the Gross Operating Profit[87] 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).

Tenancy Expiry Profile

Year	Gross area (sq.ft.)	% of Total	Monthly Rental (HK$)	% of Total	No. of Tenancy	% of Total
Year Ending 2014	1,800	100%	138,000	100%	1	100%
Total	**1,800**	**100%**	**138,000**	**100%**	**1**	**100%**

85 According to the Hotel Management Agreement, "Effective Date" means 1 January 2011.
86 According to the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel.
87 According to the Hotel Management Agreement, "Gross Operating Profit" means Total Hotel Revenue less Hotel Operating Expenses during the same period.

Tenancy Duration Profile

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

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[88] 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$290,640[89] (all tenancies are inclusive of air conditioning charges and management fee, but exclusive of rates).

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%	290,640	100%	3	100%
Total	**8,304**	**100%**	**290,640**	**100%**	**3**	**100%**

88 The tenancy is entered by Sonnix Limited as Landlord.

89 The total monthly base rent will become HK$298,944 (inclusive of air conditioning charges and management fee, but exclusive of rates) from 1 March 2012 to 28 February 2014.

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%	290,640	100%	3	100%
Total	**8,304**	**100%**	**290,640**	**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[90] 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 2011, a total of 41.9 million[91] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 16.4%. Mainland visitors continue to be the largest source of visitors, contributing to about 67% of the total number of visitors, and amounted to 28.1 million[92], representing growth of 23.9% y-o-y. Cumulative increases were also recorded in most sub-markets, such as the Americas (4.1% y-o-y); Europe, Africa and the Middle East (0.9% y-o-y); North Asia (4.4% y-o-y); and South and South-east Asia (7.1% y-o-y).

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the mild increase in available room supply of about 4.0%[93] in 2011, the average occupancy of all hotels in Hong Kong rose by 2 percentage points[94] y-o-y in 2011. On the other hand, average achieved hotel room rate for all hotels rose by 16.4% y-o-y during the same period[95]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 19.1%[96] y-o-y.

90 All tenancies are entered by Sonnix Limited and/or Real Charm Investment Limited as Landlord.
91 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
92 Source: "Visitor Arrivals Statistics – Dec 2011", Research, Hong Kong Tourism Board.
93 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.
94 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
95 Source: "Hotel Room Occupancy Report – Dec 2011", Research, Hong Kong Tourism Board.
96 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2011" and "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board and Colliers International.

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.
- 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 Mass Transit Railway ("MTR"), taxis, buses and trams, as well as roads. The Wan Chai MTR Station is just a few minutes' walk from Regal iClub Hotel.

With it 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 (93.2% in 2011).

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 2011, demand from leisure visitors represented 6.8% of the total.

The geographical customer market segmentation at Regal iClub Hotel is made up of Asian visitors (excluding Mainland China, at 41.6% in 2011) and Mainland China visitors (22.1% in 2011). Visitors from the Americas, Europe and other regions represented 36.3% of the total demand.

Planned additions of approximately 418 rooms include the proposed 79-room[97] hotel at 135-139 Thomson Road, scheduled to be completed in April 2012, the 69-room[98] Brighton Hotel and the 150-room[99] Hotel Indigo, both scheduled to be completed in end 2012, and the proposed 120-room[100] 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.

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 YIELD[101]

4.2%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2011

HK$759,000,000

97 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

98 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

99 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

100 Source: "Hotel Supply Situation – as at Dec 2011", Research, Hong Kong Tourism Board.

101 The Estimated Net Property Yield of Regal iClub Hotel is derived from the net income receivable in 2011 divided by the Market Value.

As at 31st December, 2011

	Description	Use	Lease	Gross Floor Area *(sq.m.)*	Approx Covered Floor Area *(sq.m.)*	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,083	31,900	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(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 Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100

	Description	Use	Lease	Gross Floor Area *(sq.m.)*	Approx Covered Floor Area *(sq.m.)*	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,000	100
(6)	Regal iClub Building Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wanchai Hong Kong	Hotel/ office/ commercial	Long term	5,326	5,530	100

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

Summary of the results and distributions

	Year ended 31st December, 2011 HK$'000	Year ended 31st December, 2010 HK$'000	Year ended 31st December, 2009 HK$'000	Year ended 31st December, 2008 HK$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK$'000 (Note 1)
Gross rental and hotel revenue	**736,034**	909,974	763,408	761,963	672,787
Net rental and hotel income	**707,029**	899,259	754,004	750,039	665,682
Profit/(loss) before tax and distributions to Unitholders	**3,070,523**	1,120,407	787,990	(2,684,941)	4,486,781
Profit/(loss) for the year/period, before distributions to Unitholders	**2,997,263**	997,093	682,282	(2,757,046)	4,421,905
Distributable income for the year/period attributable to Unitholders	**397,886**	682,879	558,166	501,930	421,486
Total distributions per Unit	**HK$0.120**	HK$0.190	HK$0.170	HK$0.16761	HK$0.15327

Summary of the assets and liabilities

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Non-current assets:					
Property, plant and equipment	**615,000**	—	—	—	—
Investment properties	**17,154,000**	14,880,000	14,290,000	13,036,743	16,080,000
Prepaid construction costs	**—**	—	—	430,000	430,000
Other non-current assets	**—**	—	1,913	20,661	33,266
Current assets	**153,306**	227,343	203,480	332,940	401,914
Total assets	**17,922,306**	15,107,343	14,495,393	13,820,344	16,945,180
Current liabilities	**4,741,639**	187,669	73,875	64,257	62,314
Non-current liabilities	**528,818**	5,000,063	5,070,969	4,634,478	4,396,083
Total liabilities	**5,270,457**	5,187,732	5,144,844	4,698,735	4,458,397
Non-controlling interest	**—**	—	21,508	—	—
Net assets attributable to Unitholders	**12,651,849**	9,919,611	9,329,041	9,121,609	12,486,783
Net asset value per Unit attributable to Unitholders	**HK$3.884**	HK$3.060	HK$2.911	HK$2.903	HK$4.008

Note:

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

www.RegalREIT.com