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)

2010 ANNUAL REPORT

Asset Advantage in Financial Hub

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 (appointed on 23rd March, 2011 and with effect from 1st April, 2011)

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

Bank of China Limited, Macau Branch
The Bank of East Asia, Limited
Cathay United Bank, Hong Kong Branch
China Construction Bank Corporation, Hong Kong Branch
CITIC Bank International Limited
Credit Agricole CIB, Hong Kong Branch
Dah Sing Bank, Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
The Royal Bank of Scotland N.V.
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Tai Fung Bank Limited
Wing Hang Bank Limited

LEGAL ADVISERS

Baker & McKenzie

UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong.

REGISTERED OFFICE OF THE REIT MANAGER

Unit No. 1504, 15th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.
Tel: 2805-6336
Fax: 2577-8686
Website: www.RegalREIT.com

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 2010 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2010, Regal REIT achieved a consolidated net profit before distributions to Unitholders of HK$997.1 million, an increase of 46.1% over the comparative amount of HK$682.3 million (as restated) for the year 2009. The profit achieved for the year under review included a gain of HK$478.6 million arising from the changes in the fair values of Regal REIT's portfolio of investment properties, while for the preceding year, a gain of HK$272.0 million was recorded in respect of such fair value changes.

Total distributable income for the year under review amounted to approximately HK$682.9 million, as compared to HK$558.2 million last year. The Directors of the REIT Manager have declared a final distribution of HK$0.104 per Unit for the year ended 31st December, 2010, which will bring the total distributions per Unit for 2010 to HK$0.190 and, thereby, exceeding the HK$0.170 per Unit distributed for 2009 by 11.8%. Total distributions for the year, including both the interim and final distributions, will amount to HK$616.9 million and represent a payout ratio of approximately 90.3% of the total distributable income for 2010. The net asset value per Unit attributable to Unitholders amounted to HK$3.060 as at 31st December, 2010, as compared to HK$2.911 (as restated) per Unit as at 31st December, 2009.

The global economy generally continued to recover in 2010. The crisis over sovereign debt in Europe has slowed down the economic growth in the European Union countries. The quantitative easing measures rolled out in the United States and other major economies, which were intended to stimulate business activities domestically, have led to a substantial influx of funds into the emerging markets and induced mounting pressures on inflation in those regions. In China, the growth in gross domestic product for 2010 was approximately 10.3% and the Chinese Government has adopted a number of credit control policies and austerity measures to combat rising asset prices and to ease inflationary pressure. Backed by the booming economy in the Mainland China, Hong Kong has also sustained healthy economic growth and a steep rebound in the property prices was most notable.

During the year, tourist arrivals to Hong Kong hit a historical high of over 36 million, with China's visitors accounting for about 63% of the total count. China has continued to extend its liberalization policies to relax restrictions on overseas travel for Mainland residents. Since 2003 when the Individual Visit Scheme was first introduced, the number of Mainland visitors to Hong Kong under the Scheme has grown by an average of about 20% per annum. Meanwhile, the number of visitors from the United States and other long haul markets has generally improved, although to a lesser extent as compared to the increase in Mainland visitors.

Benefiting from a relatively favourable operating environment and the extensive upgrading works invested over the recent years to enhance the quality and standards of the hotel properties, the five Initial Hotels achieved an average occupancy rate of 85.8% during the year, representing an increase of 15.5% year-on-year, with RevPAR (Revenue per Available Room) also having increased by 17.3%. The Regal iClub Hotel in Wan Chai has proven to be a success and has attained very satisfactory results.

For the years 2011 to 2015, the rental package for the 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 2011 has been completed in September 2010 and the aggregate base rent determined to be HK$560.0 million, with variable rent calculated based on a sharing of 50% of the excess of the aggregate net property income of the five Initial Hotels over the aggregate base rent. Based on present forecasts and barring any unforeseen circumstances, the net property income of the five Initial Hotels in 2011 should well exceed the base rent level.

The second stage conversion project at the Regal iClub Building has been completed in December 2010 and added another 49 fully furnished hotel guestrooms and suites. All the 99 guestrooms and suites in the Regal iClub Hotel are now in full operation. Regal REIT has also completed the transaction to acquire the remaining 25% beneficial interest in this property on 31st December, 2010, which is now 100% owned by Regal REIT.

The hotel property portfolio of Regal REIT now commands an aggregate of 3,929 quality guestrooms and suites, which accounts for over 11% of the total High Tariff A and High Tariff B hotel room inventory in Hong Kong. The total valuation of the portfolio amounted to HK$14,880.0 million as at 31st December, 2010, representing an increase of about 4.1% as compared with that of the preceding year end.

The total number of visitors to Hong Kong is expected to further increase to 40 million in 2011. The continuing integration of Hong Kong with China's economy, which will be heightened through the construction of large scale infrastructure projects and transport networks connecting with the Pearl River Delta region, will increase Hong Kong's competitive edge as an international gateway city. China's 12th Five-year Plan has further endorsed and strengthened the positioning of Hong Kong as an international financial center, an international asset management center and a Renminbi offshore center. In the meantime, Hong Kong is embarking on a number of new tourism projects, such as the Ocean Park redevelopment and the Hong Kong Disneyland expansion, which will all help to ensure that it remains a favoured tourist destination. All these positive factors are expected to boost tourist and business travel to Hong Kong in future years.

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.

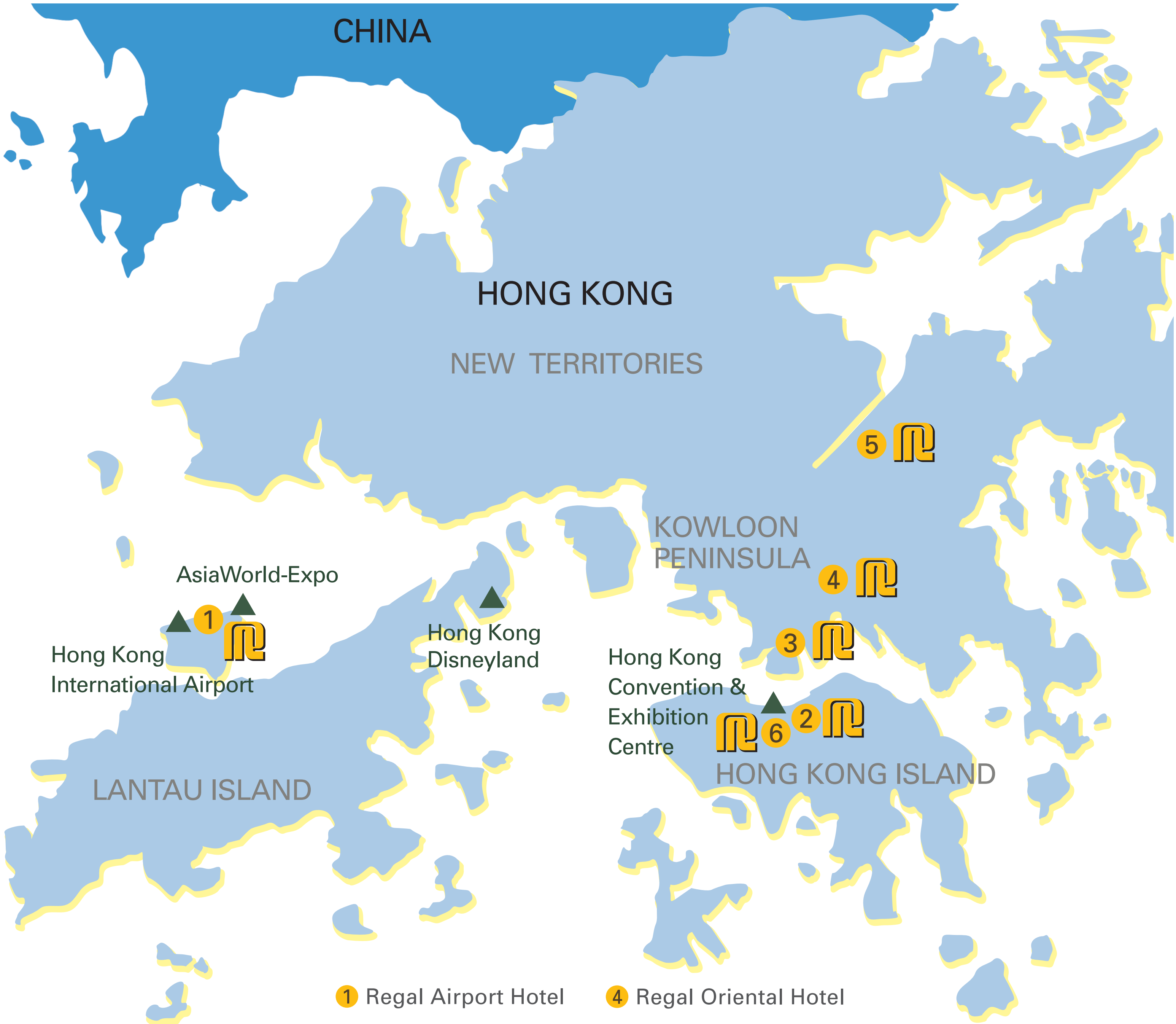
Finally, I would like to express my gratitude to my fellow Directors as well as all the management and staff members for their continual support and contribution during the past year. I would also like to take this opportunity to extend on behalf of the Board our warm welcome to Mr. Simon Lam, presently the Director of Finance and Investment and Investor Relations and a Responsible Officer, who will come on Board as an Executive Director on 1st April, 2011.

Lo Yuk Sui
Chairman

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

Hong Kong, 23rd March, 2011

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

9 Cheong Tat Road,
Hong Kong International Airport,
Chek Lap Kok, Hong Kong.
Tel: (852) 2286 8888
Fax: (852) 2286 8686
Email: rah.info@regalhotel.com
Website: www.regalhotel.com

1,171

1999

83,400 sq. m.

71,988 sq. m.

5

1

960 sq. m.

24

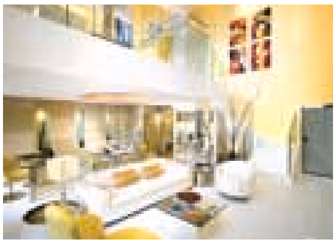
1

2

1

1

- 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
- The Best Airport Hotel in the World by Business Traveller UK Magazine for three consecutive years (2008-2010)
- The Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for ten consecutive years (2001-2010)
- The Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for six consecutive years (2005-2010)
- The 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)
- The Top 10 Convention & Exhibition Hotels of China of the China Hotel Starlight Award for two consecutive years (2007-2008)
- The Best Airport Hotel in Asia by TravelWeekly (Asia) Magazine (2007)
- The Best Conference Hotel in Hong Kong by Capital CEO Magazine (2007)
- The Best International Airport Hotel of China of the 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)


Spa Duplex Suite


Executive Conference Centre


Dragon Inn

88 Yee Wo Street,
Causeway Bay, Hong Kong.
Tel: (852) 2890 6633
Fax: (852) 2881 0777
Email: rhk.info@regalhotel.com
Website: www.regalhotel.com

482

1993

31,900 sq. m.

25,083 sq. m.

3

1

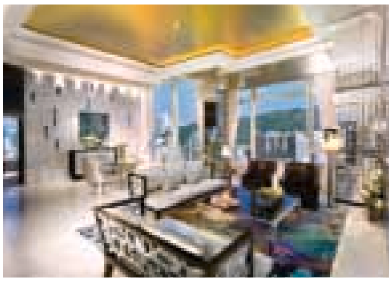
238 sq. m.

14

1

1

1



Presidential Suite

The Forum

Café Rivoli

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”
- The Best Hotel for International Business Travelers in China of the 11th China Hotel Golden Horse Award (2010-2011)
- 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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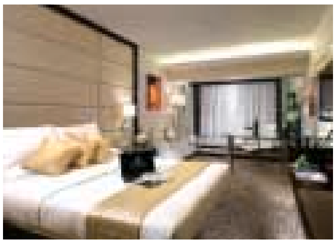
Kowloon, Hong Kong.
Tel: (852) 2722 1818
Fax: (852) 2369 6950
Email: rkh.info@regalhotel.com
Website: www.regalhotel.com

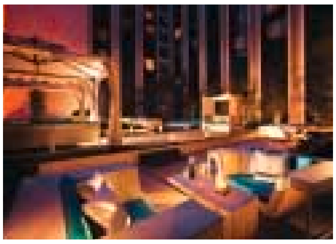
REGAL KOWLOON HOTEL

- 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.
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)
- Best Business Hotel Award in China Hotel Golden Dragon Award (2010)

600
1982
43,500 sq. m.
31,746 sq. m.
4
2
349 sq. m.
12
1
1


Regal Club Deluxe Room


Versailles Ballroom


La Terrasse

30-38 Sa Po Road, Kowloon City,
Kowloon, Hong Kong.
Tel: (852) 2718 0333
Fax: (852) 2718 4111
Email: roh.info@regalhotel.com
Website: www.regalhotel.com

	439
	1982
C	27,300 sq. m.
G	23,623 sq. m.
	3
	2
	345 sq. m.
	18
	1
	1

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
- The Best Business Hotel in China of the 11th China Hotel Golden Horse Award (2010-2011)
- The Top 10 City-Nova Hotels of China of the China Hotel Starlight Award (2008)

Regal iClub Executive Suite

Regal iClub Conference Room

Café Neo

34-36 Tai Chung Kiu Road, Shatin,
New Territories, Hong Kong.
Tel: (852) 2649 7878
Fax: (852) 2637 4748
Email: rrh.info@regalhotel.com
Website: www.regalhotel.com

1,138

1986

69,000 sq. m.

59,668 sq. m.

8

2

474 sq. m.

14

1

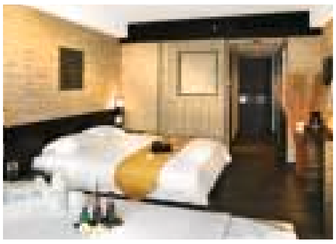
1

1

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
- The Best Business Traveler-Beloved Business Hotel in Guangdong Hongkong Macau 2010 of Golden Pearl Award by Let's Go Magazine (2010)
- The Best Convention & Exhibition Hotel in China in the 9th China Hotel Forum & 2009 Annual Meeting of China Hotel Industry (2009)



Spa Deluxe Room

OM Spa

Regal iClub 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
- The Best Green Hotel of China of the 6th China Hotel Starlight Award (2010)

211 Johnston Road,
Wan Chai, Hong Kong.
Tel: (852) 3669 8668
Fax: (852) 3669 8688
Email: ricwc.info@regaliclubhotel.com
Website: www.regaliclubhotel.com

99

2009

5,530 sq. m.

5,326 sq. m.

1

iBusiness

iClub Lounge

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, 2010.

VISION AND LONG-TERM OBJECTIVES OF REGAL REIT

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

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

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 and fourth supplemental deed dated 23rd July, 2010) (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").

On 31st December, 2010, Regal REIT completed the acquisition of the remaining 25% equity interest in Twentyfold Investments Limited which directly holds Sonnix Limited that, in turn, owns major portions of the Regal iClub Building located at No. 211 Johnston Road, Wan Chai, Hong Kong for a total consideration of approximately HK$90.5 million from Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL") (PHL together with its relevant subsidiaries, collectively, the "PHL Group") by exercising the call option pursuant to the terms of the sale and purchase agreement dated 10th September, 2009 in relation to the sale and purchase of the 75% equity interest in Twentyfold Investments Limited. The 99-guestroom and suites Regal iClub Hotel is presently operating at the Regal iClub Building.

As at 31st December, 2010, 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 PHL 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 activities related to asset management. The REIT Manager does not manage the Initial Hotels or Regal iClub Hotel directly.

The Initial Hotels are leased to Favour Link International Limited (the "RHIHL Lessee"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (the "RHIHL") until 31st December, 2015, under long-term lease agreements (the "RHIHL Lease Agreements"). The RHIHL Lessee is responsible for the day-to-day running of the hotel businesses and has to that effect engaged Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group"), as the hotel manager (the "Hotel Manager") under long-term hotel management agreements (the "lnitial Hotels Management Agreements").

During the year under review, Regal iClub Building was leased to Real Charm Investment Limited, a wholly-owned subsidiary of PHL, as the lessee (the "PHL Lessee") for the property leasing and hotel operation business for the period from 21st October, 2009 to 31st December, 2010 under a lease agreement (the "PHL Lease Agreement"). The PHL Lessee has also appointed the Hotel Manager for the operation and management of Regal iClub Hotel under a hotel management agreement (the "PHL Hotel Management Agreement") until 31st December, 2010.

As the PHL Lease Agreement and PHL Hotel Management Agreement were both due to expire on 31st December, 2010 and the conversion of the remaining 10 office floors in Regal iClub Building into 49 additional hotel guestrooms and suites was completed and added to the Regal iClub Hotel in December 2010, Regal REIT (via Sonnix Limited, the property owning company) entered into a new hotel management agreement with the Hotel Manager directly on 23rd December, 2010 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 (the "iClub Hotel Management Agreement").

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 pursuant to the REIT Code. In this role, the Trustee holds the assets of Regal REIT in trust for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and regulatory requirements.

RENTAL STRUCTURE

Initial Hotels Rental Structure and Market Rental Package

Rental payments in respect of the lnitial Hotels for the year 2010 received by Regal REIT consisted of three main elements, namely, (i) Base Rent; (ii) Variable Rent; and (iii) Furniture, Fixtures and Equipment Reserve contribution.

Base Rent

Regal REIT received rent in the form of a fixed cash Base Rent for each Initial Hotel for each of the years until 31st December, 2010. Total Base Rents for the year 2010 were determined to be HK$780.0 million. In addition, Regal REIT received cash additional Base Rent (the "Additional Base Rent") for capital additions (the "Capital Additions") projects, which were proposed by the RHIHL Lessee, approved and funded by Regal REIT for Capital Additions projects intended to increase the revenue and rental payment capacity of the respective Initial Hotels. In 2010, Regal REIT received approximately HK$11.9 million in Additional Base Rent for projects completed in or before 2010.

Variable Rent

Regal REIT received Variable Rent through sharing of aggregate profits from the Initial Hotels' operations after their Base Rent payments were made by the RHIHL Lessee. The excess profits represented by the collective excess net property income (the "NPI") from the Initial Hotels' operations were allocated as to 50% to Regal REIT in 2010. As the NPI of the Initial Hotels in 2010 was below the cash Base Rent of HK$780.0 million, no Variable Rent was payable by the RHIHL Lessee for 2010.

From the Listing Date through 2010, RHIHL guaranteed the Variable Rent to be no less than HK$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. From the Listing Date to 31st December, 2010, Variable Rent of HK$101.6 million was received and the remaining minimum guaranteed Variable Rent amounting to HK$118.4 million is payable by the RHIHL Lessee, which was recognised in 2010.

Base Rent Reallocation

On 12th February, 2010, Regal REIT, through the Initial Hotels owning companies (the "RHIHL Lessors"), entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements (the "Base Rent Reallocations"), in order to better reflect the earning capacity of each of the Initial Hotels based on 2008 year end valuations which included updated assessments of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which would remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations took effect as of 1st January, 2009 and 1st January, 2010, respectively.

Furniture, Fixtures & Equipment Reserve Contributions

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 (the "FF&E Reserve"). To maintain this reserve, the RHIHL Lessee contributed, in the form of additional rental payments, on a monthly basis, an amount equal to 2% (up to 31st December, 2010) of total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for the previous month to Regal REIT. For the year ended 31st December, 2010, amounts set aside for the FF&E Reserve account contributed by the RHIHL Lessee and the RHIHL Lessors with respect to the Initial Hotels aggregated HK$27.7 million and HK$13.9 million, respectively.

For the year 2011, no contributions to the FF&E Reserve are required by the RHIHL Lessee in accordance with the Market Rental Package determined for 2011 as detailed below and the obligation for such contribution to the reserve rests with the RHIHL Lessors.

Rent Reviews of Market Rental Packages for 2011 to 2015

Rent reviews by a jointly appointed independent professional property valuer (expenses to be split equally between the RHIHL Lessee and Regal REIT) are required to take place each of the years from 2010 to 2014 to determine the market rental packages, including the amount of market rents (inclusive of the amount of Base Rent for each Initial Hotel, Variable Rent sharing percentage and the RHIHL Lessee's contribution to 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").

Market Rental Package for 2011

Mr. David Faulkner was jointly appointed as an independent professional property valuer in June 2010 to conduct a rent review for the year 2011. According to the determination of the Market Rental Package for the year 2011, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK$560.0 million with Variable Rent calculated based on a sharing of 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent from the operations of the Initial Hotels in 2011. According to the Market Rental Package determined for 2011, no FF&E Reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the RHIHL Lessors.

The RHIHL Lessee shall deliver a third party guarantee as 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. Details of the Market Rental Package for 2011 can be referred to the announcement published on 29th October, 2010.

Regal iClub Building Rental Structure

Pursuant to the PHL Lease Agreement, the PHL Lessee was obligated to pay a monthly rental amount of HK$2.0 million to Regal REIT for the term commencing on 21st October, 2009 until 31st December, 2010, the expiry date of the PHL Lease Agreement. As the PHL Lease Agreement expired on 31st December, 2010, no rental payments in respect of the Regal iClub Building will be received by Regal REIT in 2011. As from 1st January, 2011, the Regal iClub Hotel will be managed by the Hotel Manager under the iClub Hotel Management Agreement and the operating results of the Regal iClub Hotel will account directly to Regal REIT.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated financial statements on pages 48 to 98.

Rental Revenue Derived from Hotel Operations

A substantial portion of all the rental revenues, represented by Base Rent, Variable Rent and FF&E Reserve contributions, are derived from the hotel operations, that is, from the hotel business leased to the RHIHL Group and managed by the Hotel Manager. The financial performance of Regal REIT with regard to operating results and net asset value depend on the underlying performance of the hotel business managed by the 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 hotel room occupancy rate which, in turn affect telephone, internet and business centre's usage, spa and health centres, parking and dry cleaning/laundry services. Other income also includes guaranteed revenue arising from corporate promotion programmes undertaken by the Hotel Manager.

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

Most categories of variable expenses, such as certain labour costs in housekeeping and utility costs, fluctuate with changes in the room occupancy 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).

Review of Economic Environment in 2010

The global economy generally continued to recover in 2010. In advanced economies, growth remained subdued and unemployment rates in the United States were still at high levels. In emerging economies, business activities were relatively buoyant due to the substantial influx of funds and inflation pressures were emerging. For 2010, China's growth rate in gross domestic product was approximately 10.3%[1]. In the second quarter of 2010, it has overtaken Japan as World's second-largest economy[2]. For the integration of the economies between Hong Kong and the Mainland China, various large scale infrastructure development projects have been planned to further enhance the connectivity, including the Guangzhou-Shenzhen-Hongkong Expressway, the development of the Qianhai Shenzhen-Hong Kong Modern Service Industry Co-operation Zone, Hongkong-Shenzhen Airport Rail Link, Hongkong-Zhuhai-Macau Bridge and the Liantang Cross-Boundary Control Point with a view to increasing circular flow of economic activities with Guangdong Province. Under the 12th Five-Year Plan, Hong Kong is expected to strengthen its competitive edge as a regional center for International Finance, Offshore Renminbi Center, International Asset Management Center, incubation of New Industry and High Value-added Logistics and Distribution Hub.

Growth in Visitor Arrivals to Hong Kong in 2010

Visitor Arrivals to Hong Kong in 2010 vs. Same Period in 2009[3]

Visitors to Hong Kong by Geographical Regions	2010 (Percentage of total visitors	2010 (No. of visitors)	2009 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	63.0%	22,684,388	17,956,731	4,727,657	26.3%
South & Southeast Asia	9.7%	3,500,882	2,885,155	615,727	21.3%
North Asia	6.1%	2,207,642	1,823,184	384,458	21.1%
Taiwan	6.0%	2,164,750	2,009,644	155,106	7.7%
Europe, Africa & the Middle East	6.0%	2,174,199	1,968,781	205,418	10.4%
The Americas	4.9%	1,749,558	1,567,807	181,751	11.6%
Australia, New Zealand & South Pacific	2.1%	768,524	707,963	60,561	8.6%
Macao SAR	2.2%	780,388	671,389	108,999	16.2%
Total	100%	36,030,331	29,590,654	6,439,677	21.8%

1 Source: News and Coming Events, National Bureau of Statistics of China, "Statistical Communiqué of the People's Republic of China on the 2010 National Economic and Social Development", 28th February, 2011.
2 Source: Bloomberg News, "China Overtakes Japan as World's Second-Biggest Economy", Bloomberg, 16th August, 2010.
3 Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2010", January 2011; the REIT Manager.

In 2010, visitor arrivals to Hong Kong reached over 36.0 million which broke a historic record and represented a surge of 21.8% year-on-year. There were 22.7 million visitors from Mainland China, which represented 63.0% of the total number of visitors during the year, surpassing 2009's number by 26.3%. Visitors from other Asian regions (including North Asia, South & Southeast Asia and Taiwan) increased by 17.2% year-on-year and accounted for 7.9 million visitors in 2010. This evidences that Hong Kong continues to be a sought after tourist destination.

Commencing from April 2009, Shenzhen residents have been allowed to apply for year-round multiple-entry visa arrangements to visit Hong Kong and there were about 4.77 million Shenzhen residents who visited Hong Kong through these arrangements by end of October 2010. In December 2010, travel relaxation was further extended to non-Guangdong residents in Shenzhen to visit Hong Kong through the Individual Visit Scheme. The travel industry estimated that this would attract an additional 4 million of non-Shenzhen residents to Hong Kong[4].

In 2010, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was further liberalized under the Supplement VII, allowing Hong Kong travel agents established on a wholly-owned or joint venture basis in Beijing and Shanghai Municipalities to apply for the operation of group tours to Hong Kong and Macao for registered permanent residents of these municipalities[5]. This is expected to pose positive effects for the tourism and hotel industry of Hong Kong in 2011.

The long haul markets have also improved during the period. Visitors from the Americas were approximately 1.7 million in 2010 or about 4.9% of the total number of visitors which represented a growth of about 11.6% year-on-year. Visitors from Europe, Africa and the Middle East aggregated to approximately 2.2 million or approximately 6.0% of the total number of visitors, which increased by 10.4%. Visitors from emerging markets such as India recorded an impressive growth of 44.8%, although the absolute numbers were relatively small.

Review of Hotel Rooms Supply in Hong Kong in 2010

In 2010, Hong Kong's new supply of hotel rooms increased from 59,627 to 60,428, representing an increase of 801 rooms or 1.3%. During this period, there were 8 new hotels opened in Hong Kong and the number of hotel properties in Hong Kong increased from 167 to 175, representing an increase of about 4.8%[6]. In 2011, it is forecasted that there will be 19 new hotels to open in Hong Kong, with an addition of 3,239 rooms or an increase of about 5.4% in hotel room supply, aggregating to a total of 63,667 hotel rooms by the end of 2011[6].

Regal REIT's conversion project of the 10-storey office space at Regal iClub Building, Wan Chai, was completed in December 2010 and the total number of hotel guestrooms owned by Regal REIT thereby increased to 3,929.

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4 Source: Press Release, Hong Kong Tourism Board, "Hong Kong Tourism Board Welcomes Expansion of Individual Visit Scheme for Non-Shenzhen Residents", 6th December, 2010.

5 Source: CEPA, Trade and Industry Department, "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) – Further Liberalization Measures in 2010", accessed on 23rd December, 2010.

6 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2010", February 2011; the REIT Manager.

Review of the Performance of Hong Kong's Hotel Industry in 2010[7]

Room Occupancy Rates, Average Room Rates and RevPAR

Hong Kong Hotel Market Performance (2010 vs 2009)

	Room Occupancy Rates		Average Room Rates		RevPAR	
	2010	2009	**2010**	2009	**2010**	2009
Category	**%**	%	**HK$**	HK$	**HK$**	HK$
High Tariff A	**81%**	72%	**1,965**	1,808	**1,592**	1,302
High Tariff B	**88%**	81%	**946**	779	**832**	631
Medium Tariff	**90%**	80%	**585**	481	**527**	385
All Hotels	**87%**	78%	**1,165**	1,023	**1,014**	798

In 2010, All Hotels' occupancy rate reached an average of 87%, an increase of about 9 percentage points. The average room rate increased to HK$1,165, representing an increase of 13.9% year-on-year. The RevPAR increased to HK$1,014, representing an increase of 27.1% year-on-year[7].

Performance of the Initial Hotels in 2010

Total Hotel Revenue, Gross Operating Profit and Net Property Income

For the Initial Hotels from 1st January, 2010 to 31st December, 2010 vs. Same Period Last Year

	FY 2010 HK$'million	FY 2009 HK$'million	Variance HK$'million	Variance %
Operating Results				
Room revenue	927.9	761.9	166.0	21.8%
Food and beverage revenue	415.4	402.0	13.4	3.3%
Other income	44.7	41.8	2.9	6.9%
Total hotel revenue	1,388.0	1,205.7	182.3	15.1%
Operating expenses	(745.2)	(680.3)	(64.9)	9.5%
Gross operating profit	642.8	525.4	117.4	22.3%
Other expenses	(46.6)	(44.1)	(2.5)	5.7%
Net rental income	23.9	23.2	0.7	3.0%
Net property income	620.1	504.5	115.6	22.9%
Statistics				
Average room rate	HK$773.72	HK$761.96	HK$11.76	1.5%
Occupancy rate	85.8%	74.2%	11.6%	15.5%
RevPAR	HK$663.74	HK$565.73	HK$98.01	17.3%
Total available room nights	1,397,950	1,346,838	51,112	3.8%
Occupied room nights	1,199,236	999,979	199,257	19.9%

7 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2010", January 2011; the REIT Manager.

Highlights of Performance of Investment Portfolio in 2010

During 2010, total hotel revenue of the Initial Hotels rose from HK$1,205.7 million to HK$1,388.0 million or an increase of 15.1% year-on-year while gross operating profit grew from HK$525.4 million to HK$642.8 million or an increase of 22.3% year-on-year. Likewise, net property income rose from HK$504.5 million to HK$620.1 million, representing a rise of 22.9%.

With the investments over the past years in upgrading the Initial Hotels and the relevant hotel products such as restaurant outlets, recreation and conference facilities, Regal REIT's Initial Hotels' occupancy rate noticeably bounced back by 15.5% to 85.8% in 2010, as compared with 74.2% in 2009 while average room rate increased from HK$761.96 to HK$773.72, representing an improvement of 1.5% year-on-year. The RevPAR reached HK$663.74 in 2010 as compared with HK$565.73 in 2009 for an increase by HK$98 per room night or a growth rate of 17.3% year-on-year.

In 2010, the segmental mix of customers for the Initial Hotels comprised 35.4% for business travellers and 51.4% for leisure travellers. Compared with the 17.0% of business travellers and 58.2% of leisure travellers in total visitors arriving in Hong Kong[8], the Initial Hotels showed a significant better mix of higher yield business travellers, as the hotels within Regal REIT's investment portfolio are well located in different strategic locations in Hong Kong. During the period, Regal REIT committed approximately HK$65 million for capital additions projects to increase the competitiveness of the investment portfolio and 361 guestrooms and suites together with certain F&B outlets were renovated in 2010.

Regal iClub Hotel is a brand new concept for Regal REIT's investment properties. In 2010, the average occupancy rate of Regal iClub Hotel achieved 93.1%, with an average room rate of HK$916.72 per night and RevPAR of HK$853.13. This new product has attracted business travellers, MICE (Meeting, Incentive, Convention and Exhibition) market and leisure visitors alike. The room reservations through internet bookings have been on the rise with evidence of repeated customers to Regal iClub Hotel. The conversion project for the remaining 10-storey office space into an additional 49 guestrooms and suites was completed in December 2010. Regal iClub Hotel currently owns a total of 99 hotel guestrooms and suites.

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8 Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", February 2011.

Performance of Regal REIT

Gross Rental Revenue and Net Rental Income

An analysis of the gross rental revenue and net rental income for the year ended 31st December, 2010 compared to the prior year is set out below.

	2010		2009	
	HK$'million	**%**	HK$'million	%
Base Rent:				
Cash Base Rent	**780.0**	**85.7%**	750.0	98.2%
Cash Additional Base Rent	**11.9**	**1.3%**	7.8	1.0%
Difference in accounting Base Rent and actual contractual cash Base Rent	**(60.7)**	**(6.6%)**	(30.6)	(4.0%)
Variable Rent	**118.4**	**13.0%**	—	—
Rent – Regal iClub Building	**24.0**	**2.6%**	4.7	0.6%
Other rental-related income:				
FF&E Reserve contribution	**27.8**	**3.1%**	24.1	3.2%
Other	**8.6**	**0.9%**	7.4	1.0%
Gross rental revenue	**910.0**	**100.0%**	763.4	100.0%
Property operating expenses	**(10.7)**	**(1.2%)**	(9.4)	(1.2%)
Net rental income	**899.3**	**98.8%**	754.0	98.8%

During the year, net rental income represented approximately 98.8% of gross rental revenue, after the deduction of property operating expenses. The property management of Regal REIT is handled by the Hotel Manager under the Initial Hotels Management Agreements with respect to the Initial Hotels and by the PHL Lessee under the PHL Lease Agreement for the Regal iClub Building. Accordingly, the related expenses are borne by the RHIHL Lessee with respect to the Initial Hotels and by the PHL Lessee for the Regal iClub Building, as opposed to being absorbed by Regal REIT directly.

Distributable Income and Distribution Policy

Total Distributable Income (as defined in the Trust Deed) is "the amount calculated by the REIT Manager (based on the audited financial statements of the Trust for that Financial Year) as representing the consolidated audited net profit after tax of the Trust and the Special Purpose Vehicles (as defined in the offering circular 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 of 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" and "deferred tax charge".

Pursuant to the Trust Deed, the REIT Manager is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's Total Distributable Income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders a minimum amount of no less than 90% of Regal REIT's Total Distributable Income for each financial year.

Distribution for 2010

The Directors of the REIT Manager have declared a final distribution of HK$0.104 per Unit for the period from 1st July, 2010 to 31st December, 2010. The interim distribution for the period from 1st January, 2010 to 30th June, 2010 was HK$0.086 per Unit thereby making total distributions per Unit for 2010 of HK$0.190, representing an annualised yield of 8.52% based on the Unit closing price of HK$2.23 on the last trading day of 2010. The final distribution of HK$0.104 per Unit will be payable to Unitholders on the Register of Unitholders on 12th May, 2011.

Total Distributable Income for the year ended 31st December, 2010 was approximately HK$682.9 million. The total amount of distributions for the year, including the interim distribution of approximately HK$278.2 million and the final distribution of approximately HK$338.7 million, amount to approximately HK$616.9 million or approximately 90.3% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Monday, 9th May, 2011 to Thursday, 12th May, 2011, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with Regal REIT's Unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Friday, 6th May, 2011. The relevant distribution warrants are expected to be despatched on or about 23rd May, 2011.

Valuation of Investment Properties

As at 31st December, 2010, Regal REIT's investment properties portfolio was valued at HK$14,880.0 million, as compared with the valuation as at 31st December, 2009 of HK$14,290.0 million.

The valuation of the portfolio of investment properties as at 31st December, 2010 was conducted by Colliers International (Hong Kong) Limited ("Colliers"). Colliers, an independent professional property valuer, assessed the market values of the portfolio of investment properties subject, as applicable, to the lease agreements and the hotel management agreements and in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)", the Listing Rules and the REIT Code. 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 has been used as a check on the valuation arrived at from the DCF method.

FF&E Reserve Contributions

For the year ended 31st December, 2010, approximately HK$41.6 million have been set aside to the FF&E Reserve, representing 3% of total hotel revenue. Amounts contributed by the RHIHL Lessee and the RHIHL Lessors were approximately HK$27.7 million and HK$13.9 million, respectively. Approximately HK$18.5 million had been expended in 2010 on replacing furniture, fixtures and equipment in the Initial Hotels.

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 centers, 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 2010, Regal REIT committed approximately HK$65.0 million in capital additions projects for the Initial Hotels with the goal of increasing its market competitiveness and to proactively rejuvenate the hotel assets' life cycle in the highly demanding and sophisticated hotel operating environment. During the year under review, a total of 361 guestrooms and suites were renovated or renewed in Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel. There were also four restaurants renovated including the Café Aficionado and China Coast Bar & Grill at Regal Airport Hotel, Café Rivoli at Regal Hongkong Hotel and Regal Terrace Chinese Restaurant at Regal Riverside Hotel.

The distribution of the investment in capital additions projects in 2010 was: (i) renovation of hotel guestrooms for HK$32.4 million (49.9%), (ii) renovating food and beverage outlets for HK$12.6 million (19.3%) and (iii) upgrading of engineering facilities for HK$20.0 million (30.8%).

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 judgements with a view to containing fluctuation risks. The REIT Manager intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

At 31st December, 2010, Regal REIT had loan facilities aggregating HK$4,711.0 million comprised of a term loan of HK$4,500.0 million secured by the Initial Hotels and a loan facility of HK$211.0 million secured by Regal iClub Building.

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. Under such arrangements, the interest rates effectively borne by Regal REIT with regard to HK$4,350.0 million of the term loan are subject to a cap of 7.15% and a floor of 3.80% per annum for a period up to 18th January, 2012. The HK$150.0 million balance of this HK$4,500.0 million term loan is not hedged.

At 31st December, 2010, the net aggregate fair value of the interest rate hedging arrangements was reported as a non-current liability of approximately HK$142.4 million in the consolidated statement of financial position.

At 31st December, 2010, the loan-to-value ratio for this term loan was 31.4%, 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$14,310.0 million, based on the independent valuation as at 31st December, 2010. This loan-to-value ratio is below the 40% allowed under the facility agreement with the lenders.

Financing for Regal iClub Building

A loan agreement was entered into in October 2009 by a subsidiary of Regal REIT (as the borrower) for loan facilities aggregating HK$211.0 million, secured by the Regal iClub Building, comprised of a term loan of HK$141.0 million and a revolving credit facility of HK$70.0 million (the "Refinanced Facilities"). The term loan was fully drawn down in October 2009 and was subject to eleven consecutive quarterly repayments of HK$1.5 million and a final repayment of HK$124.5 million at the end of the 12th quarterly period. The revolving credit facility was for a term of 3 years. At 31st December, 2010, the outstanding balance of the term loan was HK$135.0 million and the revolving credit facility of HK$70.0 million had been completely utilised.

After completion of the acquisition of the remaining 25% interest in the Regal iClub Building on 31st December, 2010, the Regal iClub Building has become 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 "New Facilities") to replace the Refinanced Facilities. Subsequent to the end of the reporting period, the outstanding balances under the Refinanced Facilities were fully settled and the term loan under the New Facilities was fully drawn down. The New Facilities bear interest based on HIBOR and no interest rate hedging has been arranged.

At 31st December, 2010, the loan-to-value ratio for the HK$211.0 million loan facilities was 36.0%, being the ratio of the aggregate amount of the loan outstanding of HK$205.0 million as compared to the market value of the Regal iClub Building of HK$570.0 million, based on the independent valuation as at 31st December, 2010. This loan-to-value ratio is below the 65% allowed under the loan agreement with the lender.

Gearing and Cash

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

Regal REIT had a total of approximately HK$27.2 million in unrestricted and HK$72.0 million in restricted cash balances and bank deposits at 31st December, 2010 and in the opinion of the Directors of the REIT Manager, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

At 31st December, 2010, Regal REIT's investment properties, with an aggregate carrying value of HK$14,880.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

OUTLOOK FOR THE HOTEL INDUSTRY

Looking forward to 2011, Hong Kong's hotel and tourism industry will continue to benefit from the demand driven by the critical mass of visitors from Mainland China. The projected number of visitors to Hong Kong in 2011 is around 40 million, or an anticipated increase of more than 10% year-on-year as compared with 36 million visitors in 2010[9]. In terms of spending power, Mainland Chinese spent about HK$7,381 per capita in the first six months of 2010 in Hong Kong, which surpassed the HK$6,128 and HK$6,026 per capita for the visitors from Europe, Africa and the Middle East and the Americas, respectively[10].

To reinforce Hong Kong's connectivity with the Mainland and the growth of tourism infrastructure as one of the critical southern gateways of the Mainland, the construction of the Express Rail Link commenced in January 2010. This infrastructure project is expected to be completed by 2015 and will link Hong Kong with major Mainland cities and provide significantly reduction in travelling times[11].

To cope with possible challenges for the local hotel and tourism sectors, the Hong Kong Government and the Hong Kong Tourism Board have taken positive and active roles to strengthen the industry's fundamentals as well as Hong Kong's competitiveness, and to help enhance Hong Kong's international profile as the "events capital" of Asia.

Looking ahead, the tourism and hospitality sectors continue to remain resilient. It is anticipated that the occupancy rates and average daily room rates for the hotels in Hong Kong will enjoy optimistic growth and would benefit the utilization rate and business demand in respect of Regal REIT's investment portfolio.

9 Source: Press Release, Hong Kong Tourism Board, "2011 Hong Kong Tourism Overview Receives 900 Trade Representatives and Tourism Students", 16th February, 2011.

10 Source: Research, Hong Kong Tourism Board, "Tourism Expenditure Associated to Inbound Tourism Jan – Jun 2010", November 2010.

11 Source: Database, www.expressraillink.hk, "Express Rail Link in Hong Kong", accessed on 22nd February, 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

Saved as disclosed herein in relation to the completion of the exercise of the call option for the acquisition of the remaining 25% interest in Regal iClub Building from PHL on 31st December, 2010, 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, the PHL 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 Building, respectively, pursuant to the RHIHL Lease Agreements, the PHL Lease Agreement, the Initial Hotels Management Agreements and the PHL 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 Building during the year.

MAJOR CONTRACTORS

In 2010, the aggregate value of service contracts of the top five contractors engaged by Regal REIT and their respective value of services rendered were as follows:

Contractor	**Nature of Services**	**Value of Services**	**Relevant Cost**
		HK$'000	%
PHM-Yiuwing Contracting Co. Ltd.	Interior decoration	9,150	40.2
Alliance Contracting Co. Ltd.	Building services installation	6,550	28.8
Chatwin Engineering Ltd.	Building works	3,500	15.4
Paliburg Development Consultants Ltd.	Professioinal consultancy services	850	3.7
Focus Suppiles Co.	Roller blind provider	505	2.2
		20,555	

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

Francis Chiu
Executive Director

Hong Kong, 23rd March, 2011

DIRECTOR AND EXECUTIVE OFFICER PROFILES

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 66, 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 40 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 48, 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, for making the disclosures and communications of Regal REIT to investors. He has over 22 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 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 Divisional Council Member of CIMA Hong Kong. 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 54, 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 on 23rd March, 2011 and 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 accounting experience from his professional career. 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 68, 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 54, 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 66, 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 37, 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 61, 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 65, 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. Kai Ole Ringenson, Mr. Francis Chiu, Mr. Eric Man Wai Kong and Mr. Yip Yat Wa have acted as the Responsible Officers of the REIT Manager. On 1st March, 2010 and 8th October, 2010, Mr. Kai Ole Ringenson and Mr. Eric Man Wai Kong ceased to be the Responsible Officers of the REIT Manager, respectively. Mr. Francis Chiu was appointed as a Responsible Officer of the REIT Manager on 1st March, 2010. Mr. Simon Lam Man Lim was also appointed as a Responsible Officer of the REIT Manager on 2nd March, 2011.

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, fund and asset management and/or in the property industry.

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

Chairman and Non-executive Director
Lo Yuk Sui

Executive Director
Francis Chiu

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

On 8th October, 2010, Mr. Eric Man Wai Kong resigned as an Executive Director of the REIT Manager. 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, 2010 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
Eric Man Wai Kong (resigned on 8th October, 2010)	3/3
Non-executive Directors	
Donald Fan Tung	4/4
Jimmy Lo Chun To	3/4
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, 2010 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 Director
Francis Chiu

Non-executive Directors
Donald Fan Tung
Kai Ole Ringenson

Three Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2010 and the attendance rates of the individual Committee members of the REIT Manager were as follows:

Name of Disclosure Committee Members	Attendance/ No. of Meetings
John William Crawford, JP (Chairman of the Committee)	3/3
Francis Chiu	3/3
Eric Man Wai Kong (resigned on 8th October, 2010)	2/2
Donald Fan Tung	3/3
Kai Ole Ringenson	3/3

Mr. Simon Lam Man Lim, who will become an Executive Director of the REIT Manager on 1st April, 2011, has also been appointed as an additional member of the Disclosure Committee to take effect from that date.

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 and without the approval of Unitholders if:

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

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

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

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

   (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 37,165,917 new Units to the REIT Manager in payment of REIT Manager fees.

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

The REIT Manager has adopted the "Code Governing Dealings in Units by Directors or the REIT Manager" (the "Units Dealings Code") governing dealings in the securities of Regal REIT by the Directors and the REIT Manager as set out in the Compliance Manual, on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (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, 2010.

PUBLIC FLOAT

As at 31st December, 2010, the total number of Units outstanding was 3,241,560,101.

As at 31st December, 2010, based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders.

COMPLIANCE

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

REVIEW OF ANNUAL REPORT

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the annual report of Regal REIT for the year ended 31st December, 2010, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 99 to 100.

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 separate lease agreements (the "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 term of the RHIHL Lease Agreements, be retained by the RHIHL Lessee.

In addition, the RHIHL Lessee guaranteed to pay a total Variable Rent, at a minimum of HK$220.0 million, for the period from 30th March, 2007 to 31st December, 2010 to the Initial Hotel – Property Companies.

On 12th February, 2010, Regal REIT, through the Initial Hotel – Property Companies, entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements (the "Base Rent Reallocations"), in order to better reflect the earning capacity of each of the Initial Hotels based on the 2008 year end valuation which included an updated assessment of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which will remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations took effect as of 1st January, 2009 and 1st January, 2010, respectively.

During the year, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK$946.6 million including cash Base Rent, cash Additional Base Rent, balance of the minimum guaranteed Variable Rent, FF&E Reserve contributions 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 an hotel management agreement (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, to which the RHIHL Lessee will contribute on a monthly basis, from 30th March, 2007 up to 31st December, 2010.

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 an indemnity 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 Building – Property Company")) entered into a new hotel management agreement (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 revenues 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$75.4 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

(i) 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 holds the Regal iClub Building – Property Company that owns major portions of the Regal iClub Building, for a total consideration of approximately HK$198.0 million. The above acquisition was completed on 20th October, 2009. The PHL S&P Agreement contained an undertaking by the PHL Vendor to complete an asset enhancement programme in relation to the conversion of part of the Regal iClub Building into (a) 50 hotel guestrooms for the establishment of "Regal iClub Hotel" and (b) a restaurant (the "PHL AEP"). The PHL AEP was completed in December 2009 and the requisite undertaking provided by the PHL Vendor under the PHL S&P Agreement formally released in June 2010.

Pursuant to the terms of the PHL S&P Agreement, the Trustee as the purchaser was granted a call option, which it may exercise at its sole and absolute discretion and at the direction of the REIT Manager, to acquire the remaining 25% of the 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% the 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 was finalized, based on an audit of the consolidated accounts of Twentyfold Investments Limited. The final call consideration was agreed and determined at 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.

(ii) PHL Lease Agreement

The Regal iClub Building – Property Company entered into a lease agreement (the "PHL Lease Agreement") in relation to Regal iClub Building with the PHL Lessee on 20th October, 2009. PHL Lessee is a member of the PHL Connected Persons Group. The term of the PHL Lease Agreement expired on 31st December, 2010.

Under the terms of the PHL Lease Agreement, PHL Lessee made lease payments to the Regal iClub Building – Property Company and was entitled to operate and manage the leasing business at Regal iClub Building and the Regal iClub Hotel owned by the Regal iClub Building – Property Company and, accordingly, all income received from the leasing business at Regal iClub Building and the operation of Regal iClub Hotel shall, during the term of the PHL Lease Agreement, was retained by PHL Lessee.

During the year, the total contractual lease income under the PHL Lease Agreement amounted to HK$24.0 million.

(iii) PHL Lease Guarantee

Pursuant to a lease guarantee entered into on 20th October, 2009 (the "PHL Lease Guarantee"), PHL guaranteed: (a) the PHL Lessee's obligations to pay to the Regal iClub Building – Property Company and the Trustee, on demand by the Regal iClub Building – Property Company 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 the Regal iClub Building – Property Company under the PHL Lease Agreement, and (b) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the PHL Lease Agreement, and on the part of the PHL Lessee, to be observed and performed. The PHL Lease Guarantee expired on 31st December, 2010.

(iv) PHL Development Consultant Agreement

On 31st May, 2010, Regal iClub Building – Property Company entered into a development consultant agreement with Paliburg Development Consultants Limited, a member of the PHL Connected Persons Group, to provide development consultancy services (including architectural and interior consultancy services, contract administration and site supervision) to Regal iClub Building – Property Company in relation to the conversion of the remaining 10 office floors in Regal iClub Building to add another 49 guestrooms and suites (the "Conversion Project") for a total consideration of HK$0.85 million. Reference can be made to the announcement dated 31st May, 2010 published by the REIT Manager in relation to connected party transactions for further details of this transaction. The Conversion Project was completed in December 2010.

(v) PHL Registered Contractor Agreement

On 31st May, 2010, Regal iClub Building – Property Company and Chatwin Engineering Limited, a member of the PHL Connected Persons Group, entered into a registered contractor agreement for a total consideration of HK$3.50 million, pursuant to which Chatwin Engineering Limited agreed to undertake construction work and to co-ordinate with other contractors in relation to the Conversion Project. Reference can be made to the announcement dated 31st May, 2010 published by the REIT Manager in relation to connected party transactions for further details of this transaction. The Conversion Project was completed in December 2010.

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, initially 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. Throughout the year ended 31st December, 2010, 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, 2010.

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 they were satisfied that those transactions have been entered into:

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

(b) on normal commercial terms (to the extent that they are comparable transactions) or, where 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.

DISCLOSURE OF INTERESTS

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

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 31st December, 2010, 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, 2010
Century City International Holdings Limited ("CCIHL")	2,417,678,651 (Note i)	74.58%
Century City BVI Holdings Limited ("CCBVI")	2,417,678,651 (Notes i & ii)	74.58%
Paliburg Holdings Limited ("PHL")	2,412,391,651 (Notes iii & iv)	74.42%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,412,391,651 (Notes iii & v)	74.42%
Regal Hotels International Holdings Limited ("RHIHL")	2,412,391,651 (Notes iii & vi)	74.42%
Regal International (BVI) Holdings Limited ("RBVI")	2,412,391,651 (Notes iii & vii)	74.42%
Complete Success Investments Limited	1,817,012,072 (Note viii)	56.05%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.51%

Notes:

(i) The interests in 2,417,678,651 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 2,412,391,651 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 59.49% shareholding interest in PHL as at 31st December, 2010, 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, 2010, 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 was no person who, as at 31st December, 2010, had an interest in Units which are recorded in the register required to be kept under section 336 of the SFO.

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

As at 31st December, 2010, 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, 2010
LO Yuk Sui	2,417,678,651 (Note i)	74.58%
Regal Portfolio Management Limited	104,510,510 (Note ii)	3.22%

Notes:

(i) The interests in 2,417,678,651 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 52.16% shareholding interest as at 31st December, 2010.

(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, 2010, 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, 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Gross rental revenue	5	**909,974**	763,408
Property operating expenses		**(10,715)**	(9,404)
Net rental income		**899,259**	754,004
Other income	5	**138**	329
Gain on bargain purchase		**—**	10,642
Fair value changes on investment properties	11	**478,642**	271,982
REIT Manager fees	6	**(75,381)**	(70,801)
Trust, professional and other expenses	7	**(14,045)**	(9,981)
Fair value changes of derivative financial instruments		**11,223**	8,951
Net interest expense on derivative financial instruments		**—**	(169)
Finance costs - excluding distributions to Unitholders	8	**(179,429)**	(176,967)
PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		**1,120,407**	787,990
Income tax expense	9	**(102,855)**	(106,821)
PROFIT FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS		**1,017,552**	681,169
Non-controlling interest		**(20,459)**	1,113
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		**997,093**	682,282
Finance costs - distributions to Unitholders		**(552,458)**	(514,328)
PROFIT FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		**444,635**	167,954
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	**HK$0.309**	HK$0.215

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2010

	2010 HK$'000	2009 HK$'000 (Restated)
PROFIT FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS	**1,017,552**	681,169
Other comprehensive income for the year:		
Cash flow hedges:		
Changes in fair values of cash flow hedges	**(69,176)**	(134,407)
Transfer from hedging reserve to consolidated income statement	**128,895**	108,678
	59,719	(25,729)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTIONS TO UNITHOLDERS	**1,077,271**	655,440
Represented by:		
Unitholders	**1,056,812**	656,553
Non-controlling interest	**20,459**	(1,113)
	1,077,271	655,440

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2010

	Notes	**31st December, 2010 HK$'000**	31st December, 2009 HK$'000 (Restated)	1st January, 2009 HK$'000 (Restated)
Non-current assets				
Investment properties	11	**14,880,000**	14,290,000	13,036,743
Prepaid construction costs	12	**—**	—	430,000
Deferred tax assets	20	**—**	1,913	20,661
Total non-current assets		**14,880,000**	14,291,913	13,487,404
Current assets				
Accounts receivable	13	**121,359**	63,370	96,144
Prepayments, deposits and other receivables	14	**6,854**	2,496	10,272
Tax recoverable		**—**	12,855	5,062
Restricted cash	15	**71,979**	56,454	47,673
Cash and cash equivalents	16	**27,151**	68,305	173,789
Total current assets		**227,343**	203,480	332,940
Total assets		**15,107,343**	14,495,393	13,820,344
Current liabilities				
Accounts payable	17	**9,685**	7,595	6,887
Deposits received		**—**	5,855	—
Due to a related company	27(b)(iii)	**432**	—	—
Other payables and accruals	33	**86,381**	46,448	57,370
Interest-bearing bank borrowings	18	**75,413**	5,413	—
Tax payable		**15,758**	8,564	—
Total current liabilities		**187,669**	73,875	64,257
Net current assets		**39,674**	129,605	268,683
Total assets less current liabilities		**14,919,674**	14,421,518	13,756,087

	Notes	31st December, 2010 HK$'000	31st December, 2009 HK$'000 (Restated)	1st January, 2009 HK$'000 (Restated)
Non-current liabilities, excluding net assets				
Interest-bearing bank borrowings	18	**4,617,241**	4,614,033	4,321,866
Derivative financial instruments	19	**142,423**	213,365	196,587
Deposits received		**2,034**	540	—
Due to a related company	27(b)(iv)	**—**	64,429	—
Deferred tax liabilities	20	**238,365**	178,602	116,025
Total non-current liabilities		**5,000,063**	5,070,969	4,634,478
Total liabilities, excluding net assets		**5,187,732**	5,144,844	4,698,735
Net assets		**9,919,611**	9,350,549	9,121,609
Represented by:				
Net assets attributable to Unitholders		**9,919,611**	9,329,041	9,121,609
Non-controlling interest		**—**	21,508	—
		9,919,611	9,350,549	9,121,609
Number of Units in issue	21	**3,241,560,101**	3,204,394,184	3,142,196,102
Net asset value per Unit attributable to Unitholders	22	**HK$3.060**	HK$2.911	HK$2.903

The consolidated financial statements on pages 48 to 98 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 23rd March, 2011 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, 2010

	Notes	Attributable to Unitholders					Non-controlling interest HK$'000	Total HK$'000
		Units HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Retained profits HK$'000	Total HK$'000		
Net assets as at 1st January, 2009		8,296,809	—	(172,667)	32,635	8,156,777	—	8,156,777
Changes in accounting policies	2.2	—	—	—	964,832	964,832	—	964,832
As at 1st January, 2009 (restated)		8,296,809	—	(172,667)	997,467	9,121,609	—	9,121,609
Total comprehensive income/(loss) for the year, before distributions to Unitholders		—	—	(25,729)	682,282	656,553	(1,113)	655,440
Finance costs – distributions to Unitholders		—	—	—	(514,328)	(514,328)	—	(514,328)
Additions through a business combination	23	—	—	—	—	—	22,621	22,621
As payment of REIT Manager fees:								
Units issued	6	34,772	—	—	—	34,772	—	34,772
Units to be issued	6	30,435	—	—	—	30,435	—	30,435
Net assets as at 31st December, 2009 (restated) and 1st January, 2010		8,362,016	—	(198,396)	1,165,421	9,329,041	21,508	9,350,549
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	23	—	15,876	—	—	15,876	(41,967)	(26,091)
As payment of REIT Manager fees:								
Units issued	6	35,147	—	—	—	35,147	—	35,147
Units to be issued	6	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, 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Profit for the year, before distributions to Unitholders		**997,093**	682,282
Adjustments:			
Gain on bargain purchase		**—**	(10,642)
Difference in accounting Base Rent and actual contractual cash Base Rent		**60,660**	30,660
Amounts set aside on account for the furniture, fixtures and equipment reserve	(f)	**(41,639)**	(24,115)
REIT Manager fees paid/payable in the form of Units		**70,340**	65,207
Amortisation of debt establishment costs		**9,062**	8,311
Fair value changes on investment properties		**(462,392)**	(271,732)
Fair value changes of derivative financial instruments		**(11,223)**	(8,951)
Deferred tax charge		**60,978**	87,146
Distributable income for the year attributable to Unitholders	(a) & (b)	**682,879**	558,166
		HK$	HK$
Distributions per Unit:			
Interim	(a)	**0.086**	0.085
Final	(b), (c), (d) & (e)	**0.104**	0.085
		0.190	0.170

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$0.086 per Unit for the interim period ended 30th June, 2010, resulting in a total amount of interim distribution of approximately HK$278.2 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 12th May, 2011 in respect of the final distribution for the period from 1st July, 2010 to 31st December, 2010. The final distribution will be paid out to Unitholders on or about 23rd May, 2011. The total amount of final distribution to be paid to Unitholders of approximately HK$338.7 million is arrived at based on the final distribution per Unit of HK$0.104 and the number of Units expected to be in issue at the Record Date that are entitled to distributions as detailed in note (d) below. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of approximately HK$278.2 million and the final distribution of approximately HK$338.7 million, amounted to HK$616.9 million or approximately 90.3% of the Total Distributable Income for the year.

(c) Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "RHIHL AEP Units") pending completion of the RHIHL AEP (as defined hereinafter) at the relevant Initial Hotels (as defined hereinafter). Following the completion and hand over of the 280 additional rooms in Regal Riverside Hotel to Regal REIT on 26th June, 2009, the RHIHL AEP was completed and, accordingly, all RHIHL AEP Units became entitled to any distributions for periods commencing from 1st July, 2009.

(d) The number of Units expected to be entitled to distributions for the period from 1st July, 2010 to 31st December, 2010 is calculated as follows:

	Number of Units
In issue as at 31st December, 2010	3,241,560,101
Issued on 27th January, 2011 to the REIT Manager for the REIT Manager Base Fees for November 2010	1,644,591
Issued on 28th February, 2011 to the REIT Manager for the REIT Manager Base Fees for December 2010	1,607,200
To be issued to the REIT Manager for the REIT Manager Variable Fees for the year ended 31st December, 2010	12,619,297
Units expected to be in issue and entitled to distributions at the Record Date	3,257,431,189

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

(e) The final distribution of HK$0.104 per Unit for the period from 1st July, 2010 to 31st December, 2010 , involving a total amount of the final distribution of approximately HK$338.7 million, was resolved and declared by the REIT Manager on 23rd March, 2011. 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, 2011. The final distribution for the period from 1st July, 2009 to 31st December, 2009 of approximately HK$274.3 million was included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.

(f) Amounts set aside for the furniture, fixtures and equipment reserve account contributed by the lessee and the lessors with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, aggregated HK$27.7 million and HK$13.9 million, respectively (2009: HK$24.1 million and Nil, respectively). The additional amount of HK$13.9 million set aside by the lessors for the current year was approved by the REIT Manager on 23rd March, 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and distributions to Unitholders		**1,120,407**	787,990
Adjustments for:			
Gain on bargain purchase		**—**	(10,642)
Fair value changes on investment properties	11	**(478,642)**	(271,982)
Difference in accounting Base Rent and actual contractual cash Base Rent	5	**60,660**	30,660
Bank interest income	5	**(103)**	(329)
REIT Manager fees in the form of Units	6	**70,340**	65,207
Finance costs - excluding distributions to Unitholders	8	**179,429**	176,967
Fair value changes of derivative financial instruments		**(11,223)**	(8,951)
		940,868	768,920
Decrease/(increase) in accounts receivable		**(118,649)**	2,161
Decrease/(increase) in prepayments, deposits and other receivables		**(4,358)**	9,014
Decrease/(increase) in restricted cash		**4,419**	(6,771)
Increase in accounts payable		**2,090**	709
Increase/(decrease) in deposits received		**(4,361)**	4,620
Increase/(decrease) in other payables and accruals		**39,510**	(7,161)
Cash generated from operations		**859,519**	771,492
Interest received		**103**	331
Interest paid		**(169,798)**	(172,518)
Hong Kong profits tax paid		**(21,130)**	(17,061)
Net cash flows from operating activities		**668,694**	582,244
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	23	**—**	(195,909)
Additions to investment properties		**(111,358)**	(72,275)
Increase in restricted cash		**(8,168)**	(4,567)
Cash flows used in investing activities		**(119,526)**	(272,751)

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		**70,000**	149,295
Repayment of bank borrowings		**(6,000)**	(70,000)
Advance from a related company		**—**	17,500
Acquisition of non-controlling interest		**(90,088)**	—
Distributions paid		**(552,458)**	(514,328)
Decrease/(increase) in restricted cash		**(11,776)**	2,556
Net cash flows used in financing activities		**(590,322)**	(414,977)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(41,154)**	(105,484)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**68,305**	173,789
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**27,151**	68,305
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	**27,151**	68,305

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2010

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 and the fourth supplemental trust deed dated 23rd July, 2010) 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 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

Basis of consolidation from 1st January, 2010

The consolidated financial statements cover the financial statements of the Group for the year ended 31st December, 2010. 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.

Losses within a subsidiary are 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.

Basis of consolidation prior to 1st January, 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

* Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1st January, 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
* Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1st January, 2010 were not reallocated between non-controlling interest and the parent shareholders.
* Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1st January, 2010 has not been restated.

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 consolidated financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards.*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash–settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (early adopted)
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 12 Amendments, the adoption of the new and revised HKFRSs have had no significant financial effect on these consolidated financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1st January, 2010.

(b) Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Amendments to HKAS 12 were issued in December 2010 which introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in HKAS 40 *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. The amendments also require that deferred tax on non-depreciable assets measured using the revaluation model in HKAS 16 *Property, Plant and Equipment*, should always be measured on a sale basis. As a result of the amendments, Hong Kong (SIC)-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets,* will be superseded once the amendments become effective. Although the amendments are effective for annual periods beginning on or after 1st January, 2012, the Group has decided to early adopt the amendments in these consolidated financial statements.

The Group has previously provided deferred tax on the fair value changes on its investment properties assuming that the carrying amount of these properties will be recovered through use. Upon the adoption of the Amendments to HKAS 12, the Group now measures deferred tax on investment property assuming that its carrying amount will be recovered through sale.

The effects of the above changes are summarised below.

	2010 HK$'000	2009 HK$'000
Consolidated income statement for the year ended 31st December		
Increase in gain on bargain purchase	—	10,642
Decrease in income tax expense	**78,976**	44,877
Increase in profit for the year, before non-controlling interest and distributions to Unitholders	**78,976**	55,519
Increase in profit for the year, before distributions to Unitholders	**76,295**	55,478
Increase in profit for the year, after distributions to Unitholders	**76,295**	55,478
Increase in non-controlling interest	**2,681**	41
Increase in basic and diluted earnings per Unit attributable to Unitholders	**HK$0.024**	HK$0.018
Consolidated statement of financial position at 31st December		
Decrease in goodwill	**5,940**	5,940
Decrease in deferred tax assets	**20,356**	62,520
Decrease in deferred tax liabilities	**1,131,151**	1,094,339
Increase in retained profits	**1,104,855**	1,025,879
Increase in non-controlling interest	**8,250**	5,569
Consolidated statement of financial position at 1st January		
Decrease in deferred tax assets		95,794
Decrease in deferred tax liabilities		1,060,626
Increase in retained profits		964,832

Due to the retrospective application of the amendments which have resulted in the restatement of items in the consolidated statement of financial position, a consolidated statement of financial position as at 1st January, 2009 and the related notes affected by the amendments have been presented in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyerinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1st July, 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1st January, 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1st February, 2010
[2] Effective for annual periods beginning on or after 1st July, 2010
[3] Effective for annual periods beginning on or after 1st January, 2011
[4] Effective for annual periods beginning on or after 1st July, 2011
[5] Effective for annual periods beginning on or after 1st January, 2013

Further information about changes that are expected to significantly affect the Group are 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, 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1st January, 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1st January, 2011. 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1st July, 2009 or earlier if HKAS 27 is applied earlier.

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 from 1st January, 2010

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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 is 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 shall not be remeasured until it is finally settled within equity.

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 net identifiable assets acquired and labilities 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.

Business combinations prior to 1st January, 2010 but after 1st January, 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, differences applied to business combinations prior to 1st January, 2010 were as set out below:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition cost and the non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps such that any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows which otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, an economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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, investment properties and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined 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.

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.

Related parties

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

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

(ii) the party is a member of the key management personnel of the Group or its parent;

(iii) the party is a close member of the family of any individual referred to in (i) or (ii); or

(iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (ii) or (iii).

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.

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 directly attributable transaction costs.

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 in other expenses.

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, and 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 has 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 other expenses in 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 and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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 as at fair value through profit or loss.

Financial liabilities are classified as being 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.

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 method 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 follows:

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.

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 as follows:

- 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:

- where 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, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 is recognised in the consolidated income statement on the straight-line basis over the terms of the relevant leases;

(b) Additional Base Rent, Variable Rent and the furniture, fixtures and equipment reserve contributions are recognised as income in the accounting period in which they are earned in accordance with the terms of the respective agreements;

(c) other rental income is recognised on a time proportion basis over the lease terms; and

(d) interest income is recognised 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 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 could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant 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.

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 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 set out below.

Estimation of fair values of investment properties

The fair value of each investment property 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 and cash flow profile. The discounted cash flow projections of each investment property are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases and other contracts and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

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, are mainly focused on the segment results related to the nature of investment 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 the Regal iClub Building.

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 from lessees	**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**
Other income			**138**
REIT Manager fees			**(75,381)**
Trust, professional and other expenses			**(14,045)**
Fair value changes of derivative financial instruments			**11,223**
Finance costs - excluding distributions to Unitholders			**(179,429)**
Profit before tax and distributions to Unitholders			**1,120,407**

The operating segments of the Group for the year ended 31st December, 2009 are as follows:

	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000 (Restated)
Segment revenue			
Gross rental revenue from lessees	758,698	4,710	763,408
Segment results	749,379	4,625	754,004
Gain on bargain purchase	—	10,642	10,642
Fair value changes on investment properties	270,982	1,000	271,982
Other income			329
REIT Manager fees			(70,801)
Trust, professional and other expenses			(9,981)
Fair value changes of derivative financial instruments			8,951
Net interest expense on derivative financial instruments			(169)
Finance costs - excluding distributions to Unitholders			(176,967)
Profit before tax and distributions to Unitholders			787,990

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, 2010, the aggregate fair values of the investment properties in the hotel properties segment and the mixed use property segment were HK$14,310,000,000 (2009: HK$13,810,000,000) and HK$570,000,000 (2009: HK$480,000,000), respectively.

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

Other segment information

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

	Year ended 31st December, 2009		
	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000
Capital expenditure	519,018	479,000	998,018

Capital expenditure consists of additions to investment properties including additions from the business combination.

Information about a major customer

Revenue of approximately HK$885,974,000 (2009: HK$758,698,000) was derived from the lease of the hotel properties to a single lessee, a related company.

Geographical information

The Group's investment properties are all located in Hong Kong.

5. GROSS RENTAL REVENUE AND OTHER INCOME

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

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

	Notes	2010 HK$'000	2009 HK$'000
Gross rental revenue			
Rental income:			
Initial Hotels	(a)	**849,615**	727,171
Regal iClub Building	(b)	**24,000**	4,710
Other rental-related income	(c)	**27,759**	24,115
Other		**8,600**	7,412
		909,974	763,408
Other income			
Bank interest income		**103**	329
Others		**35**	—
		138	329

Notes:

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

	2010 HK$'000	2009 HK$'000
Base Rent:		
Cash Base Rent	**780,000**	750,000
Cash Additional Base Rent	**11,891**	7,831
Difference in accounting Base Rent and actual contractual cash Base Rent	**(60,660)**	(30,660)
	731,231	727,171
Variable Rent	**118,384**	—
	849,615	727,171

Under the terms of the lease agreements with the lessee with respect to the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), the Group is entitled to receive:

(i) cash base rent (the "Base Rent"), in the form of a pre-determined fixed cash sum per annum payable monthly in advance up to the year ended 31st December, 2010. In 2010, the annual cash Base Rent was fixed at HK$780 million (2009: HK$750 million). According to the Group's accounting policy, Base Rent from operating leases is recognised in the consolidated income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent;

(ii) cash additional base rent (the "Additional Base Rent"), for capital additions (the "Capital Additions") projects which are proposed by the lessee, are approved and funded by the Group and are intended to increase revenue and rental payment capacity of each of the Initial Hotels. The Additional Base Rent for such approved Capital Additions projects is payable by the lessee commencing from the date on which the Capital Additions projects have been completed and accepted by the Group, and have been commissioned for operation to the satisfaction of the Group. The Additional Base Rent is payable until the year ended 31st December, 2010 and the Additional Base Rent for each financial year was equal to such percentage, as agreed between the Group and the lessee, of the cost of the approved Capital Additions projects funded by the Group. Where, with respect to any approved Capital Additions projects in any financial year, the Additional Base Rent is payable with respect to a period that is less than a full financial year, the amount of such Additional Base Rent shall be apportioned according to the number of days in such period, based on a 365-day year; and

(iii) variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments, until the year ended 31st December, 2010, and payable semi-annually. Regal REIT was entitled to a share of 100% in 2007, 70% in 2008, 60% in 2009 and 50% in 2010. No Variable Rent was earned in the years ended 31st December, 2009 and 31st December, 2010.

    Under the terms of the lease agreements, the lessee had guaranteed to pay a total Variable Rent, at a minimum of HK$220.0 million for the period from 30th March, 2007 to 31st December, 2010. Variable Rent of HK$101.6 million was received in prior years. The remaining balance of the minimum guaranteed Variable Rent amounting to HK$118.4 million was recognised in 2010.

For the years from 2011 to 2015, the determination of the Base Rent and the Variable Rent with respect to the Initial Hotels is subject to annual rent reviews by an independent property valuer.

(b) Under the terms of the lease agreement with the lessee with respect to the Regal iClub Building, a subsidiary of Regal REIT received from the lessee a rent of HK$2 million per calendar month (excluding management expenses, rates, government rent and other sums payable by the lessee under the lease agreement) until 31st December, 2010 (the "PHL Lease"). In 2009, the rental was pro-rated from 21st October, 2009, the day following the completion date of the acquisition of the holding company of the Regal iClub Building. Further details are included in note 23 to the consolidated financial statements.

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

6. REIT MANAGER FEES

	2010 HK$'000	2009 HK$'000
Base Fees:		
In the form of Units	**42,199**	41,749
In the form of cash	**3,123**	1,943
Variable Fees:		
In the form of Units	**28,141**	23,458
In the form of cash	**720**	141
Acquisition Fee:		
In the form of cash	**1,198**	3,510
	75,381	70,801
Total REIT Manager Fees:		
In the form of Units	**70,340**	65,207
In the form of cash	**5,041**	5,594
	75,381	70,801

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 the Regal iClub Building, which is payable annually; and
- an acquisition fee (the "Acquisition Fee") not exceeding 1% of the purchase price of the real estate acquired by Regal REIT (pro-rated, if applicable, to the proportion of Regal REIT's interest in the real estate acquired).

During the year, REIT Manager fees of approximately HK$35.1 million (2009: HK$34.8 million) were settled by 18,542,306 Units (2009: 29,729,318 Units). REIT Manager fees of approximately HK$35.2 million (2009: HK$30.4 million), comprising Base Fees for November 2010 and December 2010 and Variable Fees for the year ended 31st December, 2010, are to be settled in Units subsequent to the end of the reporting period in accordance with the terms of the Trust Deed.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2010 HK$'000	2009 HK$'000
Auditors' remuneration:		
Audit fees	**1,180**	1,068
Non-audit fees	**618**	751
Legal and other professional fees	**7,918**	4,196
Trustee fees	**2,644**	2,173
Valuation fees	**741**	660
Other expenses	**944**	1,133
	14,045	9,981

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2009: Nil) and, accordingly, no directors and employee benefit expenses were incurred during the year (2009: Nil).

8. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2010 HK$'000	2009 HK$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	**41,008**	59,627
Fair value changes of derivative financial instruments – cash flow hedge (transfer from hedging reserve)	**128,895**	108,678
Amortisation of debt establishment costs	**9,208**	8,340
Loan commitment fees	**88**	92
Loan agency fees	**230**	230
	179,429	176,967

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2010 HK$'000	2009 HK$'000 (Restated)
Charge for the year	**41,219**	17,832
Overprovision in prior years	**(40)**	—
Deferred (note 20)	**61,676**	88,989
Total tax charge for the year	**102,855**	106,821

A reconciliation of the tax charge applicable to profit before tax and distributions to Unitholders at the Hong Kong statutory rate of 16.5% (2009: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2010 HK$'000	2009 HK$'000 (Restated)
Profit before tax and distributions to Unitholders	**1,120,407**	787,990
Tax at the statutory tax rate	**184,867**	130,018
Adjustments in respect of current tax of previous periods	**(40)**	—
Income not subject to tax	**(80,845)**	(48,164)
Expenses not deductible for tax	**1,447**	24,967
Others	**(2,574)**	—
Tax charge at the Group's effective rate	**102,855**	106,821

10. 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$997,093,000 (2009: HK$682,282,000 (as restated)) and the weighted average of 3,225,175,623 Units (2009: 3,178,410,420 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK$0.309 (2009: HK$0.215 (as restated)).

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.

11. INVESTMENT PROPERTIES

	Completed HK$'000	Properties under renovation HK$'000	Total HK$'000
At 1st January, 2009	13,020,000	16,743	13,036,743
Additions through a business combination (note 23)	404,000	—	404,000
Fair value changes	271,982	—	271,982
Transfers from prepaid construction costs (note 12)	505,000	—	505,000
Capital expenditure for the year	54,979	17,296	72,275
Transfers upon completion of construction	34,039	(34,039)	—
At 31st December, 2009 and 1st January, 2010	14,290,000	—	14,290,000
Fair value changes	478,642	—	478,642
Capital expenditure for the year	111,358	—	111,358
At 31st December, 2010	14,880,000	—	14,880,000

The Group's investment properties were valued on 31st December, 2010 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK$14,880,000,000 on an open market value, existing use basis. The investment properties are leased to related parties under operating leases, further details of which are included in note 25(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 18).

Further particulars of the Group's investment properties are included on pages 158 to 159.

12. PREPAID CONSTRUCTION COSTS

	2010 HK$'000	2009 HK$'000
At beginning of the year	—	430,000
Additions through a business combination (note 23)	—	75,000
Transfers to investment properties (note 11)	—	(505,000)
At end of the year	—	—

During the year ended 31st December, 2009, the additions to the prepaid construction costs of HK$75,000,000 represented the prepaid project costs for the asset enhancement programme with respect to the Regal iClub Building (the "PHL AEP") including renovation costs, fit-out costs of converting 50 hotel rooms in the Regal iClub Building and any other costs in respect of the PHL AEP.

During the prior year, aggregate prepaid construction costs of HK$505,000,000, with respect to Regal Riverside Hotel and Regal iClub Building, were transferred to investment properties (note 11) upon completion of the asset enhancement programme with respect to the Regal Riverside Hotel ("RHIHL AEP") and PHL AEP.

13. ACCOUNTS RECEIVABLE

	2010 HK$'000	2009 HK$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	—	60,660
Variable Rent receivables	118,384	—
FF&E Reserve contribution receivables	2,975	2,710
	121,359	63,370

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

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

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2010 HK$'000	2009 HK$'000
Prepayments	**152**	1,048
Deposits	**1,702**	1,413
Other receivables	**5,000**	35
	6,854	2,496

Deposits in the amount of approximately HK$1,212,000 (2009: HK$1,212,000) were placed with a related company with respect of services provided to the Regal iClub Building. 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 is unsecured and repayable on demand.

15. RESTRICTED CASH

At 31st December, 2010, the Group had approximately HK$72.0 million (2009: HK$56.5 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 furniture, fixtures and equipment reserve for use in the Initial Hotels and deposits of certain tenants in respect of the Regal iClub Building. 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.

16. 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.

17. ACCOUNTS PAYABLE

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

18. INTEREST-BEARING BANK BORROWINGS

	2010 HK$'000	2009 HK$'000
Interest-bearing bank borrowings	**4,705,000**	4,641,000
Debt establishment costs	**(12,346)**	(21,554)
	4,692,654	4,619,446
Portion classified as current liabilities	**(75,413)**	(5,413)
Non-current portion	**4,617,241**	4,614,033
Analysed into bank loans repayable:		
Within one year	**75,413**	5,413
In the second year	**4,617,241**	5,413
In the third to fifth years, inclusive	**—**	4,608,620
	4,692,654	4,619,446

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 of the 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 Initial Facility is repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK$4.35 billion, details of which are set out in note 19.

In 2009, the Group was granted another banking facilities aggregating HK$211.0 million, comprised of a term loan of HK$141.0 million and a revolving credit facility of HK$70.0 million (the "Refinanced Facilities"). At the end of the reporting period, the Group had fully utilised the Refinanced Facilities. The term loan is repayable quarterly with the final payment being due on 22nd October, 2012. The Refinanced Facilities bear interest at rates ranging from 215 to 230 basis points above HIBOR.

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 and the bank borrowings under the Refinanced Facilities are guaranteed by Regal REIT and Paliburg Holdings Limited in proportions of 75% and 25%, respectively, on a several basis.

The Initial Facility and the Refinanced Facilities are also secured by, amongst others:

(i) legal charges and debentures over the investment properties;

(ii) an assignment of rental income and all other proceeds arising from and including all rights, titles and interests under all hotel management agreements and lease agreements, where appropriate, and relating to the investment properties;

(iii) charges over each rental account, sale 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 Group companies; and

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

On 28th January, 2011, the Group entered into a new banking 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 "New Facilities"), to replace the Refinanced Facilities. Subsequent to the end of the reporting period, the outstanding balances under the Refinanced Facilities were fully settled and the term loan under the New Facilities was fully drawn down.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2010	2009
	HK$'000	HK$'000
Interest rate swaps - cash flow hedges	**142,423**	213,365

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 18). The full fair value of these cash flow hedges is classified as a non-current item as the remaining maturities of the hedged items extend for more than 12 months. Major terms of the interest rate swaps are set out below.

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

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

20. DEFERRED TAX

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

	Depreciation allowances in excess of related depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000 (Restated)
Gross deferred tax assets/(liabilities) at 1st January, 2009	(180,002)	84,638	(95,364)
Additions through a business combination (note 23)	(2,466)	10,130	7,664
Deferred tax charged to the consolidated income statement during the year (note 9)	(59,528)	(29,461)	(88,989)
Gross deferred tax assets/(liabilities) at 31st December, 2009 and 1st January, 2010	(241,996)	65,307	(176,689)
Deferred tax charged to the consolidated income statement during the year (note 9)	(26,979)	(34,697)	(61,676)
Gross deferred tax assets/(liabilities) at 31st December, 2010	(268,975)	30,610	(238,365)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31st December, 2010 HK$'000	31st December, 2009 HK$'000 (Restated)	1st January, 2009 HK$'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**—**	1,913	20,661
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(238,365)**	(178,602)	(116,025)
	(238,365)	(176,689)	(95,364)

21. NUMBER OF UNITS IN ISSUE

	Number of Units 2010	2009
Units in issue:		
At beginning of the year	**3,204,394,184**	3,142,196,102
REIT Manager fees paid in the form of Units	**37,165,917**	62,198,082
At end of the year	**3,241,560,101**	3,204,394,184

22. 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, 2010 of approximately HK$9,919,611,000 (2009: HK$9,329,041,000 (as restated)) by the number of Units in issue of 3,241,560,101 (2009: 3,204,394,184) as at that date.

23. BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTEREST

Business combination in 2009

On 20th October, 2009, Regal REIT acquired 75% of the total issued share capital (the "Acquisition") of Twentyfold Investments Limited ("Twentyfold") for a total consideration of approximately HK$198.0 million from Paliburg Development BVI Holdings Limited (the "Vendor"), a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL"). Twentyfold together with its subsidiary (the "Twentyfold Group") holds the Regal iClub Building. Pursuant to the sale and purchase agreement, Regal REIT (at the direction of the REIT Manager) had, at its own discretion, the option to purchase the remaining 25% of the issued share capital of Twentyfold. The consideration was to be equal to 25% of the adjusted net asset value (subject to certain agreed adjustments) of the Twentyfold Group.

In addition, the Vendor undertook to complete, at its cost, the PHL AEP for a consideration of HK$75.0 million. PHL guaranteed this obligation on the PHL AEP to Regal REIT, further details of which are set out in note 12 to the consolidated financial statements.

The fair value of the identifiable assets and liabilities of the Twentyfold Group at the date of completion of the Acquisition was summarised as follows:

	HK$'000 (Restated)
Investment properties (note 11)	404,000
Prepaid construction costs for the PHL AEP (note 12)	75,000
Deferred tax assets (note 20)	7,664
Current assets	3,384
Other current liabilities	(1,504)
Other non-current liabilities	(401)
Due to a related company	(46,929)
Interest-bearing bank borrowings	(209,945)
Non-controlling interest	(22,621)
Total identifiable net assets at fair value	208,648
Gain on bargain purchase	(10,642)
Total cost of the Acquisition	198,006

The above acquisition cost was satisfied by cash and included the assumption of 75% of a shareholder's loan due to a related company in the amount of approximately HK$140,786,000 upon completion of the Acquisition together with costs directly attributable to the Acquisition of approximately HK$3,355,000.

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition was as follows:

	HK$'000
Cash consideration	198,006
Cash and bank balances acquired	(2,097)
Net outflow of cash and cash equivalents in respect of the Acquisition	195,909

Since the Acquisition, Twentyfold and its subsidiary have contributed approximately HK$4.7 million to the Group's gross rental income and incurred a loss of approximately HK$4.6 million to the operating results for the year ended 31st December, 2009 before non-controlling interest and distributions to Unitholders.

Had the combination taken place at the beginning of the year ended 31st December, 2009, the revenue of the Group and the profit for the year ended 31st December, 2009 before non-controlling interest and distributions to Unitholders would have been HK$773.1 million and HK$726.9 million (as restated), respectively.

Acquisition of the remaining interest in Twentyfold in 2010

On 31st December, 2010, the Group exercised the option to acquire the remaining 25% of the total issued share capital of Twentyfold, increasing its ownership interest to 100%, for a cash consideration of HK$90.5 million (which included the assumption of 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 has been recognised in the capital reserve account included in net assets attributable to Unitholders.

24. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

During the year, REIT Manager fees of approximately HK$70.3 million (2009: HK$65.2 million) were settled/to be settled in the form of Units, the details of which are set out in note 6 to the consolidated financial statements.

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 11, under operating lease arrangements. At 31st December, 2010, the total future minimum lease receivables under non-cancellable operating leases with its lessees fall due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	**569,645**	935,222
In the second to fifth years, inclusive	**32,385**	1,004
After five years	**37,969**	—
	639,999	936,226

Certain of the leases contain Additional Base Rent and Variable Rent provisions, the 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 a term of 12 years. During the lease term, the rental is subject to review every three years. At 31st December, 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010	2009
	HK$'000	HK$'000
Within one year	**6,157**	835
In the second to fifth years, inclusive	**24,629**	—
After five years	**37,969**	—
	68,755	835

During the year ended 31st December, 2010, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK$5,963,000 (2009: HK$5,008,000) were charged to the consolidated income statement.

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25(b) above, the Group had the following capital commitments in respect of its investment properties at the end of the reporting period:

	2010	2009
	HK$'000	HK$'000
Authorised and contracted for	**3,008**	775
Authorised, but not contracted for	**30,284**	21,062
	33,292	21,837

27. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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	2010 HK$'000	2009 HK$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	**946,634**	789,358
Contractual rental and rental-related income received/receivable from the PHL Group	(ii)	**24,000**	4,710
Development consultancy and construction fees charged by the PHL Group	(iii)	**(4,550)**	—
Interest expense charged by the Deutsche Bank Group	(iv)	**(59,258)**	(49,982)
REIT Manager fees	(v)	**(75,381)**	(70,801)
Trustee fees	(vi)	**(2,644)**	(2,173)
Valuation fees paid/payable to the Valuer	(vii)	**(931)**	(660)

Notes:

(i) The rental and rental-related income are earned by the Group 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) The rental and rental-related income are earned by the Group in accordance with the lease with respect to the Regal iClub Building, details of which, including the terms, are set out in note 5 to the consolidated financial statements.

(iii) The development consultancy and construction fees were charged by the PHL Group in accordance with the terms of the relevant agreements.

(iv) The interest expense is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. The interest expense is incurred thereon in accordance with the relevant bank agreements and swap contracts with the Deutsche Bank Group.

(v) 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 6 to the consolidated financial statements.

(vi) 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.

(vii) 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	2010 HK$'000	2009 HK$'000
Net amounts due from/(to) the RHIHL Group:			
Cash Additional Base Rent receivables, FF&E Reserve contribution receivables and other receivables	(i)	**126,359**	2,739
Accounts payable to related companies	(ii)	**(9,685)**	(7,595)
Amount due to a related company	(ii)	**—**	(89)
Net amounts due from/(to) the PHL Group:			
Amount due to a related company	(iii)	**(432)**	—
Other payables and accruals	(iii)	**(418)**	—
Advance from a related company	(iv)	**—**	(64,429)
Deposits paid	(i)	**1,212**	1,212
Deposits received	(v)	**—**	(4,689)
Net amounts due to:			
The Trustee	(vi)	**(646)**	(679)
The Valuer	(vii)	**(611)**	(660)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(viii)	**31,253**	24,782

Notes:

(i) Details of the balances are set out in notes 13 and 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, interest-free and not repayable within one year.

(v) The amount was paid by the lessee with respect to the PHL Lease and was repayable within one year.

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

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

(viii) 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 has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK$1 billion in favour of the Group and the Trustee for a period up to 30th June, 2011. In addition, under the terms of the lease agreements, the RHIHL Group guaranteed to pay a total Variable Rent, at a minimum, of HK$220.0 million for the period from 30th March, 2007 to 31st December, 2010.

(d) Under a deed of trade mark licence, the RHIHL Group had granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.

(e) Pursuant to the PHL Lease, the PHL Group has 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 business of the hotel owned by the Group, operating under the name of Regal iClub Hotel, for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

28. 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	
	2010	2009
	HK$'000	HK$'000
Financial assets included in accounts receivable	**121,359**	2,710
Financial assets included in prepayments, deposits and other receivables	**6,702**	1,448
Restricted cash	**71,979**	56,454
Cash and cash equivalents	**27,151**	68,305
	227,191	128,917

Financial liabilities

	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**

	2009		
	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	—	7,595	7,595
Due to a related company	—	64,429	64,429
Other payables and accruals	—	46,448	46,448
Deposits received	—	6,395	6,395
Derivative financial instruments	213,365	—	213,365
Interest-bearing bank borrowings	—	4,619,446	4,619,446
	213,365	4,744,313	4,957,678

29. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value 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 input which has a significant effect on the recorded fair value is observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all input which has a significant effect on the recorded fair value is not based on observable market data (unobservable input)

Liabilities measured at fair value

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

As at 31st December, 2009:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	—	213,365	—	213,365

During the year, there were no transfers into or out of the Level 3 fair value measurements (2009 : Nil).

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

The Group has put in place interest rate swap arrangements to limit the variability in cash flows attributable to changes in interest rates. This involves fixing portions of interest payable on its underlying bank borrowings via derivative instruments. Details of interest rate swaps are set out in note 19 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, 2010 would have decreased/increased the Group's profit before tax and distributions to Unitholders by approximately HK$3.6 million (2009: HK$2.9 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:

	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**

* As further explained in note 18, despite the maturity profile disclosed above, the Refinanced Facilities included in the interest bearing bank borrowings balance was fully settled subsequent to the end of the reporting period and replaced by the New Facilities with different maturity profile.

	2009			
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	—	175,553	4,848,000	5,023,553
Accounts payable	7,595	—	—	7,595
Deposits received	—	5,855	540	6,395
Other payables and accruals	212	46,236	—	46,448
Due to a related company	—	—	64,429	64,429
Derivative financial instruments	—	137,645	75,720	213,365
	7,807	365,289	4,988,689	5,361,785

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 as stipulated in certain banking facilities ranged from 31.4% to 36.0% (2009: 32.6% to 44.0%), which was below the thresholds as allowed under the respective banking facility agreements. At the end of the reporting period, the gearing ratio of 31.1% (2009: 32.0% (as restated)), being the gross amount of the outstanding loans of approximately HK$4,705.0 million (2009: HK$4,641.0 million) divided by the total assets of approximately HK$15,107.3 million (2009: HK$14,495.4 million (as restated)), was below the maximum limit of 45% stipulated under the REIT Code.

31. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

32. EVENTS AFTER THE REPORTING PERIOD

(a) On 27th January, 2011, 1,644,591 new Units were issued to the REIT Manager at HK$2.109 per Unit in settlement of the REIT Manager Base Fee of approximately HK$3.5 million for November 2010.

(b) On 28th February, 2011, 1,607,200 new Units were issued to the REIT Manager at HK$2.23 per Unit in settlement of the REIT Manager Base Fee of approximately HK$3.6 million for December 2010.

(c) In accordance with the terms of the Trust Deed, 12,619,297 new Units will be issued to the REIT Manager in settlement of the REIT Manager Variable Fee of approximately HK$28.1 million for the year ended 31st December, 2010.

33. CONTINGENCIES AND PROVISION

A wholly-owned subsidiary of Regal REIT that owns the Regal Hongkong Hotel had instituted legal proceedings with the High Court in 2007 as plaintiff (the "Plaintiff") against a defendant who is the owner of a neighboring commercial building regarding a claim for reinstatement of easements and rights of way on the 1st floor and basement and for damages for interference during the renovation period of that commercial building (the "Claims"). The defendant made a counterclaim against the Plaintiff with respect to the usage of certain driveway areas on the ground floor of the Regal Hongkong Hotel (the "Counterclaim").

On 1st February, 2010, the High Court released a judgement to dismiss the Plaintiff's Claims and the defendant's Counterclaim and made a costs order nisi that the Plaintiff pays the defendant the costs of the Claims and the defendant pays the Plaintiff the costs of the Counterclaim (the "Judgement"). On 26th February, 2010, an appeal was filed by the Plaintiff against the Judgement on the Claims made by the High Court and the hearing for the appeal has been re-scheduled to November 2011. The outcome of such appeal remains uncertain at this stage.

On 19th July, 2010, a bill of costs in respect of the Claims was communicated by the defendant and the Plaintiff filed a list of objection items on such bill of costs on 15th October, 2010. Following 'without prejudice' negotiations between the Plaintiff and the defendant to narrow down the items under objection, the Directors take the view it is probable that a certain portion of the bill of costs of the Claims communicated by the defendant could be payable after a taxation hearing scheduled in May 2011. Accordingly, the Group has provided for the expected losses which could arise from the Judgement. This amount has been included in "Other payables and accruals" in the consolidated statement of financial position. No further disclosures regarding the provision are being made by the Group at this stage as the Directors believe such disclosures might be prejudicial to the legal position of the Group.

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.

35. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the consolidated financial statements, due to the adoption of the new and revised HKFRSs during the current year, the accounting treatment of certain items and balances in the consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been restated to conform with the current year's accounting treatment, and a third consolidated statement of financial position as at 1st January, 2009 has been presented.

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 98, which comprise the consolidated statement of financial position as at 31st December, 2010, 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 these 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 and the fourth supplemental trust deed dated 23rd July, 2010 (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, 2010, 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

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

23rd March, 2011

As at 31st December, 2010

	Notes	Year ended 31st December, 2010	Year ended 31st December, 2009 (Restated)	Year ended 31st December, 2008 (Restated)	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 (Restated)
Net assets attributable to Unitholders (HK$'million)		**9,919.6**	9,329.0	9,121.6	12,486.8
Net asset value per Unit attributable to Unitholders (HK$)		**3.060**	2.911	2.903	4.008
The highest traded price during the year/period (HK$)	1	**2.24**	1.70	2.37	2.79
The lowest traded price during the year/period (HK$)		**1.65**	0.84	0.66	1.99
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		**46.08%**	71.14%	77.26%	50.35%
Distribution yield per Unit	2	**8.52%**	10.30%	17.28%	7.20%
Annualised distribution yield per Unit		**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 of 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, 2010 is calculated by dividing the total distributions per Unit of HK$0.190 over the closing price of HK$2.23 as at 31st December, 2010, 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 53.

TRUSTEE'S REPORT

TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

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

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

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

Hong Kong, 14 March 2011

25 FEBRUARY 2011

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)

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
香港灣仔港灣道18號中環廣場5701室
Tel 852 2828 9888
Fax 852 2107 6051
www.colliers.com

Dear Sir/Madam,

Re : Valuation of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal iClub Building 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 2010 (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 2010 HK$
1	**Regal Airport Hotel** 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong	3,400,000,000
2	**Regal Hongkong Hotel** 88 Yee Wo Street, Causeway Bay, Hong Kong	3,280,000,000
3	**Regal Kowloon Hotel** 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong	3,730,000,000
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 Shing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong	1,340,000,000
5	**Regal Riverside Hotel** 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong	2,560,000,000
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	570,000,000
	Total:	**14,880,000,000**

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/11 dated 12 June 2009.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Superior Room	596	Spa Cabana Room	5
Deluxe Room	236	Spa Suite	3
Premier Room	117	Royal Suite	11
Regal Club Superior Room	68	Spa Duplex Suite	2
Regal Club Deluxe Room	94	Deluxe Suite	24
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.)	Seating Capacity (approx.) No. of normal dining seating
G/F	Café Aficionado	Coffee Shop	733	384
G/F	China Coast Bar & Grill	American Steakhouse	550	184
G/F	Dragon Inn	Shanghainese Cuisine	324	182
G/F	Airport Izakaya	Japanese Cuisine	202	143
1/F	Rouge	Cantonese Cuisine	454	228
2/F	Regala Café & Dessert Bar	Lobby Lounge	306	102
		Total	**2,569**	**1,223**

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facilities	No. of Rooms	Seating Capacity (approx.) Area (sq.m.)	No. of Seating in Theatre/ Boardroom Style	No. of Seating in Banquet Style
B/F	Pre-function Area and Meeting Rooms	Conference and Exhibition	13	1,645	466	472
1/F	Ballroom	Banquet/ Convention	1[1]	960	960	960
1/F	Multi-purpose Function Rooms	Meeting and Conference	7	490	377	264
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**	**3,249**	**1,881**	**1,696**

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 2010

Occupancy Rate:	78%
Average Room Rate:	HK$866

Lease Agreement

Lessor:	Bauhinia Hotels Limited
Lessee:	Favour Link International Limited
Term of Lease Agreement:	Commencing from the Listing Date and expiring on 31 December 2015 (both days inclusive).
Rental	From 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[3] over the aggregate Base Rent of the Initial Hotels for such year, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

---

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.

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

Year	Base Rents[4]	Rates of Variable Rents
2007	Pro-rated portion of HK$270,000,000, which is for whole year Apportioned to HK$204,000,000	100%
2008	HK$300,000,000	70%
2009	HK$230,700,000	60%
2010	HK$240,000,000	50%

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million ("Minimum Guaranteed Variable Rent") in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK$101.6 million has been received, and the remaining Minimum Guaranteed Variable Rent amounted to HK$118.4 million.

From 2011 to 2015, the Market Rent[5] 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 Market Rental Package Determination, Base Rent for RAH is HK$176,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for 2011, 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[6] (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[7] 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 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Airport Hotel entered into between Bauhinia Hotels Limited and Favour Link International Limited on 12 February 2010.

5 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.

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

7 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[8]

Retail Area (Lettable): Approx. 40,100 sq.ft. (3,725 sq.m.)

Occupied Area (Lettable): Approx. 11,485 sq.ft. (1,067 sq.m.)

Vacant Area (Lettable): Approx. 28,615 sq.ft. (2,658 sq.m.)

Occupancy Rate: 28.6%

Monthly Base Rent: HK$353,385 (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	6.9%	27,790	7.9%	1	11.1%
Year Ending 2011	7,831	68.2%	209,981	59.4%	4	44.4%
Year Ending 2012	2,860	24.9%	115,614	32.7%	4	44.4%
Total	**11,485**	**100% (rounded)**	**353,385**	**100% (rounded)**	**9**	**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	6.9%	27,790	7.9%	1	11.1%
1 year or less than 1 year	2,186	19.0%	62,500	17.7%	1	11.1%
More than 1 year and up to 2 years	8,505	74.1%	263,095	74.4%	7	77.8%
Total	**11,485**	**100% (rounded)**	**353,385**	**100% (rounded)**	**9**	**100% (rounded)**

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

Latest Expiry Date: 17 October 2012

Range of Rent Free Period: 0 to 3 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[9] 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: 6

Monthly Licence Fee: HK$212,750 per month

Latest Expiry Date: 14 February 2011

5. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[10] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[11], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[12] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[13] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% y-o-y during the same period[14]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 27.0%[15] y-o-y.

9 All tenancies are entered by Favour Link International Ltd as Landlord.
10 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
11 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
12 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.
13 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
14 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
15 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2010" and "Hotel Room Occupancy Report – Dec 2009", 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 $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, 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 and cargo was 50.9 million[16] (increase 10.3% y-o-y) and 4.1 million tons (increase 23.4% y-o-y), respectively in 2010, 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 (37.2% in 2010), and business visitors (33.3% in 2010) 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 Asian visitors (excluding Mainland China, at 36.8% in 2010) and Mainland China visitors (34.8% in 2010). Visitors from the Americas, Europe and other regions represented 28.4% of the total demand.

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[17]

8.3%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$3,400,000,000

16 Source: "Provisional Civil International Air Traffic Statistics at HKIA, Dec-2010" Hong Kong International Airport.

17 The Estimated Net Property Yield of RAH is derived from the rental receivable in 2010 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[18].

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
Chairman Suite	1
Regal Royale Suite	2
Total:	**482**

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

18 The owner of RHK has also rented some spaces on G/F to 3/F of 68 Yee Wo Street. The first tenancy is related to hotel ancillary use of 10,510 sq.ft. (976 sq.m.) lettable area. The current monthly rent is HK$500,000 with expiration on 1 March 2022. The second one of lettable area of 3,437 sq.ft. (319 sq.m.) expired on 28 March, 2008. The owner of RHK is currently paying a mesne profit of HK$96,497 per month.

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	109	50
G/F	Regal Patisserie	Cake Shop	N/A	N/A
1/F	Café Rivoli	Coffee Shop	316	200
3/F	Regal Palace	Chinese Restaurant	746	500
31/F	Zeffirino Ristorante	Italian Restaurant	220	120
		Total	**1,391**	**870**

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
2/B	Multi-purpose Function Rooms	Banquet/ Convention	5	343	240	216
1/B	Ballroom	Banquet/ Convention	1	238	238	228
1/B	Multi-purpose Function Rooms	Banquet/ Convention	3	176	105	60
3/F	Meeting Rooms	Banquet/ Convention	6	336	255	228
		Total	**15**	**1,093**	**838**	**732**

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 2010

Occupancy Rate: 80%

Average Room Rate: HK$1,186

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 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[19] over the aggregate Base Rent of the Initial Hotels for such year, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

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

Year	Base Rents[20]	Rates of Variable Rents
2007	Pro-rated portion of HK$110,000,000, which is for whole year Apportioned to HK$83,130,000	100%
2008	HK$115,000,000	70%
2009	HK$160,700,000	60%
2010	HK$167,100,000	50%

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million ("Minimum Guaranteed Variable Rent") in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK$101.6 million has been received, and the remaining Minimum Guaranteed Variable Rent amounted to HK$118.4 million.

From 2011 to 2015, the Market Rent[21] 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 Market Rental Package Determination, Base Rent for RHK is HK$114,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for 2011, 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[22] (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[23] 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)

20 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Hongkong Hotel entered into between Cityability Limited and Favour Link International Limited on 12 February 2010.

21 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.

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

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

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

5. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[24] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[25], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[26] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[27] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% y-o-y during the same period[28]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 27.0%[29] 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.

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24 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.

25 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.

26 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

27 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.

28 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.

29 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2010" and "Hotel Room Occupancy Report – Dec 2009", Research, Hong Kong Tourism Board and Colliers International.

- The opening of the new SkyPier at Hong Kong International Airport ("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 $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, 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 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 2010, about 51.0% of the room demand of RHK came from leisure visitors.

RHK also 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 2010, demand from business visitors represented 35.5% of the total.

The geographical customer market segmentation at RHK is made up of Asian visitors (excluding Mainland China, at 38.7% in 2010) and Mainland China visitors (38.3% in 2010). Visitors from the Americas, Europe and other regions represented 23.0% of the total demand.

The Michelin Guide, Hong Kong and Macao 2011 edition recognised RHK by awarding one star to its Cantonese restaurant Regal Palace.

Future developments, such as the pedestrianisation of parts of Causeway Bay and the redevelopment of the Hennessy Centre from office to retail space, will also add to the attractiveness of Causeway Bay as one of the city's major shopping areas.

Planned additions, namely the Best Western Hotel Causeway Bay with 260 rooms[30], the two proposed hotels[31] with 38 rooms and 69 rooms, respectively, on Tang Lung Street, and the 121-room Kong Link Hotel[32] in Causeway Bay, are not expected to directly affect RHK, due to differences in scale and target groups, supported by the generally high demand for hotel rooms as demonstrated by the high occupancy rates in Causeway Bay.

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

6. ESTIMATED NET PROPERTY YIELD[33]

5.5%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$3,280,000,000

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30 Planned date of completion for the 260-room Best Western Hotel Causeway Bay will be 1st Quarter 2011. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

31 Planned dates of completion for the proposed 38-room hotel and 69-room hotel will be mid-2011 and end-2012 respectively. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

32 Planned date of completion for the proposed 121-room Kong Link Hotel will be September 2012. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

33 The Estimated Net Property Yield of RHK is derived from the rental receivable in 2010 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/K1/25 dated 12 February 2010.

Hotel Guestroom Configuration

Room Type	No. of Rooms
Standard Room	83
Superior Room	105
Deluxe Room	105
Premier Room	42
Regal Club Superior Room	81
Regal Club Deluxe Room	146
Executive Suite	14
Royal Suite	16
Deluxe Suite	8
Total	**600**

Note: The room sizes range from 21 sq.m. to 56 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	Coffee Shop	349	186
G/F	Regala Café & Dessert Bar[34]	Lobby Lounge	152	80
G/F	Regala Healthy Cakes	Cake Shop	N/A	N/A
1/F	Basso Bar	Bar and Lounge	233	140
1/F	Mezzo Grill	American Steakhouse	197	70
2/F	Regal Court	Chinese Cuisine	648	266
3/F	Zeffirino Ristorante	Italian Cuisine	373	74
		Total:	**1,952**	**816**

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**
2/B	Meeting Room	Banquet / Convention	1	156	150	72
2/F	Multi-purpose Function Rooms	Banquet / Convention	6	331	310	156
3/F	Ballroom	Banquet / Convention	1	349	349	349
3/F	Multi-purpose Function Rooms	Banquet / Convention	5	233	233	156
		Total	**13**	**1,069**	**1,042**	**733**

Other Facilities

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

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

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.

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 2010

Occupancy Rate: 91%

Average Room Rate: HK$944

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 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[35] over the aggregate Base Rent of the Initial Hotels for such year, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents[36]	Rates of Variable Rents
2007	Pro-rated portion of HK$115,000,000, which is for whole year Apportioned to HK$86,820,000	100%
2008	HK$120,000,000	70%
2009	HK$166,200,000	60%
2010	HK$172,900,000	50%

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million ("Minimum Guaranteed Variable Rent") in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK$101.6 million has been received, and the remaining Minimum Guaranteed Variable Rent amounted to HK$118.4 million.

From 2011 to 2015, the Market Rent[37] 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.

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

36 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Kowloon Hotel entered into between Ricobem Limited and Favour Link International Limited on 12 February 2010.

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

According to the 2011 Market Rental Package Determination, Base Rent for RKH is HK$115,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for 2011, 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[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. 38,918 sq.ft. (3,616 sq.m.)

Vacant Area (Lettable): 0 sq.ft. (0 sq.m.)

Occupancy Rate: 100.0%

Monthly Base Rent: HK$943,653 (all except six tenancies are exclusive of rates, management fees and air conditioning charges; the remaining six tenancies are inclusive of management fees and air conditioning charges, but exclusive of rates)

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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	6.8%	29,000	3.1%	5	17.2%
Year Ending 2011	6,578	16.9%	210,258	22.3%	6	20.7%
Year Ending 2012	22,089	56.8%	570,145	60.4%	16	55.2%
Year Ending 2013	7,587	19.5%	134,250	14.2%	2	6.9%
Total	**38,918**	**100% (rounded)**	**943,653**	**100% (rounded)**	**29**	**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	6.8%	29,000	3.1%	5	17.2%
More than 1 year and up to 2 years	14,602	37.5%	476,033	50.4%	18	62.1%
More than 2 year and up to 3 years	21,652	55.6%	438,620	46.5%	6	20.7%
Total	**38,918**	**100% (rounded)**	**943,653**	**100% (rounded)**	**29**	**100% (rounded)**

Latest Expiry Date: 9 August 2013

Range of Rent Free Period: 0 to 3.5 months

Option to Renew: Two of the tenancies have an option to renew for one year at market rent, and at market rent but within pre-determined range respectively.

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: 11

Monthly Licence Fee: HK$81,200 per month

Latest Expiry Date: 30 November 2011

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

5. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[42] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[43], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[44] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[45] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% 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 27.0%[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 Hong Kong International Airport ("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.

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42 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
43 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
44 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.
45 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
46 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
47 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2010" and "Hotel Room Occupancy Report – Dec 2009", Research, Hong Kong Tourism Board and Colliers International.

- The midfield development project of HKIA, in which the $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, 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. 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 2010, about 46.1% of the demand for hotel rooms at RKH is from leisure visitors.

RKH also benefits from demand created by businesses located in Tsimshatsui, with business visitors representing 34.1% of the total demand in 2010.

The geographical customer market segmentation at RKH is made up of Asian visitors (excluding Mainland China, at 40.5% in 2010) and Mainland China visitors (17.5% in 2010). Visitors from the Americas, Europe and other regions represented 42.0% of the total demand.

Three new hotels, namely Yi, the Hullett House and the Bauhinia (TST) Hotel, opened in 2010 providing a total of 90 rooms[48] in Tsim Sha Tsui. These new hotels are unlikely to apply significant pressure on RKH due to difference in target markets. Planned additions, namely Hotel ICON of 262 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], may have pressure on both the occupancy rates and the average room rates of RKH in the short term, however, they are unlikely to apply significant pressure on RKH due to difference in target markets.

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

6. ESTIMATED NET PROPERTY YIELD[52]

4.9%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$3,730,000,000

48 Yi has 33 rooms, the Hullett House has 13 rooms and the Bauhinia (TST) Hotel has 44 rooms. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

49 Planned date of completion for the proposed 262-room Hotel ICON will be 1st Quarter 2011. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

50 Planned date of completion for the proposed 50-room hotel at Knutsford Terrace will be 4th Quarter 2012. Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

51 Planned dates of completion for the 396-room Magnificent International Hotel Kowloon will be early-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 2010", Research, Hong Kong Tourism Board.

52 The Estimated Net Property Yield of RKH is derived from the rental receivable in 2010 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:	23,623 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	48
Superior Room	60
Deluxe Room	201
Premier Room	28
Regal iClub Superior Room	38
Regal iClub Deluxe Room	47
Executive Suite	3
Royal Suite	1
Deluxe Suite	12
Presidential Suite	1
Total	**439**

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

Food and Beverage Outlets

			Seating Capacity (approx.)	
Floor	Name of Outlet	Type of Facilities	Area (sq.m.)	No. of normal dining seating
1/B	Café Neo	Coffee Shop	361	298
G/F	Regal Patisserie	Cake Shop	N/A	N/A
G/F	China Coast Pub[53]	Restaurant and Pub	328	154
2/F	Regal Terrace	Cantonese Cuisine	385	300
14/F	Five Continents Restaurant	Italian Cuisine	337	120
14/F	Sky Lounge	Bar	156	100
		Total	**1,567**	**972**

[53] Outdoor seatings are provided on the G/F.

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facilities	No. of Rooms	Area (sq.m.)	Seating Capacity (approx.) No. of Seating in Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/ Convention	1	345	250	300
1/F	Multi-purpose Function Rooms	Banquet/ Convention	7	302	294	204
2/F	Multi-purpose Function Rooms	Banquet/ Convention	10	352	220	228
3/F	Meeting Room in Club Lounge	Meeting and Conference	1	15	8	N/A
		Total	**19**	**1,014**	**772**	**732**

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 2010

Occupancy Rate: 91%

Average Room Rate: HK$661

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 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[54] over the aggregate Base Rent of the Initial Hotels for such year, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents[55]	Rates of Variable Rents
2007	Pro-rated portion of HK$45,000,000, which is for whole year Apportioned to HK$33,950,000	100%
2008	HK$50,000,000	70%
2009	HK$65,600,000	60%
2010	HK$68,200,000	50%

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million ("Minimum Guaranteed Variable Rent") in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK$101.6 million has been received, and the remaining Minimum Guaranteed Variable Rent amounted to HK$118.4 million.

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

55 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Oriental Hotel entered into between Gala Hotels Limited and Favour Link International Limited on 12 February 2010.

From 2011 to 2015, the Market Rent[56] 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 Market Rental Package Determination, Base Rent for ROH is HK$50,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for 2011, 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[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)

56 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.

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.

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$67,600
Latest Expiry Date:	30 June 2011

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

5. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[60] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[61], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[62] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[63] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% 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 27.0%[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 Hong Kong International Airport ("HKIA") providing high-speed ferries connecting to eight ports in the Mainland with a maximum capacity of eight million passengers annually.

60 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
61 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
62 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.
63 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
64 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
65 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report – Dec 2010" and "Hotel Room Occupancy Report – Dec 2009", Research, Hong Kong Tourism Board and Colliers International.

- 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 $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, 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.

Future development and extension of the Shatin to Central Link[66] by the MTR Corporation Limited is expected to improve the accessibility of ROH via the proposed Kai Tak Station to Hong Kong Island, Kowloon, the New Territories and Mainland China.

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 39.7% of the demand for hotel rooms in 2010.

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 58.8% of the total in 2010.

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

The geographical customer market segmentation at ROH is made up of Asian visitors (excluding Mainland China, at 61.5% in 2010) and Mainland China visitors (20.9% in 2010). Visitors from the Americas, Europe and other regions represented 17.6% 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]

6.2%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$1,340,000,000

67 The Estimated Net Property Yield of ROH is derived from the rental receivable in 2010 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/23 dated 5 June 2007.

Hotel Guestroom Configuration

Room Type	No. of Rooms
Standard Room	229
Superior Room	235
Deluxe Room	207
Premier Room	16
Regal iClub Superior Room	274
Regal iClub Deluxe Room	83
Regal iClub Premier Room	68
Spa Superior Room	4
Spa Deluxe 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-Vietnam Cuisine	149	92
G/F	Moon River	24 hours Restaurant	97	72
G/F	Dragon Inn	Huai Yang Cuisine	118	76
G/F	Avanti Ristorante[69]	Italian Cuisine	154	98
G/F	Scene Bar	Bar	233	88
G/F	Regal Patisserie	Cake Shop	N/A	N/A
1/F	Carnival Bar	Bar	286	120
1/F	Aji Bou Izakaya	Japanese Cuisine	337	180
2/F	Regal Terrace	Cantonese Cuisine	726	460
2/F	Regal Court	Chinese Fine Dining Cuisine	205	80
3/F	L'Eau Restaurant	Coffee Shop	409	220
		Total	**2,714**	**1,486**

Meeting and Banquet Facilities

Floor	Name of Function Room	Type of Facilities	No. of Rooms	Seating Capacity (approx.) Area (sq.m.)	No. of Seating in Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/ Convention	1	474	450	456
1/F	Multi-purpose Function Rooms	Banquet/ Convention	2	108	80	72
1/F	Forum	Meeting and Convention	1	518	500	432
2/F	Multi-purpose Function Rooms	Banquet/ Convention	5	319	205	192
3/F	Multi-purpose Function Rooms	Banquet/ Convention	4	313	200	168
3/F	Meeting Room	Banquet/ Convention	1	42	40	N/A
15/F	Meeting Room in Club Lounge	Meeting and Conference	1	14	8	N/A
		Total	**15**	**1,788**	**1,483**	**1,320**

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.

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

69 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.
- 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 2010

Occupancy Rate: 92%

Average Room Rate: HK$495

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 2007 to 2010 – Base Rent plus a Variable Rent. The Variable Rent is 50% to 100% of the excess of the aggregate Net Property Income ("NPI") of the five Initial Hotels[70] over the aggregate Base Rent of the Initial Hotels for such year, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels. The Base Rents and rates of Variable Rents for different calendar years are provided as follows:

Year	Base Rents[71]	Rates of Variable Rents
2007	Pro-rated portion of HK$90,000,000, which is for whole year Apportioned to HK$68,000,000	100%
2008	HK$115,000,000	70%
2009	HK$126,800,000	60%
2010	HK$131,800,000	50%

From the Listing Date through 2010, Regal Hotels International Holdings Limited guarantees that the Variable Rent shall be no less than HK$220.0 million ("Minimum Guaranteed Variable Rent") in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK$101.6 million has been received, and the remaining Minimum Guaranteed Variable Rent amounted to HK$118.4 million.

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

71 Base Rent payable by the Lessee for the years 2009 and 2010 is based on the First Supplemental Agreement amending the Lease Agreement for Regal Riverside Hotel entered into between Regal Riverside Hotel Limited and Favour Link International Limited on 12 February 2010.

From 2011 to 2015, the Market Rent[72] 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 Market Rental Package Determination, Base Rent for RRH is HK$105,000,000; and the Variable Rent is 50% of the excess of the aggregate NPI of the five Initial Hotels over the aggregate Base Rent of the Initial Hotels for 2011, 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)

72 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.

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.

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)

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)**

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

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$200,000 per month

Latest Expiry Date: 31 March 2011

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

5. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[77] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[78], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[79] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[80] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% 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 27.0%[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 Hong Kong International Airport ("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 $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- 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 2010", Research, Hong Kong Tourism Board.
78 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
79 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.
80 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
81 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
82 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report - Dec 2010" and "Hotel Room Occupancy Report – Dec 2009", 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, 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 (70.2% in 2010) and business visitors (29.4% in 2010).

The geographical customer market segmentation at RRH is made up of Mainland China visitors (62.5% in 2010), Asian visitors (excluding visitors from Mainland China) (30.3% in 2010). Visitors from the Americas, Europe and other regions represented 7.2% of the total demand.

There is only one planned addition to the supply of hotel rooms in the catchment area, which is the 535-room[83] Park Plaza Hotel at the junction of On Lai Street and On Ping Street, scheduled to be opened in May 2012. As such, competition is expected to be limited. Although upon its completion, there may be 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]

6.6%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$2,560,000,000

83 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

84 The Estimated Net Property Yield of RRH is derived from the rental receivable in 2010 divided by the Market Value.

Property 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

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 Building 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 iCafé, a restaurant operated by Regal iClub Hotel, and it will be let to an independent third party from 10 March 2011. 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.

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 Building.

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 Building 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**
G/F	iCafé[85]	Western Restaurant	51	40
		Total	**51**	**40**

Other Facilities

Other facilities include a function room on the 5th Floor.

85 The iCafe will be let to an independent third party from 10 March 2011.

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 20 October 2009, registered vide Memorial No. 09111702710145.

3. LEASE AGREEMENT

Lessor: Sonnix Limited

Lessee: Real Charm Investment Limited

Term of Lease Agreement: Commencing from the Effective Date[86] and expiring on 31 December 2010 (both days inclusive)

Rental: The monthly rent is HK$2,000,000 per calendar month for Regal iClub Building (exclusive of management expenses, rates, Government Rent and other sums[87] payable by the Lessee).

Remarks: The Lessor shall have the right to terminate the Lease Agreement at any time during the Term of the Lease Agreement by giving three (3) months' prior written notice to the Lessee without compensation to the Lessee and the Lessee shall not have any claim whatsoever against the Lessor for such early determination of this Lease.

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86 According to the Lease Agreement, "Effective Date" means the day following the completion date of the Sale and Purchase Agreement dated 20 October 2009.

87 According to the Lease Agreement, other sums refers to "Expenses" include all costs, claims, expenses, taxes, damages and liabilities but exclude amounts paid by the Lessor to any Tenant/Licensee by way of refund of tenancy/security deposits.

4. HOTEL OPERATION

Hotel Performance in 2010

Occupancy Rate:	93%
Average Room Rate:	HK$917

Hotel Management Agreement ("HMA")

Hotel Manager:	Regal Hotels International Limited
Term of HMA:	From the Effective Date[88], 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[89]
Incentive Fee:	Five percent (5%) of the excess of the Gross Operating Profit[90] over the Base Fee and the Fixed Charges.

88 According to the Hotel Management Agreement, "Effective Date" means 1 January 2011.

89 According to the Hotel Management Agreement, "Gross Revenues" means all revenue derived from the Hotel.

90 According to the Hotel Management Agreement, "Gross Operating Profit" means Total Hotel Revenue less Hotel Operating Expenses during the same period.

5. RETAIL/OFFICE TENANCIES

Retail

The retail spaces on Ground Floor with a gross area of 1,800 sq.ft. (167 sq.m.) are used by Regal iCafe. The retail spaces on Ground Floor will be let to an independent third party for a term of three years expiring on 9 March 2014 at a monthly rental of HK$138,000, exclusive of rates, government rent, management fees, air conditioning charges, and all other charges and outgoings.

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): Nil

Occupancy Rate: 100%

Monthly Base Rent: HK$290,640 (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%**

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[91] is to be responsible for payment of Government Rent and the structural and external repairs whilst the Tenant is to be responsible for the internal repairs of the Property.

[91] All tenancies are entered by Sonnix Limited and/or Real Charm Investment Limited as Landlord.

6. HOTEL MARKET COMMENTARY

In 2010, a total of 36.0 million[92] visitors came to Hong Kong, representing a year-on-year ("y-o-y") increase of 21.8%. Mainland visitors continue to be the largest source of visitors, contributing to about 63% of the total number of visitors, and amounted to 22.7 million[93], representing growth of 26.3% y-o-y. Cumulative increases were also recorded in all sub-markets, such as the Americas (11.6% y-o-y); Europe, Africa and the Middle East (10.4% y-o-y); Australia, New Zealand and South Pacific (8.6% y-o-y); North Asia (21.1% y-o-y); South and South-east Asia (21.3% y-o-y) and Taiwan (7.7% y-o-y). The increase in total visitor arrivals is mainly driven by the strong global economic rebound in 2010.

Along with the increase in the number of visitors arrivals, which turns into strong room demand and the slight increase in available room supply of about 1.3%[94] in 2010, the average occupancy of all hotels in Hong Kong rose by 9%[95] y-o-y in 2010. On the other hand, average achieved hotel room rate for all hotels rose by 13.9% y-o-y during the same period[96]. The increase in both the occupancy rate and the average achieved hotel room rate resulted in an increase in overall RevPAR of 27.0%[97] 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 Hong Kong International Airport ("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 $7 billion Phase 1 development will include the building of a new midfield concourse with 20 aircraft parking stands, a new 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 in 2015.
- The improvement and expansion of tourist attractions such as Ocean Park and Hong Kong Disneyland.

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92 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
93 Source: "Visitor Arrivals Statistics – Dec 2010", Research, Hong Kong Tourism Board.
94 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.
95 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
96 Source: "Hotel Room Occupancy Report – Dec 2010", Research, Hong Kong Tourism Board.
97 RevPAR – Revenue per available room. Source: "Hotel Room Occupancy Report - Dec 2010" and "Hotel Room Occupancy Report - Dec 2009", 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 - "Hong Kong Food and Wine Year" - and promoting Hong Kong as Asia's wine and gourmet centre in the long run.

Looking ahead, hotel room demand in Hong Kong during 2011 is expected to improve, which will have a positive impact on hotel performance.

Regal iClub Building 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 Building.

Regal iClub Hotel is expected to enjoy strong demand for rooms from among business visitors, traders and exhibitors due to its location close to the Hong Kong Convention and Exhibition Centre. Moreover, Regal iClub Building 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.

Planned additions of approximately 318 rooms include the 70-room[98] Hotel Citta, scheduled to be opened in 2011, the 49-room[99] Hennessy Hotel and the proposed 79-room[100] hotel at 135-139 Thomson Road, both scheduled to be opened in 2012, and the proposed 120-room[101] hotel at Low Block, 26 Harbour Road, scheduled to be opened in 2016. These new hotels are unlikely to apply significant pressure on Regal iClub Hotel's occupancies and room rates due to differences in target groups and market positioning.

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 to strong growth in both occupancy and the average room rates.

7. ESTIMATED NET PROPERTY YIELD[102]

4.2%

8. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2010

HK$570,000,000

98 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

99 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

100 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

101 Source: "Hotel Supply Situation – as at Dec 2010", Research, Hong Kong Tourism Board.

102 The Estimated Net Property Yield of Regal iClub Building is derived from the rental receivable in 2010 divided by the Market Value.

SUMMARY OF PROPERTIES

As at 31st December, 2010

PROPERTIES FOR INVESTMENT

	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	23,623	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, 2010 HK$'000	Year ended 31st December, 2009 HK$'000 (Restated)	Year ended 31st December, 2008 HK$'000 (Restated)	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK$'000 (Restated) (Note 1)
Gross rental revenue	**909,974**	763,408	761,963	672,787
Net rental income	**899,259**	754,004	750,039	665,682
Profit/(loss) before tax and distributions to Unitholders	**1,120,407**	787,990	(2,684,941)	4,486,781
Profit/(loss) for the year/period, before distributions to Unitholders	**997,093**	682,282	(2,757,046)	4,421,905
Distributable income for the year/period attributable to Unitholders	**682,879**	558,166	501,930	421,486
Total distributions per Unit	**HK$0.190**	HK$0.170	HK$0.16761	HK$0.15327

Summary of the assets and liabilities

	2010 HK$'000	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)	2007 HK$'000 (Restated)
Non-current assets:				
Investment properties	**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	**227,343**	203,480	332,940	401,914
Total assets	**15,107,343**	14,495,393	13,820,344	16,945,180
Current liabilities	**187,669**	73,875	64,257	62,314
Non-current liabilities	**5,000,063**	5,070,969	4,634,478	4,396,083
Total liabilities	**5,187,732**	5,144,844	4,698,735	4,458,397
Non-controlling interest	**—**	21,508	—	—
Net assets attributable to Unitholders	**9,919,611**	9,329,041	9,121,609	12,486,783
Net asset value per Unit attributable to Unitholders	**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.

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