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)

2012 Annual Report

Managed by

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

CONTENTS

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
Lo Po Man
Kenneth Ng Kwai Kai

Executive Directors
Francis Chiu
Simon Lam Man Lim

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

RESPONSIBLE OFFICERS OF THE REIT MANAGER

Francis Chiu
Simon Lam Man Lim
Yip Yat Wa

AUDIT COMMITTEE OF THE REIT MANAGER

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

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

Savills Valuation and Professional Services Limited

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
The Bank of East Asia, Limited
Cathay United Bank Company, Limited Hong Kong Branch
Chinatrust Commercial Bank, Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
Credit Agricole Corporate & Investment Bank
Hang Seng Bank Limited
Mega International Commercial Bank Company Limited
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Taiwan Cooperative Bank, Ltd., Hong Kong Branch
United Overseas 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 2012 Annual Report of Regal Real Estate Investment Trust.

For the year ended 31st December, 2012, Regal REIT achieved a consolidated net profit before distributions to Unitholders of HK$3,548.8 million, an increase of 18.4% over the comparative amount of HK$2,997.3 million recorded for the year 2011. The profit achieved for the year under review included a gain of HK$3,068.0 million derived from the changes in the fair values of Regal REIT's investment properties, while for the preceding year, a gain of HK$2,625.3 million was recorded from such fair value changes. Benefiting from the significant appreciation in the market valuations of the investment properties, comprising primarily the five Initial Hotels in Hong Kong, the net asset value per Unit attributable to Unitholders has increased to HK$4.891 per Unit as at 31st December, 2012, as compared to HK$3.884 per Unit as at the preceding year end.

Total distributable income has increased by 16.8% from HK$397.9 million last year to HK$464.7 million in the year under review. The Directors of the REIT Manager have resolved to declare a final distribution of HK$0.077 per Unit for the year ended 31st December, 2012, bringing the total distributions per Unit for 2012 to HK$0.140, representing an increase of 16.7% over the HK$0.120 per Unit distributed in 2011. Total distributions for the year, including both the interim and final distributions, will amount to HK$456.0 million and represent a payout ratio of 98.1% of the total distributable income for 2012.

During the year under review, the global economy as a whole improved modestly but the pace of recovery was slow. In the United States, the financial conditions have stabilized and the once acute sovereign debt crisis in the Euro area has also gained some relief, although ripples may still surface from time to time. The further quantitative easing measures undertaken by the central monetary authorities of the United States, the Euro area and Japan have increased market liquidity and improved the investment sentiment. Capital flows to the emerging markets remained strong and the developing economies continued to be the main drivers for global economic growth. With the strengthened domestic demand and the gradual rebound in industrial production, the economy in China appears to have bottomed out in 2012, with GDP growth being maintained at 7.8%. In Hong Kong, the local economy continued to be resilient but due to the relatively weak external conditions, Hong Kong's GDP growth has slowed down from 4.9% in 2011 to 1.4% in 2012. On the other hand, benefiting from the market liquidity and the continuing low interest environment, both the capital and property markets in Hong Kong remained buoyant.

In 2012, visitor arrivals to Hong Kong increased by 16.0% year-on-year to a total of over 48.6 million, which was mainly fueled by the strong growth from Mainland China. The Hong Kong Tourism Board has intensified its promotional campaigns in provinces beyond Guangdong to open up new visitor sources in other Mainland cities and, in the meantime, is also working to keep the visitors' portfolio diversified by rolling out a series of mega events to enhance Hong Kong's appeal internationally.

Based on the Hotel Survey published by the Hong Kong Tourism Board, the average hotel occupancy rate for all the surveyed hotels in different categories for 2012 was 89%, while the average achieved room rate attained a year-on-year increase of 9.8%.

During the year under review, the five Initial Hotels in Hong Kong leased to the wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL") have achieved steady progress. The combined average occupancy rate for these five hotels was 90.0% and the average room rate increased by 12.0% year-on-year, both of which were above the industry average. The Regal iClub Hotel in Wanchai, which is owned and self-operated by Regal REIT, continued to achieve satisfactory results, with average occupancy rate being maintained at a high level of 97.4% and the average room rate improving by 4.2% year-on-year.

The rental review for the leasing of the five Initial Hotels for 2013 was completed in August 2012 and the aggregate annual base rent has been determined at HK$734.0 million, an increase of 13.8% over the annual base rent of HK$645.0 million for 2012, with variable rent being similarly based on a sharing of 50% of the excess of the aggregate net property income of the Initial Hotels over the aggregate base rent. Based on present forecasts and barring any unforeseen circumstances, it is anticipated that the net property income of the five Initial Hotels in 2013 will be above the base rent level, with sharing of variable rent to Regal REIT.

The conversion works on the 14th floor of the Regal Oriental Hotel have already been completed and the conversion works on the 2nd floor have recently commenced. When this conversion program is fully completed within the year, the total number of rooms and suites in the Regal Oriental Hotel will be increased by 55 guestrooms, boosting the total room count in the hotel portfolio owned by Regal REIT to an aggregate of 3,984 guestrooms and suites. Total valuation of the overall properties portfolio, before taking into account any value appreciation to arise from the room conversion programme presently undertaken in the Regal Oriental Hotel, amounted to HK$21,032.0 million as at 31st December, 2012, reflecting an increase of 18.4% as compared with that at the preceding year end. To further strengthen the marketing platform and to enhance business efficiency, a new centralized hotel property management system connecting all the six hotels in Hong Kong is being implemented, which will be completed in phases.

In its bid to further develop Hong Kong as Asia's World City and an international financial hub, Hong Kong has embarked on various initiatives to increase tourism facilities, such as the Kai Tak International Cruise Terminal and the expansion projects at Hong Kong Disneyland and Ocean Park. In the meanwhile, the Hong Kong government is also undertaking ten major infrastructure projects to improve connectivity as well as efficiencies for business activities, including, more notably, the expansion of the Hong Kong International Airport, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge. These will all benefit directly or indirectly the development of its tourism and hotel industries in the long run.

Over the past few months, the REIT Manager has been actively planning to expand the hotel portfolio of Regal REIT. On 11th January, 2013, Regal REIT announced the establishment and listing of a US$1 Billion Medium Term Note Programme ("MTN Programme"), which is intended to serve as a funding platform to finance the planned expansion of Regal REIT. On that same date, Regal REIT entered into a memorandum of understanding with P&R Holdings Limited ("P&R"), a joint venture that is 50/50 owned by RHIHL and Paliburg Holdings Limited, for the proposed grant of call options by P&R for Regal REIT to acquire two hotel projects being developed by P&R, namely, a hotel in Sheung Wan with 248 rooms and suites and a 336-room hotel in North Point. Details of the proposed call options were contained in the announcement published by the REIT Manager on 11th January, 2013. In order to allow further time for the parties to consider various issues relating to the proposed call options and the corresponding funding arrangements, the memorandum of understanding was amended by the parties on 28th February, 2013 to extend the end of the exclusivity period thereunder to 30th April, 2013. It is expected that a definitive proposal in relation to the proposed acquisition will be able to be worked out before the expiry of the extended exclusivity period.

Recently in March 2013, Regal REIT has issued under the MTN Programme, through private placements, a series of HK Dollar denominated senior unsecured 5-year term notes in aggregate nominal principal amount of HK$775.0 million at a coupon interest rate of 4.125% per annum.

The REIT Manager is optimistic on the continuing prospects of the tourism and hotel markets in Hong Kong and, as the only hospitality real estate investment trust listed in Hong Kong since 2007, is committed to maintaining Regal REIT's position as one of the pre-eminent hotel owners in Hong Kong. Although there will be quite a number of new hotels that will come on stream in Hong Kong over the course of the next few years, many of those new hotels are of relatively smaller sizes or are located in non-traditional business or tourist districts. The REIT Manager believes that Regal REIT has distinctive competitive advantages over such new hotels due to its operational efficiencies attained through economies of scale as well as its broad hotel network. With respect to the proposed acquisitions of the two new hotels, the REIT Manager will capitalize on the successful business model of the Regal iClub Hotel in Wanchai and is confident that the new additions to the property portfolio will be beneficial to Regal REIT in the growth of its earnings and capital value.

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

Lo Yuk Sui
Chairman

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

Hong Kong, 25th March, 2013

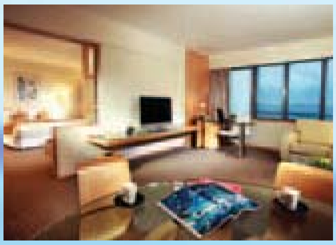
PROPERTIES PORTFOLIO

Location of the Hotel Properties in Hong Kong

Key to Hotel Facility Icons

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

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


Deluxe Suite


Executive Club Lounge


The China Coast Bar + Grill

REGAL AIRPORT HOTEL

1,171	960 sq.m.
1999	24
83,400 sq.m.	1
71,988 sq.m.	2
5	1
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
- Airline "Self Check-in" kiosk
- World's Best Airport Hotel and Best Airport Hotel Asia in the Skytrax Awards (2011-2012)
- Best Airport Hotel in the World by Business Traveller UK Magazine for five consecutive years (2008-2012)
- Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for twelve consecutive years (2001-2012)
- Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for eight consecutive years (2005-2012)
- Certified with ISO 22000 Food Safety Management System and HACCP (2012)
- Award of Carbon "Less" Logo of the Hong Kong Awards for Environmental Excellence (2013)
- 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)
- OM Spa - One of the Best Airport Facilities in the World ranked by Travel+Leisure Magazine (2008)

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

Deluxe Room

Regal Ballroom

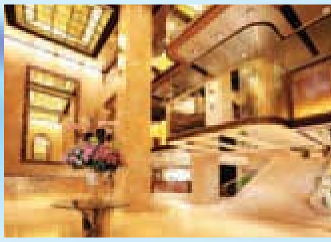
Zeffirino Ristorante

REGAL HONGKONG HOTEL

- Located in the heart of Causeway Bay, one of the busiest shopping and commercial districts 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
- Executive Club Floor 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, Executive Club Floor adds up to an exclusive experience of "a hotel within a hotel"
- Zeffirino Ristorante – Visitors' Choice Dining Awards 2013 – Top 30, organized by CityLife Magazine (2013)
- Top 10 Business Hotels in China of the 7th China Hotel Starlight Award (2012)
- Best Hotel for International Business Travelers in China of the 11th China Hotel Golden Horse Award (2011)
- Five Star Golden Diamond Award – Global Best Business Hotel by Global Hotel Forum (2008)

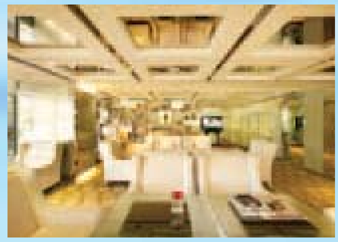
482	238 sq.m.
1993	14
31,900 sq.m.	1
25,083 sq.m.	1
3	1
1	

71 Mody Road, Tsimshatsui,
Kowloon, Hong Kong.
Tel: (852) 2722 1818
Fax: (852) 2369 6950
Email: info@kowloon.regalhotel.com
Website: www.regalhotel.com



Hotel Lobby

Premier Room



Executive Club Lounge

REGAL KOWLOON HOTEL

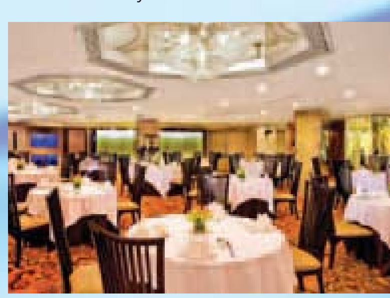
600	1
1982	353 sq.m.
43,500 sq.m.	12
31,746 sq.m.	1
3	1

- 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.
- Regal Court – Visitors' Choice Dining Awards 2013 – Top 30, organized by CityLife Magazine (2013)
- Best Business Hotel of China of the 12th China Hotel Golden Horse Award (2012)
- Gold Circle Award by agoda.com (2011-2012)
- Best Business Hotel Award in China Hotel Golden Dragon Award (2010)
- U Favourite Food Awards 2009 – New Restaurant for Regal Court by U Magazine (2010)
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)

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

Executive Club Floor Suite

Hotel Lobby



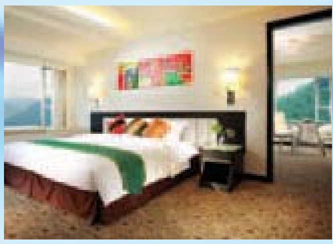
Regal Terrace

REGAL ORIENTAL HOTEL

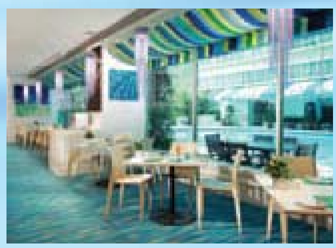
- Located in Kowloon City, facing the 328 hectares (810 acres) Kai Tak development site planned for a new urban centre to include a cruise terminal and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to a centralized bus stop and minibus to Kowloon Tong MTR station, Mong Kok and other business and shopping districts.
- Façade upgraded to give the property a new and fresh look
- Executive Club 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
- Best Service Hotel of China of the 13th China Hotel Golden Horse Award (2013)
- Most Charming Hotel of China of the 12th China Hotel Golden Horse Award (2012)
- Best Business Hotel of China of the 11th China Hotel Golden Horse Award (2011)
- Top 10 City-Nova Hotels of China of the China Hotel Starlight Award (2008)

439	1
1982	345 sq.m.
27,300 sq.m.	18
22,601 sq.m.	1
2	1

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


Deluxe Suite


Outdoor Swimming Pool


L'Eau Restaurant

REGAL RIVERSIDE HOTEL

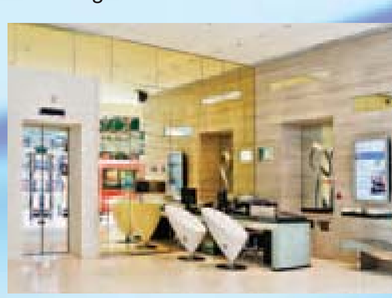
1,138	474 sq.m.
1986	13
69,000 sq.m.	1
59,668 sq.m.	1
8	1
2	1

- 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
- Executive Club 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 Executive Club 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
- Dragon Inn – Visitors' Choice Dining Awards 2013 – Top 30, organized by CityLife Magazine (2013)
- Best Business Traveler-Beloved Business Hotel in Guangdong Hongkong Macau of Gold Pearl Award by Let's Go Magazine for four consecutive years (2009-2012)
- Best Convention & Exhibition Hotel in China in the 9th China Hotel Forum & 2009 Annual Meeting of China Hotel Industry (2009)

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

iSuite

iLounge



Hotel Lobby

REGAL iCLUB HOTEL

- Regal iClub Hotel is a contemporary select-service 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
- Complimentary wired & wireless internet access
- Top 25 Trendiest Hotels in China of 2012 Travelers' Choice Award by TripAdvisor (2012)
- CarbonCare Label by Carbon Care Asia (2012)
- Prime Awards for Eco Business by Metro Box Magazine (2011)
- Best Green Hotel of China of the 6th China Hotel Starlight Award (2010)
- Best Boutique Hotel in China in the 10th China Hotel Forum & Annual Meeting of China Hotel Industry (2010)

99

2009

5,530 sq. m.

5,326 sq. m.

1

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, 2012.

VISION AND LONG-TERM OBJECTIVES OF REGAL REIT

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

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

ORGANISATION AND STRUCTURE OF REGAL REIT

Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by a first supplemental deed dated 2nd March, 2007, a second supplemental deed dated 15th May, 2008, a third supplemental deed dated 8th May, 2009, a fourth supplemental deed dated 23rd July, 2010, a fifth supplemental deed dated 3rd May, 2011 and a sixth supplemental deed dated 21st July, 2011) (collectively, the "Trust Deed") entered into between the REIT Manager and the Trustee of Regal REIT. 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.

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

As at 31st December, 2012, the portfolio of properties of Regal REIT comprised of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels") and Regal iClub Hotel.

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

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

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

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

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

RENTAL AND REVENUE STRUCTURE

Initial Hotels – Rental Revenue derived from Hotel Operations

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

Specifically, total hotel revenue consists of the following:

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

Hotel operating costs and expenses consist of direct costs and expenses attributable to the respective operating departments, e.g. rooms department, food and beverage department, etc. as well as costs and expenses attributable to overhead departments such as the administration department, the sales and marketing department and the 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, room revenue divided by rooms available, or a product of the occupancy rates and the average room rates (RevPAR does not include F&B Revenue or other income, i.e. only room revenue).

Initial Hotels – Rental Structure and Market Rental Package

Regal REIT received rental income, comprised of Base Rent and Variable Rent in respect of the Initial Hotels for the year 2012, from the RHIHL Lessee in accordance with the Market Rental Package for 2012.

Base Rent

Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the year, Regal REIT received an aggregate Base Rent of HK$645.0 million, representing fixed cash Base Rent of HK$53.75 million received on a monthly basis.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels operations over the Base Rent payments. For the year, as the aggregate net property income ("NPI") from hotel operations of the Initial Hotels was HK$922.2 million, Variable Rent of HK$138.6 million was earned by Regal REIT based on 50% sharing of the excess of the aggregate NPI over the aggregate fixed Base Rent according to the Market Rental Package for 2012.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the RHIHL Lease Agreements to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels. To maintain this reserve, the relevant lessors contribute an amount equal to 2% of the total hotel revenue of the relevant Initial Hotels. For the year ended 31st December, 2012, total amount set aside for the FF&E Reserve aggregated HK$76.0 million, representing 4% of the total hotel revenue of the Initial Hotels. The additional 2% contribution of HK$38.0 million was made pursuant to the provisions in the Trust Deed in relation to the determination of Total Distributable Income as approved by the REIT Manager. For the year ended 31st December, 2012, HK$40.3 million had been expended for the purposes intended.

Market Rental Package for 2013

Mr. David Faulkner, as an independent professional property valuer, was jointly appointed in June 2012 to conduct a rent review for the Initial Hotels for the year 2013. According to the determination of the Market Rental Package for the year 2013, the aggregate amount payable by the RHIHL Lessee as Base Rent was determined to be HK$734.0 million with Variable Rent calculated based on a sharing of 50% of the excess of the aggregate NPI of the Initial Hotels over the aggregate Base Rent from the operations thereof in 2013. According to the Market Rental Package determined for 2013, no FF&E Reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with the lessors.

The RHIHL Lessee is required to deliver a third party guarantee as security deposit, for an amount of HK$367.0 million which is equivalent to six months Base Rent for the year 2013, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for 2013 can be referred to in an announcement published on 27th August, 2012.

Regal iClub Hotel – Revenue Structure

Hotel Portion

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

For the year ended 31st December, 2012, Regal iClub Hotel - Hotel portion contributed gross hotel revenue of HK$46.3 million and incurred operating costs and expenses amounting to HK$18.4 million.

Other Portions

Regal iClub Hotel – Other portions, comprising a portion of the ground floor and the 27th to 29th floors of the premises, are let out to independent third parties which generated rental income of HK$5.1 million for the year under review.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the iClub Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the hotel portion of the Regal iClub Hotel. For the year ended 31st December, 2012, total amount set aside for the FF&E Reserve aggregated HK$1.9 million, representing 4% of the hotel revenue of Regal iClub Hotel. The additional 2% contribution of HK$1.0 million was made pursuant to the provisions in the Trust Deed in relation to the determination of Total Distributable Income as approved by the REIT Manager. For the year ended 31st December, 2012, HK$0.2 million had been expended for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2012 are set out in the consolidated financial statements on pages 49 to 94.

Review of the Economic Environment in 2012

During the year under review, global economic conditions improved modestly and financial conditions stabilized. The sovereign debt crisis in the Euro zone showed some signs of stabilization. At the global level, a further series of quantitative easing by the central monetary authorities of the United States, the Euro Area and Japan contributed to an improvement in market sentiment. The main sources of economic growth acceleration were originated from emerging market economies. Global growth is expected to be around 2.3 percent in 2012[1]. The European Central Bank's Longer-Term Refinancing Operations (LTRO) programs in 2012 has reduced the risk of a systemic crisis in the Euro Area and the prospect of money flowing back to the European Central Bank has driven up interest rates in the futures market[2]. In the United States, progress toward outlining credible medium-term fiscal consolidation plans has been achieved and, to support stronger economic recovery over time, the Federal Reserve has initiated another round of quantitative easing in 2012[3].

In the South Asian economies, tight monetary policies have been adopted to combat domestic inflation pressure amidst uncertainty in the global environment. In China, with a rebound growth in industrial production, the economy has bottomed out and its growth is anticipated to fuel global economic revival in the future. In 2012, the growth in China's GDP reached 7.8%[4].

For Hong Kong, GDP grew at 1.4% in 2012[5]. While continuing to rely on increased demand from neighboring and emerging markets, Hong Kong also benefits from ongoing financial and geographical integration with Mainland China, and continues to leverage on its financial infrastructure to develop Renminbi trades. The projected liberalization of China's capital account and the internationalization of the Renminbi with the positioning of Hong Kong as an official offshore Renminbi centre for China, will continue to strengthen Hong Kong's regional role in the global backdrop in the future.

---

1 Source: Publications, The World Bank, "Global Economic Prospects – Assuring growth over the medium term", January 2013.

2 Source: John Glover, Bloomberg, "Banks' LTRO Repayments to Underline Two-Tier Europe: Euro Credit", 24th January, 2013.

3 Source: Joshua Zumbrun, Bloomberg, "Fed Undertakes QE3 With $40 Billion Monthly MBS Purchases", 13th September, 2012.

4 Source: Press Release, National Bureau of Statistics of China, "China's Economy Achieved a Stabilized and Accelerated Development in the Year of 2012", 18th January, 2013.

5 Source: Press Release, Census and Statistics Department, "GDP by expenditure component for the fourth quarter of 2012 and the whole year of 2012", 27th February, 2013.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, 2012 versus 2011[6]

Visitors to Hong Kong by Geographical Regions	2012 (Percentage of total visitors	2012 (No. of visitors)	2011 (No. of visitors)	Variance (No. of Visitors)	Variance (%)
Mainland China	71.8%	34,911,395	28,100,129	6,811,266	24.2%
South & Southeast Asia	7.5%	3,651,803	3,751,149	(99,346)	(2.6%)
North Asia	4.8%	2,333,060	2,304,683	28,377	1.2%
Taiwan	4.3%	2,088,745	2,148,733	(59,988)	(2.8%)
Europe, Africa & the Middle East	4.6%	2,227,994	2,194,319	33,675	1.5%
The Americas	3.7%	1,777,842	1,821,096	(43,254)	(2.4%)
Australia, New Zealand & South Pacific	1.5%	740,795	757,871	(17,076)	(2.3%)
Macau SAR/Not identified	1.8%	883,479	843,330	40,149	4.8%
Total	100%	48,615,113	41,921,310	6,693,803	16.0%

In 2012, Hong Kong continued to be a highly-preferred travel destination and its positioning as Asia's World City is still well-received. During the year, total visitor arrivals to Hong Kong recorded a 16.0% increase and reached 48.6 million despite the challenging global economic environment.

Of the various geographical segments, Mainland China visitors remained the strongest growth driver. Mainland arrivals rose by 24.2% to 34.9 million and accounted for 71.8% of total arrivals. This is attributable to China's economic growth, currency appreciation, urbanization, growth in disposable income of middle-class families, together with the increase in the volume of leisure seekers to overseas destinations.

During the year under review, short-haul visitor arrivals to Hong Kong approached 9.0 million and accounted for 18.4% of total arrivals, which represented a slight drop as compared with the preceding year. Short-haul market visitors were mainly from Asian regions including North Asia, South & Southeast Asia, Taiwan and Macau.

In the wake of the European sovereign debt crisis and the looming fiscal cliff in the US, long-haul market arrivals recorded 4.7 million or 9.8% of total arrivals, which represented a slight decrease. Visitor arrivals from the Americas aggregated 1.8 million, representing 3.7% of the total number of visitors. Visitor arrivals from Europe, Africa and the Middle East reached 2.2 million, a rise of 1.5%, and accounted for 4.6% of total visitor arrivals.

6 Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Dec 2012", January 2013; the REIT Manager.

Review of Hotel Rooms Supply in Hong Kong in 2012 and Forecast for 2013

In 2012, supply status of hotel rooms in Hong Kong remained relatively tight, with an increase from 62,830 to 67,394 rooms, a rise of 4,564 rooms or 7.3%. During the year, 21 hotel properties opened, leading to an increase in the number of hotel properties from 190 to 211, posting an increase of 11.1%. Looking forward to 2013, 30 new hotels are planned to open in Hong Kong which will bring in an addition of 4,495 hotel guestrooms and suites. By the end of 2013, it is projected that there will be a 6.7% increase in total hotel room supply; with an aggregate of 71,889 hotel rooms expected to be available in Hong Kong[7].

Industry Performance

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

Hong Kong Hotel Market Performance (2012 versus 2011)[8]

	Room Occupancy Rates		**Average Room Rates**		**RevPAR**	
	2012	2011	**2012**	2011	**2012**	2011
Category	**%**	%	**HK$**	HK$	**HK$**	HK$
High Tariff A	**85**	85	**2,457**	2,229	**2,088**	1,895
High Tariff B	**91**	91	**1,228**	1,129	**1,117**	1,027
Medium Tariff	**92**	93	**781**	710	**719**	660
All Hotels	**89**	89	**1,489**	1,356	**1,325**	1,207

During 2012, the room occupancy rate was maintained at a similar level to 2011 for Hong Kong hotels, achieving an average of 89%. Owing to the increase in visitor arrivals, the market's average room rate rose by 9.8% year-on-year to HK$1,489 per night. The industry-wide RevPAR posted a similar increase of 9.8%, climbing to HK$1,325 per night in 2012 as compared with HK$1,207 per night in 2011.

7 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Dec 2012", February 2013; the REIT Manager.
8 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Dec 2012", December 2012; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has six hotel properties with an aggregate of 3,929 guestrooms and suites. The total valuation of Regal REIT's properties portfolio amounted to HK$21,032.0 million as at 31st December, 2012, an increase of about 18.4% as compared to the valuation of HK$17,769.0 million as at 31st December, 2011.

As the growth momentum of the hotel and tourism industry was sustained in 2012, the performance of the properties portfolio of Regal REIT showed respectable increases in all areas during 2012, as indicated by the comparisons with 2011 set out below.

Performance of the Initial Hotels

Total Hotel Revenue, Gross Operating Profit and Net Property Income
For the Initial Hotels for FY2012 versus FY2011

	FY2012 HK$'million	FY2011 HK$'million	Variance HK$'million	Variance (%)
Operating Results				
Room revenue	1,330.4	1,194.2	136.2	11.4%
Food and beverage revenue	524.2	448.8	75.4	16.8%
Other income	46.3	45.5	0.8	1.8%
Total hotel revenue	1,900.9	1,688.5	212.4	12.6%
Operating expenses	(942.9)	(865.8)	(77.1)	8.9%
Gross Operating Profit	958.0	822.7	135.3	16.4%
Other expenses	(62.0)	(55.9)	(6.1)	10.9%
Net rental income	26.2	25.3	0.9	3.6%
Net property income	922.2	792.1	130.1	16.4%
Statistics				
Average room rate	HK$1,054.62	HK$941.50	HK$113.12	12.0%
Occupancy rate	90.0%	90.7%	(0.7%)	(0.8%)
RevPAR	HK$949.04	HK$854.25	HK$94.79	11.1%
Total available room nights	1,401,780	1,397,950	3,830	0.3%
Occupied room nights	1,261,445	1,268,395	(6,950)	(0.5%)

During the year under review, total hotel revenue of the Initial Hotels attained HK$1,900.9 million with a growth rate of 12.6% compared with HK$1,688.5 million in 2011. Gross operating profit of the Initial Hotels rose to HK$958.0 million from HK$822.7 million, or an increase of 16.4% year-on-year. The net property income grew to HK$922.2 million in 2012 from HK$792.1 million in 2011, representing an increase of 16.4%.

In 2012, the strong fundamentals in the Hong Kong's hotel and tourism market, together with the relatively tight room supply, increasingly sophisticated revenue management, service upgrading and product enhancement, continued to be some of the substantive measures to sustained revenue growth. Despite the increase of room supply in the market in 2012, the average occupancy rate of Regal REIT's Initial Hotels achieved 90.0%, at a similar level compared to 2011. The average room rate increased to HK$1,054.62 in 2012 from HK$941.50 in 2011, representing a surge of 12.0% year-on-year. Likewise, RevPAR of the Initial Hotels surged to HK$949.04 in 2012 from HK$854.25 in 2011; recording a rise of 11.1% year-on-year.

In 2012, the Initial Hotels attracted an overall 46.6% in business travellers and 42.2% in leisure travellers in the segmental guest mix. In the 2012 visitors' purpose of visit to Hong Kong statistics, 13.4% were business travellers and 58.0% were leisure travellers[9]. This confirms the prevailing strategy of the Initial Hotels to appeal as full service commercial hotels in prime business locations positioned to support Hong Kong's long-term development and growth as a Renminbi center and financial hub.

Performance of Regal iClub Hotel

In 2012, Regal iClub Hotel continued to consolidate its business performance since its full operations began in December 2010. During the year under review, the average occupancy rate of Regal iClub Hotel reached 97.4% as compared to 96.0% in 2011. The average room rate surpassed HK$1,303, resulting in an average RevPAR of over HK$1,260 in 2012. The other portions of Regal iClub Hotel, comprising the portion of the ground floor and other areas on the 27th to 29th floor of the premises, were let out to third party operators at rentals approximating HK$5.1 million in 2012. With this business result, the REIT Manager considers Regal iClub Hotel's operating model and the hotel product itself to be consistently well-accepted by visitors and well-driven by high demand.

9 Source: Research, Hong Kong Tourism Board, "Visitors' Purpose of Visit by Major Market Areas", January 2013; the REIT Manger.

Performance of Regal REIT

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the year ended 31st December, 2012 compared to the prior year is set out below.

	2012		2011	
	HK$'million	**%**	HK$'million	%
Base Rent				
Cash Base Rent	**645.0**	**76.4**	560.0	76.1
Cash Additional Base Rent	**—**	**—**	1.1	0.1
Variable Rent	**138.6**	**16.4**	116.0	15.8
Others	**9.3**	**1.1**	9.9	1.3
Regal iClub Hotel				
Gross hotel revenue	**46.3**	**5.5**	44.1	6.0
Rental income	**5.1**	**0.6**	4.9	0.7
Gross rental and hotel revenue	**844.3**	**100.0**	736.0	100.0
Property operating expenses	**(11.5)**	**(1.4)**	(12.1)	(1.6)
Hotel operating expenses	**(18.4)**	**(2.2)**	(16.9)	(2.3)
Net rental and hotel income	**814.4**	**96.4**	707.0	96.1

During the year, net rental and hotel income represented 96.4% of the gross rental and hotel revenue, after the deduction of property and hotel operating expenses. The property management of Regal REIT is handled by the hotel manager under the relevant hotel management agreements with respect to the Initial Hotels and Regal iClub Hotel - Hotel portion.

Distributable Income and Distribution Policy

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

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

Distributions for 2012

The Directors of the REIT Manager have resolved to declare a final distribution of HK$0.077 per Unit for the period from 1st July, 2012 to 31st December, 2012. Together with the interim distribution of HK$0.063 per Unit for the period from 1st January, 2012 to 30th June, 2012, total distributions per Unit for 2012 will amount to HK$0.140, representing an yield of 6.31% based on the Unit closing price of HK$2.22 on the last trading day of 2012. The final distribution of HK$0.077 per Unit will be payable to Unitholders on the Register of Unitholders on 15th May, 2013.

Total Distributable Income for the year ended 31st December, 2012 was HK$464.7 million. The total amount of distributions for the year, including the interim distribution of HK$205.2 million and the final distribution of HK$250.8 million, amount to HK$456.0 million or 98.1% of the Total Distributable Income for the year.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Monday, 13th May, 2013 to Wednesday, 15th May, 2013, 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, 10th May, 2013. The relevant distribution warrants are expected to be despatched on or about 27th May, 2013.

Valuation of the Properties Portfolio

As at 31st December, 2012, Regal REIT's overall properties portfolio, comprised of the Initial Hotels and other portions of Regal iClub Hotel that were classified as investment properties and the owner-occupied hotel portion of Regal iClub Hotel which was classified as property, plant and equipment, was valued at HK$21,032.0 million, as compared to the valuation of HK$17,769.0 million as at 31st December, 2011.

Valuations of the properties as at 31st December, 2012 are tableted below:

Property	**Location**	**31 Dec 2012 Valuation HK$ million**	**31 Dec 2011 Valuation HK$ million**	**% change**
Initial Hotels:				
Regal Airport Hotel	Lantau Island	**3,300**	3,300	0%
Regal Hongkong Hotel	HK Island	**4,630**	4,000	+15.8%
Regal Kowloon Hotel	Kowloon	**5,370**	4,490	+19.6%
Regal Oriental Hotel	Kowloon	**2,080**	1,760	+18.2%
Regal Riverside Hotel	New Territories	**4,750**	3,460	+37.3%
		20,130	17,010	+18.3%
Regal iClub Hotel	HK Island	**902**	759	+18.8%
Overall properties portfolio		**21,032**	17,769	+18.4%

Savills Valuation and Professional Services Limited ("Savills") is the new principal valuer of Regal REIT appointed by the Trustee to succeed Colliers International (Hong Kong) Limited on its retirement after serving for a term of 3 years pursuant to the provisions of the REIT Code. The valuation of the properties portfolio as at 31st December, 2012 was conducted by Savills.

Savills, an independent professional property valuer, assessed the market values of the properties portfolio subject to the lease agreements, hotel operations 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. Savills used the discounted cash flow ("DCF") method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison method was also used as a check on the valuation arrived at from the DCF method.

Capital Additions Projects

Regal REIT undertakes, from time to time, funding of capital additions projects with the objective to maintaining and improving market competitiveness, the profitability of the hotel properties portfolio, the spatial utilization and the income-generating capability. Other capital additions projects may be necessary to comply with licensing requirements or to conform with legislation enactments and standards. Regal REIT continues to invest in capital additions projects as an on-going initiative to upgrade the quality and standards of the rooms and facilities in its hotel properties.

During the year, Regal REIT incurred capital expenditures amounting to HK$70.2 million. Major capital additions and renovation projects included:

(a) Refurbishment and upgrading of 347 guestrooms and suites and other hotel facilities within the portfolio, which were completed in 2012;

(b) Conversion of certain food and beverage areas in the Regal Oriental Hotel into 55 additional guestrooms with related refurbishment, to be completed in phases in the first and third quarters of 2013; and

(c) Replacement and upgrading of its centralized property management system for all six hotel properties in Hong Kong with a view to enhancing internet connectivity and operational efficiency, which is being completed in phases from the fourth quarter of 2012 through 2014.

Financial Strategy

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

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

As at 31st December, 2012, Regal REIT had loan facilities aggregating HK$4,840.0 million comprised of a term loan of HK$4,500.0 million secured by the Initial Hotels and a loan facility of HK$340.0 million secured by Regal iClub Hotel.

Financing for the Initial Hotels

On 7th March, 2012, Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, entered into an agreement in respect of a new term loan facility of HK$4,500.0 million (the "New Term Loan Facility") for a term of three years, which bears interest at a floating rate based on HIBOR plus 2.10% per annum and will be due in March 2015. The full drawdown of the principal amount under the New Term Loan Facility was made on 30th March, 2012 to refinance the previous term loan facility that matured on the same date.

The REIT Manager continued to take a prudent approach in managing the risks arising due to fluctuations in interest rates. As at 31st December, 2012, the interest cost for approximately 67% of debt exposure in respect of the New Term Loan Facility has been hedged to fixed rates through various plain vanilla interest rate swaps against HIBOR. The fixed rates payable to the hedging banks range from 0.355% per annum to 0.483% per annum. After taking into account the interest rate hedging arrangements, the effective interest rate has been brought down to 2.24% for the year 2012. The REIT Manager will continue to closely monitor the interest rate market and may, depending on market conditions, consider putting in place additional interest rate swaps in respect of the remaining unhedged loan portion under the New Term Loan Facility.

At 31st December, 2012, the loan-to-value ratio for the New Term Loan Facility was 22.4%, being the ratio of the outstanding term loan balance of HK$4,500.0 million as compared to the aggregate market value of the Initial Hotels of HK$20,130.0 million, based on the independent valuation as at 31st December, 2012. This loan-to-value ratio is well below the 40% allowed under the banking facility agreement.

Financing for Regal iClub Hotel

On 24th February, 2012, Regal REIT, through its wholly-owned subsidiary, namely, Sonnix Limited, entered into an agreement for a new loan facility of HK$340.0 million (the "New iClub Facility") for a term of three years to replace the then term loan and revolving credit facilities of HK$280.0 million. The New iClub Facility also bears HIBOR-based interest and no interest rate hedging has been arranged.

At 31st December, 2012, the loan-to-value ratio for the HK$340.0 million loan facility was 37.1%, being the ratio of the outstanding term loan balance of HK$334.6 million as compared to the market value of the Regal iClub Hotel of HK$902.0 million, based on the independent valuation as at 31st December, 2012. This loan-to-value ratio is below the 50% allowed under the loan agreement.

Gearing and Cash

At 31st December, 2012, the gearing ratio of Regal REIT was 22.8% (2011: 26.6%), representing the gross amount of the outstanding loans of HK$4,834.6 million (2011: HK$4,775.5 million) as compared to the total gross assets of Regal REIT of HK$21,201.8 million (2011: HK$17,922.3 million), which is well below the maximum 45% permitted under the REIT Code.

Regal REIT had total cash resources of HK$69.6 million, comprised of HK$25.4 million in unrestricted and HK$44.2 million in restricted cash balances and bank deposits, at 31st December, 2012. Regal REIT possesses sufficient financial resources and receives timely payments of rental income to satisfy its financial commitments and working capital requirements.

At 31st December, 2012, Regal REIT's investment properties and property, plant and equipment, with an aggregate carrying value of HK$21,032.0 million, were pledged to secure its bank loan facilities.

OUTLOOK FOR 2013

Looking forward, the world continues to face a bumpy and uncertain recovery, and the slowdown in the global economy in the preceding year is expected to persist through 2013. In the US and the Euro Area, policy actions have helped lower acute risks, with some emerging market economies demonstrating modest pickups. Prospects will depend on how the fiscal challenges of the United States are dealt with, which will, in turn, affect to some extent the pace of Asia's development expansion. For China, GDP growth in 2013 is expected to be 8.1%[10], given domestic challenges and the volatile environment created by the global economic slowdown.

In Hong Kong, increases in Mainland tourist arrivals are expected to continue. The Chinese government's policy of relaxing rules on Mainland cruise travellers so they can visit more countries with stopovers in Hong Kong will help boost the SAR's cruise tourism, in particular, when Kai Tak Cruise Terminal is opened by the second half of 2013[11]. To capture this new business opportunity, Regal Oriental Hotel, located nearby Kai Tak and Kowloon East central business district, will add another 55 new guestrooms through conversion of certain dining spaces, making it a 494-room full service hotel. This hotel has also speeded up renovating several floors of guestrooms in anticipating the demand in this new area in the long run.

China's National High-speed Railway Network, which covers most major Mainland cities including Beijing, Guangzhou and Shenzhen, is expected to be completed by 2020, which will then be one of the longest and fastest high-speed rail system. This route will eventually link up with its Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link by 2015[12], bringing in time-conscious Mainland passengers from various provinces and cities to and from Hong Kong. Such development may also eventually be beneficial to the 600-room Regal Kowloon Hotel as both the terminal and the hotel are located nearby Jordan and Tsimshatsui in the Kowloon Peninsula.

To promote further economic, social and cultural integration and development between Hong Kong-Zhuhai-Macau, together with the formation of a three-hour living circle extending from Hong Kong, the Hong Kong-Zhuhai-Macao Bridge is scheduled to be completed by 2016[13]. In the foreseeable future, Mainland business and leisure visitors from various Pearl River Delta cities arriving in Hong Kong are expected to increase year after year. Regal REIT's properties portfolio, including Regal Airport Hotel, Regal Hongkong Hotel and Regal iClub Hotel, which are located in proximity and directly linked through various road networks, will benefit economically, in particular from the link-up of tourism-entertainment-casino hubs in Macau and the industrial cities in Guangdong in the long run.

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) will continue to play a crucial role of boosting Hong Kong's economy. Supplement IX to CEPA provides for a total of 43 services liberalization and trade and investment facilitation measures, which includes liberalization measures in 22 service sectors, strengthening cooperation in areas of finance and trade and investment facilitation[14]. Under China's 12th Five-year Plan (2011-2015), Hong Kong will continue to be positioned as an offshore Renminbi centre and take a pivotal role in China's internationalization of the Renminbi. Further, the Qianhai area development as an on-shore Renminbi clearing centre located in Shenzhen should also create opportunity and potential for innovative finance and Renminbi business for various sectors in Hong Kong.

10 Source: Publications, Asian Development Bank, "Asian Development Outlook Supplement", December 2012.

11 Source: George Chen, Enoch Yiu and Jane Cai, SCMP, "Beijing's 'gifts' seen as mixed bag for HK", 28th June, 2012.

12 Source: Database, http://www.expressraillink.hk, 23rd February, 2013.

13 Source: Press Releases, Information Services Department, "THB welcomes LegCo's funding approval for Hong Kong Link Road", 25th May, 2012.

14 Source: CEPA, Trade and Industry Department, "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) – Further Liberalization Measures in 2012", 23rd February, 2013.

Looking forward, Hong Kong will further consolidate and enhance its status as an international financial, trade and transportation centre. Through the government's intention to make Kowloon East Hong Kong's second Central Business District, the opening of the Kai Tak Cruise Terminal, the planning of the third runway, the provision of high speed train service between Beijing and Hong Kong, together with the construction of the Hong Kong-Zhuhai-Macao Bridge, the SAR will continue to build up its strength as a leading aviation hub and global travel destination.

Regal REIT, having invested in Hong Kong with six hotel properties with 3,929 well-equipped hotel guestrooms and suites, is expected to benefit from the medium and long term developments of China's 12th Five-year Plan, which will offer to Hong Kong unlimited opportunities, alignment in regional infrastructure development and accessibility to the Renminbi internationalization process and close connectivity to the growing economy in Mainland China.

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

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

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

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

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

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

EMPLOYEES

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

MAJOR REAL ESTATE AGENTS

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

MAJOR CONTRACTORS

In 2012, the aggregate value of service contracts of the top three contractors engaged by Regal REIT and their respective value of services rendered and percentages in terms of property and hotel operating expenses were as follows:

Contractors	Nature of Services	Value of Services HK$'000	Percentage
Regal Hotels International Limited	Hotel management fees	2,397	8.0%
Regal Hotels International Holdings Limited	Marketing fee	463	1.5%
Paliburg Holdings Limited	Building management fees	416	1.4%
		3,276	10.9%

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

OTHER INFORMATION AND DISCLOSURES

On 9th May, 2012, it was announced that the aggregate shareholdings of Paliburg Holdings Limited ("PHL") and its subsidiaries (together, the "PHL Group") and parties acting in concert with it (together, the "PHL Concert Group") in the issued share capital of RHIHL increased to over 50% on 7th May, 2012 as a result of the repurchases of shares of RHIHL under the Regal Hotels Share Repurchase Programme. Accordingly, Regal REIT (a listed subsidiary of RHIHL), in turn, became a subsidiary of each of PHL and Century City International Holdings Limited. Pursuant to the chain principle under Note 8 to Rule 26.1 of the Code on Takeovers and Mergers, PHL was required, and has procured Glorymark Investments Limited (an indirect wholly-owned subsidiary of PHL) as the offeror, to make a general cash offer for all the outstanding Units not already owned by the PHL Concert Group (the "Regal REIT Offer"). The terms of the Regal REIT Offer were set out in the composite offer document dated 9th July, 2012.

Immediately before the commencement of the offer period of the Regal REIT Offer on 20th April, 2012, the PHL Concert Group held 2,433,549,739 Units, representing approximately 74.71% of the total number of 3,257,431,189 Units in issue. At the time of the closure of the offer period of the Regal REIT Offer on 30th July, 2012, valid acceptances in respect of a total of 732,363 Units were received under the Regal REIT Offer. As a result, the holding percentage of the PHL Concert Group has increased from approximately 74.71% to approximately 74.73% of the total number of Units in issue.

SUBSEQUENT EVENT AFTER THE YEAR UNDER REVIEW

On 11th January, 2013, Regal REIT announced the establishment and listing of a US$1 Billion Medium Term Note Programme (the "MTN Programme"), which is intended to serve as a funding platform to finance the planned expansion of Regal REIT. On that same date, Regal REIT entered into a memorandum of understanding with P&R Holdings Limited ("P&R"), a joint venture that is 50/50 owned by RHIHL and PHL, for the proposed grant of call options by P&R for Regal REIT to acquire two hotel projects being developed by P&R, namely, a hotel in Sheung Wan with 248 rooms and suites and a 336-room hotel in North Point. Details of the proposed call options were contained in the announcement published by the REIT Manager on 11th January, 2013. In order to allow further time for the parties to consider various issues relating to the proposed call options and the corresponding funding arrangements, the memorandum of understanding was amended by the parties on 28th February, 2013 to extend the end of the exclusivity period thereunder to 30th April, 2013. It is expected that a definitive proposal in relation to the proposed acquisition will be able to be worked out before the expiry of the extended exclusivity period.

On 22nd March, 2013, Regal REIT has issued under the MTN Programme, through private placements, a series of HK Dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of HK$775.0 million at a coupon interest rate of 4.125% per annum.

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

Francis Chiu and Simon Lam Man Lim
Executive Directors

Hong Kong, 25th March, 2013

DIRECTOR PROFILES

Mr. Lo Yuk Sui, aged 68, 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 42 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 subsidiary. He is a qualified architect. Mr. Lo is the father of Mr. Jimmy Lo Chun To and Miss Lo Po Man.

Mr. Francis Chiu, aged 50, Executive Director and Responsible Officer – Mr. Chiu was appointed as an Executive Director and a Responsible Officer of the REIT Manager with effect from 1st March, 2010. He is responsible for, among other things, overseeing and managing the asset management activities of Regal REIT. He is also responsible, jointly with Mr. Simon Lam Man Lim, for making the disclosures and communications of Regal REIT to investors. He has over 24 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 Fellow of the Royal Institution of Chartered Surveyors, a Fellow of The Chartered Institute of Housing, a Fellow of CPA Australia, a Fellow of The Chartered Institute of Management Accountants, a Chartered Global Management Accountant (AICPA-CIMA JV), a Fellow of The Hong Kong Institute of Directors, a Member of Hong Kong Institute of Real Estate Administrators, a Member of Urban Land Institute, a U.S. Certified Hotel Administrator and a Fellow of Institute of Hospitality. Mr. Chiu is currently an Asia Board Member of RICS Asia Commercial Property Professional Group Board and a committee member of RICS Hong Kong Commercial Property and Valuation Professional Group; CIMA Hong Kong Branch. He is a graduate of the ESSEC Business School Paris, France and Cornell University, U.S.A., 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 56, Executive Director and Responsible Officer – Mr. Lam joined the REIT Manager as the Director of Finance and Investment and Investor Relations in September 2010. He was appointed as an Executive Director with effect from 1st April, 2011. Mr. Lam is responsible for, among other things, overseeing and managing the finance, accounting and investment activities of Regal REIT. He is also responsible, jointly with Mr. Francis Chiu, for making the disclosures and communications of Regal REIT to investors. Mr. Lam holds a Master of Business Administration degree and is a Fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of The Chartered Institute of Management Accountants. Mr. Lam has over 30 years of finance and commercial experience in various business sectors and industries. Prior to joining the REIT Manager, he was an executive director and chief financial officer of Binhai Investment Company Limited, a listed company on the GEM Board of The Stock Exchange of Hong Kong Limited. Prior to that, he held various management positions in different major Hong Kong listed companies and other multinationals, including The Link Management Limited (the REIT Manger of The Link REIT), Johnson Electric, Motorola Asia Pacific Limited and Philips Electronics Group.

Mr. John William Crawford, JP, aged 70, 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 having been 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 NASDAQ.

Mr. Donald Fan Tung, aged 56, 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 68, 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 39, 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 and the brother of Miss Lo Po Man.

Miss Lo Po Man, aged 33, Non-executive Director – Miss Lo was appointed as a Non-executive Director of the REIT Manager with effect from 24th September, 2012. She graduated from Duke University, North Carolina, U.S.A. with a Bachelor's degree in psychology. She is currently an executive director of CCIHL, PHL and RHIHL. Miss Lo oversees the sales and marketing functions of RHIHL and directed the marketing campaign of the Regalia Bay, a luxurious residential property in Stanley, Hong Kong. She also undertakes responsibilities in the business development function of RHIHL. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Kenneth Ng Kwai Kai, aged 58, Non-executive Director – Mr. Ng was appointed as a Non-executive Director of the REIT Manager with effect from 24th September, 2012. He is a Chartered Secretary. He is currently an executive director and the chief operating officer of CCIHL, an executive director of PHL and RHIHL, and a non-executive director of Cosmopolitan International Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange. Mr. Ng is in charge of the corporate finance, company secretarial and administrative functions of CCIHL, PHL and RHIHL and their respective subsidiaries (excluding Regal REIT and its subsidiaries).

Mr. Kai Ole Ringenson, aged 63, Independent Non-executive Director – Mr. Ringenson was redesignated as an Independent Non-executive Director of the REIT Manager with effect from 24th September, 2012. He was the Chief Executive Officer and Executive Director of the REIT Manager in 2006 and a Responsible Officer of the REIT Manager in 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 67, 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 both of the Court and the Council 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 China Resources Cement Holdings Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Dorsett Hospitality International Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, PHL, 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 Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited, Lai Fung Holdings 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 27 years of engineering experience. He has been involved in several large projects during his 27 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 a trust deed (the "Trust Deed").

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

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

ROLES OF THE TRUSTEE AND THE REIT MANAGER

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

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

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Functions of the Board

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

Board Composition

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

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

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

The Board presently comprises two Executive Directors, five Non-executive Directors and four Independent Non-executive Directors. The positions of Chairman and Chief Executives are held by different persons in order to maintain an effective segregation of duties. The Board currently comprises the following members:

Chairman and Non-executive Director
Lo Yuk Sui

Executive Directors
Francis Chiu
Simon Lam Man Lim

Non-executive Directors
Donald Fan Tung
Jimmy Lo Chun To
Lo Po Man
Kenneth Ng Kwai Kai

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

On 24th September, 2012, Mr. Kai Ole Ringenson was redesignated from a Non-executive Director status to being an Independent Non-executive Director of the REIT Manager. On the same date, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai were appointed as Non-executive Directors of the REIT Manager.

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 of the REIT Manager (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, on terms no less exacting than those set out in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for assessing the independence of a Non-executive director.

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 and one general meeting of the Unitholders were held during the year ended 31st December, 2012 and the attendance rates of the individual Board members were as follows:

Name of Directors	**Attendance/ No. of General Meetings**	**Attendance/ No. of Board Meetings**
Chairman and Non-executive Director		
Lo Yuk Sui	1/1	4/4
Executive Directors		
Francis Chiu	1/1	4/4
Simon Lam Man Lim	1/1	4/4
Non-executive Directors		
Donald Fan Tung	1/1	4/4
Jimmy Lo Chun To	1/1	4/4
Lo Po Man (appointed on 24th September, 2012)	N/A	1/1
Kenneth Ng Kwai Kai (appointed on 24th September, 2012)	N/A	1/1
Independent Non-executive Directors		
John William Crawford, JP	1/1	4/4
Alvin Leslie Lam Kwing Wai	1/1	4/4
Kai Ole Ringenson	0/1	4/4
Abraham Shek Lai Him, SBS, JP	1/1	4/4

AUDIT COMMITTEE

The REIT Manager has established the Audit Committee which is appointed by the Board and adopted the terms of reference in 2006. The Audit Committee currently comprises the following Directors:

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

Non-executive Director
Kenneth Ng Kwai Kai

Mr. Kenneth Ng Kwai Kai was appointed as an additional member of the Audit Committee with effect from 24th September, 2012.

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, four formal Audit Committee meetings of the REIT Manager were held during the year ended 31st December, 2012 for considering and reviewing, among other things, the 2011 final results, the 2012 interim results, internal audit reports and other compliance matters of Regal REIT. The attendance rates of the individual members were as follows:

Name of Audit Committee Members	**Attendance/ No. of Meetings**
John William Crawford, JP (Chairman of the Committee)	4/4
Alvin Leslie Lam Kwing Wai	4/4
Kai Ole Ringenson	4/4
Abraham Shek Lai Him, SBS, JP	4/4
Kenneth Ng Kwai Kai (appointed on 24th September, 2012)	1/1

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 Directors
John William Crawford, JP (Chairman of the Committee)
Kai Ole Ringenson

Executive Directors
Francis Chiu
Simon Lam Man Lim

Non-executive Directors
Donald Fan Tung
Kenneth Ng Kwai Kai

Mr. Kenneth Ng Kwai Kai was appointed as an additional member of the Disclosure Committee with effect from 24th September, 2012.

Two formal Disclosure Committee meetings of the REIT Manager were held during the year ended 31st December, 2012 and the attendance rates of the individual members were as follows:

Name of Disclosure Committee Members	**Attendance/ No. of Meetings**
John William Crawford, JP (Chairman of the Committee)	2/2
Francis Chiu	2/2
Simon Lam Man Lim	2/2
Donald Fan Tung	2/2
Kenneth Ng Kwai Kai (appointed on 24th September, 2012)	N/A
Kai Ole Ringenson	2/2

AUDITORS' REMUNERATION

The remuneration to Messrs. Ernst & Young, the external auditors of Regal REIT, in respect of the audit and non-audit services rendered for the year ended 31st December, 2012 were HK$1.4 million (2011: HK$1.3 million) and HK$0.6 million (2011: HK$0.6 million).

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 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 always complied with such notice periods for general meeting requirements.

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transaction of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units for the time being in issue and outstanding. At any meeting of the Unitholders, a resolution put to the meeting shall be decided on a poll.

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.

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

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

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

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

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

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

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

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

AND

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

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

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

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

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

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

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

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

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

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

During the year, no new Units was allotted and issued.

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, 2012.

PUBLIC FLOAT

As at 31st December, 2012, there were 3,257,431,189 Units in issue.

Based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders as at 31st December, 2012.

COMPLIANCE

Regal REIT and the REIT Manager have at all times 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, 2012, in conjunction with Regal REIT's external auditors. The report of the external auditors is set out on pages 95 to 96.

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"); and

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

RHIHL CONNECTED PERSONS GROUP

(i) RHIHL Lease Agreements

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

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

During the year, the total contractual lease income under the RHIHL Lease Agreements amounted to HK$792.9 million including cash Base Rent, Variable Rent and other rental income.

(ii) Initial Hotels Management Agreements

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

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

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

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

(iii) RHIHL Lease Guarantees

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

(iv) RHIHL Deed of Trade Mark Licence

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

(v) iClub Hotel Management Agreement

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

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating HK$88.7 million for such services rendered during the year were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waiver from Strict Compliance

A waiver (the "RHIHL Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the 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 dated 19th March, 2007 issued in connection with the listing of Units (the "Offering Circular").

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

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

Rich Day Investments Limited and Bauhinia Hotels Limited, which are members of the Regal REIT Group, entered into a loan facilities agreement with certain lending banks for an aggregate loan amount of HK$4.5 billion comprised of a term loan of HK$4.35 billion and a revolving credit facility of HK$150.0 million. In March 2009, the revolving credit facility of HK$150.0 million was drawn down and subsequently converted to a term loan during 2009. The HK$4.5 billion term loan facility bore interest at a floating rate of three-month HIBOR plus 0.6%. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries entered into interest rate hedging arrangements with Deutsche Bank AG, a member of the Trustee Connected Persons Group 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 HK$3.3 million pursuant to the Trust Deed for the year ended 31st December, 2012.

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 and the Trustee Connected Persons Group and were satisfied that those transactions were entered into:

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

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

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

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

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 31st December, 2012, 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, 2012
Century City International Holdings Limited ("CCIHL")	2,434,282,102 (Note i)	74.73%
Century City BVI Holdings Limited ("CCBVI")	2,434,282,102 (Notes i & ii)	74.73%
Paliburg Holdings Limited ("PHL")	2,428,995,102 (Notes iii & iv)	74.57%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,428,995,102 (Notes iii & v)	74.57%
Regal Hotels International Holdings Limited ("RHIHL")	2,428,262,739 (Notes vi & vii)	74.55%
Regal International (BVI) Holdings Limited ("RBVI")	2,428,262,739 (Notes vi & viii)	74.55%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

(i) The interests in 2,434,282,102 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI, PDBVI and RBVI, respectively.

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

(iii) The interests in 2,428,995,102 Units held by each of PHL and PDBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of PDBVI and RBVI, respectively.

(iv) PHL is a listed subsidiary of CCIHL, which held approximately 62.17% shareholding interest in PHL as at 31st December, 2012, 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) The interests in 2,428,262,739 Units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.

(vii) RHIHL is a listed subsidiary of PDBVI, which held approximately 51.28% shareholding interest in RHIHL as at 31st December, 2012, and its interests in Units are deemed to be the same interests held by PDBVI.

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

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

Save as disclosed herein, there were no other persons who, as at 31st December, 2012, had interests in Units which are recorded in the register required to be kept under section 336 of the SFO.

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

As at 31st December, 2012, 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, 2012
LO Yuk Sui	2,434,282,102 (Note i)	74.73%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

(i) The interests in 2,434,282,102 Units were the same parcel of Units held through CCIHL in which Mr. Lo Yuk Sui held approximately 58.16% shareholding interest as at 31st December, 2012.

(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, 2012, 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, 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE			
Gross rental revenue	5	**798,020**	691,967
Gross hotel revenue	5	**46,330**	44,067
		844,350	736,034
Property and hotel operating expenses		**(29,960)**	(29,005)
Net rental and hotel income	5	**814,390**	707,029
Other income	6	**674**	7,473
Depreciation	12	**(7,382)**	(5,063)
Fair value changes on investment properties	13	**3,068,038**	2,625,319
REIT Manager fees	7	**(88,656)**	(75,518)
Trust, professional and other expenses	8	**(10,862)**	(9,541)
Fair value changes on derivative financial instruments		**—**	3,746
Finance costs – excluding distributions to Unitholders	9	**(132,473)**	(182,922)
PROFIT BEFORE TAX AND DISTRIBUTIONS TO UNITHOLDERS		**3,643,729**	3,070,523
Income tax expense	10	**(94,930)**	(73,260)
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		**3,548,799**	2,997,263
Finance costs – distributions to Unitholders		**(410,436)**	(524,446)
PROFIT FOR THE YEAR, AFTER DISTRIBUTIONS TO UNITHOLDERS		**3,138,363**	2,472,817
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	11	**HK$1.089**	HK$0.921

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		**3,548,799**	2,997,263
OTHER COMPREHENSIVE INCOME			
Cash flow hedges:			
Changes in fair values of cash flow hedges		**23,206**	(21,393)
Transfer from hedging reserve to consolidated income statement		**7,288**	128,079
		30,494	106,686
Gain on revaluation of property	12	**132,144**	182,916
Income tax effect	21	**(21,804)**	(30,181)
		110,340	152,735
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**140,834**	259,421
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, BEFORE DISTRIBUTIONS TO UNITHOLDERS		**3,689,633**	3,256,684

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2012

	Notes	31st December, 2012 HK$'000	31st December, 2011 HK$'000
Non-current assets			
Property, plant and equipment	12	**740,000**	615,000
Investment properties	13	**20,292,000**	17,154,000
Total non-current assets		**21,032,000**	17,769,000
Current assets			
Accounts receivable	14	**98,216**	52,935
Prepayments, deposits and other receivables	15	**1,939**	2,693
Tax recoverable		**—**	4,655
Restricted cash	16	**44,237**	69,226
Cash and cash equivalents	17	**25,364**	23,797
Total current assets		**169,756**	153,306
Total assets		**21,201,756**	17,922,306
Current liabilities			
Accounts payable	18	**73,354**	87,606
Deposits received		**131**	262
Due to related companies	26(b)	**210**	302
Other payables and accruals		**14,058**	55,459
Interest-bearing bank borrowings	19	**4,794**	4,563,301
Derivative financial instruments	20	**—**	31,991
Tax payable		**25,362**	2,718
Total current liabilities		**117,909**	4,741,639
Net current assets/(liabilities)		**51,847**	(4,588,333)
Total assets less current liabilities		**21,083,847**	13,180,667

	Notes	31st December, 2012 HK$'000	31st December, 2011 HK$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	19	**4,776,065**	209,019
Derivative financial instruments	20	**2,778**	—
Deposits received		**2,547**	2,489
Deferred tax liabilities	21	**371,411**	317,310
Total non-current liabilities		**5,152,801**	528,818
Total liabilities, excluding net assets attributable to Unitholders		**5,270,710**	5,270,457
Net assets attributable to Unitholders		**15,931,046**	12,651,849
Number of Units in issue	22	**3,257,431,189**	3,257,431,189
Net asset value per Unit attributable to Unitholders	23	**HK$4.891**	HK$3.884

The consolidated financial statements on pages 49 to 94 were approved and authorised for issue by Regal Portfolio Management Limited as the Manager of Regal REIT on 25th March, 2013 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, 2012

	Attributable to Unitholders					
	Units HK$'000	Capital reserve HK$'000	Hedging reserve HK$'000	Property revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Net assets as at 1st January, 2012	**8,432,356**	**15,876**	**(31,991)**	**152,735**	**4,082,873**	**12,651,849**
Profit for the year	—	—	—	—	**3,548,799**	**3,548,799**
Other comprehensive income for the year:						
Cash flow hedges	—	—	**30,494**	—	—	**30,494**
Gain on revaluation of property, net of tax	—	—	—	**110,340**	—	**110,340**
Total comprehensive income for the year, before distributions to Unitholders	—	—	**30,494**	**110,340**	**3,548,799**	**3,689,633**
Transfer of depreciation on hotel properties	—	—	—	**(1,912)**	**1,912**	—
Finance costs – distributions to Unitholders	—	—	—	—	**(410,436)**	**(410,436)**
Net assets as at 31st December, 2012	**8,432,356**	**15,876**	**(1,497)**	**261,163**	**7,223,148**	**15,931,046**

For the year ended 31st December, 2011

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

DISTRIBUTION STATEMENT

For the year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
Profit for the year, before distributions to Unitholders		**3,548,799**	2,997,263
Adjustments:			
Amounts set aside for the furniture, fixtures and equipment reserve	(e)	**(77,889)**	(34,651)
Amortisation of debt establishment costs		**22,107**	10,512
Fair value changes on investment properties		**(3,068,038)**	(2,625,319)
Fair value changes on derivative financial instruments		**—**	(3,746)
Depreciation		**7,382**	5,063
Deferred tax charge		**32,297**	48,764
Distributable income for the year	(a) & (b)	**464,658**	397,886
		HK$	HK$
Distributions per Unit:			
Interim	(a)	**0.063**	0.057
Final	(b), (c) & (d)	**0.077**	0.063
		0.140	0.120

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 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$0.063 per Unit for the six months ended 30th June, 2012, resulting in a total amount of interim distribution of HK$205.2 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 15th May, 2013 in respect of the final distribution for the period from 1st July, 2012 to 31st December, 2012. The final distribution will be paid out to Unitholders on or about 27th May, 2013. The total amount of final distribution to be paid to Unitholders of HK$250.8 million is arrived at based on the final distribution per Unit of HK$0.077 and the number of Units expected to be in issue at the Record Date that are entitled to distributions as detailed in note (c) below. The total amount of the distributions to Unitholders for the year, being the total of the interim distribution of HK$205.2 million and the final distribution of HK$250.8 million, amounted to HK$456.0 million or 98.1% of the Total Distributable Income for the year.

(c) The number of Units expected to be entitled to distributions for the period from 1st July, 2012 to 31st December, 2012 is 3,257,431,189. This does not take into consideration any Units which may be repurchased and cancelled or any other changes in the number of the issued Units subsequent to the approval of the consolidated financial statements but before the Record Date.

(d) The final distribution of HK$0.077 per Unit for the period from 1st July, 2012 to 31st December, 2012, involving an amount of HK$250.8 million, was resolved and declared by the REIT Manager on 25th March, 2013. 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, 2013. The final distribution for the period from 1st July, 2011 to 31st December, 2011 of HK$205.2 million was included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.

(e) Amounts set aside by Regal REIT for the furniture, fixtures and equipment reserve (the "FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), and Regal iClub Hotel aggregated HK$77.9 million (2011: HK$34.7 million). This includes additional contributions of HK$18.0 million and HK$21.0 million set aside in the FF&E Reserve, pursuant to the provisions in the Trust Deed in relation to the determination of Total Distributable Income, as approved by the REIT Manager on 27th August, 2012 and 25th March, 2013, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and distributions to Unitholders		**3,643,729**	3,070,523
Adjustments for:			
Fair value changes on investment properties	13	**(3,068,038)**	(2,625,319)
Bank interest income	6	**(240)**	(77)
Finance costs - excluding distributions to Unitholders	9	**132,473**	182,922
Fair value changes on derivative financial instruments		**—**	(3,746)
Depreciation	12	**7,382**	5,063
		715,306	629,366
Decrease/(increase) in accounts receivable		**(45,281)**	68,424
Decrease in prepayments, deposits and other receivables		**754**	4,161
Increase in restricted cash		**(58)**	(138)
Increase/(decrease) in accounts payable		**(14,252)**	77,921
Increase/(decrease) in deposits received		**(73)**	717
Decrease in amounts due to related companies		**(92)**	(130)
Decrease in other payables and accruals		**(7,584)**	(30,930)
Cash generated from operations		**648,720**	749,391
Interest received		**240**	77
Interest paid		**(142,902)**	(172,402)
Hong Kong profits tax paid		**(35,334)**	(42,191)
Net cash flows from operating activities		**470,724**	534,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(238)**	(147)
Additions to investment properties		**(69,962)**	(85,681)
Increase in restricted cash		**(12,419)**	(9,233)
Cash flows used in investing activities		**(82,619)**	(95,061)

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings, net of debt establishment costs		**4,767,332**	278,654
Repayment of bank borrowings		**(4,780,900)**	(209,500)
Distributions paid		**(410,436)**	(524,446)
Decrease in restricted cash		**37,466**	12,124
Net cash flows used in financing activities		**(386,538)**	(443,168)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,567**	(3,354)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**23,797**	27,151
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**25,364**	23,797
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	**25,364**	23,797

1. GENERAL

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

The principal activity of Regal REIT and its subsidiaries (collectively, the "Group") is to own and invest in income-producing hotels, serviced apartments or commercial properties (including office 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 ("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, property, plant and equipment, 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, and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2012. 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.

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 other comprehensive income; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these 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 financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10 and HKFRS 12 Amendments	Amendments to HKFRS 10 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10 and HKFRS 12 Amendments	Amendments to HKFRS 10 and HKFRS 12 – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1st July, 2012
2 Effective for annual periods beginning on or after 1st January, 2013
3 Effective for annual periods beginning on or after 1st January, 2014
4 Effective for annual periods beginning on or after 1st January, 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1st January, 2013.

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 as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1st January, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

In July 2012, the HKICPA issued amendments to HKFRS 10 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12. The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as Regal REIT is not an investment entity as defined in HKFRS 10.

The Group expects to adopt HKFRS 10 and HKFRS 12, and the subsequent amendments to these standards from 1st January, 2013.

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

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1st January, 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1st January, 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1st January, 2013. 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) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

    In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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.

Unitholders' funds

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

Impairment of non-financial assets

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

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

or

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for hotel properties is over the shorter of the lease term and 2.5%.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment properties

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

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus 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 allowance 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 and the loss arising from impairment are recognised in the consolidated income statement.

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the 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 and all collateral has been realised or has been transferred to the Group.

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position 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.

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 other comprehensive income 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 and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- Where the Group expects to 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/jurisdictions in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit 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 profit 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 that it has become probable that sufficient taxable profit 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 net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

Revenue recognition

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

(a) Base Rent from operating leases, on a straight-line basis over the terms of the relevant leases;

(b) Additional Base Rent and Variable Rent, in the accounting period in which they are earned in accordance with the terms of the respective agreements;

(c) hotel revenue, in the period in which such service is rendered;

(d) other rental income, on a time proportion basis over the lease terms; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Operating lease commitments – Group as lessor

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

Classification between investment properties and owner-occupied properties

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

Derivative financial instruments and hedging activities

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

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

Estimation uncertainty

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

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

The fair value of each investment property and property, plant and equipment is individually determined at the end of each reporting period by an independent valuer based on a market value assessment, on an open market, existing use basis. The valuer has relied on the discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy or occupancy, and cash flow profile. The discounted cash flow projections of each investment property and property, plant and equipment are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases, other contracts, projection of hotel operating income and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows. Commencing from the current year-end date, in respect of the leases of each investment property and property, plant and equipment, due consideration has also been given to the expectation of the renewal of the leases with the Government of the Hong Kong Special Administrative Region upon expiry without paying any land premiums, which is a widely accepted practice used in the property market, including by other real estate investment trusts in Hong Kong.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the carryforward 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 portions or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profits projections are reviewed at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

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

The operating segments of the Group for the year ended 31st December, 2012 are as follows:

	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000
Segment revenue			
Gross rental revenue	**792,930**	**5,090**	**798,020**
Gross hotel revenue	**—**	**46,330**	**46,330**
Total	**792,930**	**51,420**	**844,350**
Segment results	**781,809**	**32,581**	**814,390**
Fair value changes on investment properties	**3,050,310**	**17,728**	**3,068,038**
Depreciation	**—**	**(7,382)**	**(7,382)**
Bank interest income			**240**
Other income			**434**
REIT Manager fees			**(88,656)**
Trust, professional and other expenses			**(10,862)**
Finance costs - excluding distributions to Unitholders			**(132,473)**
Profit before tax and distributions to Unitholders			**3,643,729**

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

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

Segment assets and liabilities

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

As at 31st December, 2012, the Group's segment assets comprised of aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment amounting to HK$20,130,000,000 (2011: HK$17,010,000,000) and HK$902,000,000 (2011: HK$759,000,000), respectively.

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

Other segment information

	Year ended 31st December, 2012		
	Hotel Properties HK$'000	**Mixed Use Property HK$'000**	**Total HK$'000**
Capital expenditures	**69,690**	**510**	**70,200**

	Year ended 31st December, 2011		
	Hotel Properties HK$'000	Mixed Use Property HK$'000	Total HK$'000
Capital expenditures	85,630	198	85,828

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

Information about a major customer

Revenue of HK$792,930,000 (2011: HK$687,038,000) was derived from the lease of the hotel properties to a single lessee, a related company.

Geographical information

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

5. NET RENTAL AND HOTEL INCOME

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

The net rental and hotel income represents the aggregate of:

(a) Net rental income, being the gross rental revenue less property operating expenses; and

(b) Net hotel income, being the gross hotel revenue less hotel operating expenses.

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

	Note	2012 HK$'000	2011 HK$'000
Gross rental revenue			
Rental income			
– Initial Hotels	(a)	**783,619**	677,116
– Regal iClub Hotel – Other portions		**5,090**	4,929
Others		**9,311**	9,922
		798,020	691,967
Property operating expenses		**(11,571)**	(12,150)
Net rental income		**786,449**	679,817
Gross hotel revenue		**46,330**	44,067
Hotel operating expenses		**(18,389)**	(16,855)
Net hotel income		**27,941**	27,212
Net rental and hotel income		**814,390**	707,029

Note:

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

	2012 HK$'000	2011 HK$'000
Base Rent:		
Cash Base Rent	**645,000**	560,000
Cash Additional Base Rent	**—**	1,078
	645,000	561,078
Variable Rent	**138,619**	116,038
	783,619	677,116

6. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Bank interest income	**240**	77
Sundry	**434**	7,396
	674	7,473

7. REIT MANAGER FEES

	2012 HK$'000	2011 HK$'000
Base Fees in the form of cash	**63,605**	53,767
Variable Fees in the form of cash	**25,051**	21,751
	88,656	75,518

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; and
- a variable fee (the "Variable Fee") of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel and Regal iClub Hotel, which is payable annually.

For the year ended 31st December, 2012, the REIT Manager elected to receive its Base Fees and Variable Fees in the form of cash. Details of which can be referred to the announcement published on 9th January, 2012.

8. TRUST, PROFESSIONAL AND OTHER EXPENSES

	2012 HK$'000	2011 HK$'000
Auditors' remuneration:		
Audit fees	**1,400**	1,330
Non-audit fees	**639**	619
Legal and other professional fees	**3,401**	3,307
Trustee fees	**3,305**	2,601
Valuation fees	**720**	731
Other expenses	**1,397**	953
	10,862	9,541

Regal REIT did not appoint any directors and the Group did not engage any employees during the year (2011: Nil) and, accordingly, no director and employee benefit expenses were incurred during the year (2011: Nil).

9. FINANCE COSTS - EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	2012 HK$'000	2011 HK$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	**102,828**	44,223
Fair value changes on derivative financial instruments – cash flow hedge (transfer from hedging reserve)	**7,288**	128,079
Amortisation of debt establishment costs	**22,107**	10,512
Loan commitment fees	**—**	40
Loan agency fees	**250**	68
	132,473	182,922

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2012 HK$'000	2011 HK$'000
Charge for the year	**63,701**	24,496
Overprovision in prior years	**(1,068)**	—
Deferred (note 21)	**32,297**	48,764
Total tax charge for the year	**94,930**	73,260

A reconciliation of the tax charge applicable to profit before tax and distributions to Unitholders at the Hong Kong statutory tax rate of 16.5% (2011: 16.5%) to the tax charge at the Group's effective tax rate is as follows:

	2012 HK$'000	2011 HK$'000
Profit before tax and distributions to Unitholders	**3,643,729**	3,070,523
Tax at the statutory tax rate	**601,215**	506,636
Adjustments in respect of current tax of previous periods	**(1,068)**	—
Income not subject to tax	**(506,266)**	(433,808)
Expenses not deductible for tax	**1,286**	682
Others	**(237)**	(250)
Tax charge at the Group's effective rate	**94,930**	73,260

11. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the year before distributions to Unitholders of HK$3,548,799,000 (2011: HK$2,997,263,000) and the weighted average of 3,257,431,189 Units (2011: 3,253,039,224 Units) in issue during the year. The basic earnings per Unit attributable to Unitholders for the year amounted to HK$1.089 (2011: HK$0.921).

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

12. PROPERTY, PLANT AND EQUIPMENT

	Hotel Properties HK$'000
At 1st January, 2011	—
Transfer from investment properties, at valuation or deemed cost (note 13)	437,000
Additions	147
Surplus on revaluation	182,916
Depreciation provided during the year	(5,063)
At 31st December, 2011 and 1st January, 2012	615,000
Additions	238
Surplus on revaluation	132,144
Depreciation provided during the year	(7,382)
At 31st December, 2012	740,000

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of Regal iClub Hotel for the hotel portion. The property, plant and equipment was revalued on 31st December, 2012 by Savills Valuation and Professional Services Limited ("Savills"), an independent professionally qualified valuer and the new principal valuer of Regal REIT, at HK$740,000,000 on an open market value, existing use basis. A revaluation surplus of HK$132,144,000 resulting from the 31st December, 2012 valuation has been credited to other comprehensive income.

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

The carrying amount of the Group's property, plant and equipment would have been HK$427,229,000 had such assets been stated in the consolidated financial statements at cost less accumulated depreciation.

Further particulars of the Group's hotel properties are included on page 151.

13. INVESTMENT PROPERTIES

	HK$'000
At 1st January, 2011	14,880,000
Transfer to owner-occupied property (note 12)	(437,000)
Fair value changes	2,625,319
Capital expenditures for the year	85,681
At 31st December, 2011 and 1st January, 2012	17,154,000
Fair value changes	3,068,038
Capital expenditures for the year	69,962
At 31st December, 2012	20,292,000

The Group's investment properties were valued on 31st December, 2012 by Savills, an independent professionally qualified valuer and the new principal valuer of Regal REIT, at HK$20,292,000,000 on an open market value, existing use basis. The investment properties are leased to a related party and other commercial tenants under operating leases, further details of which are included in note 24(a) to the consolidated financial statements.

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

Further particulars of the Group's investment properties are included on pages 150 to 151.

14. ACCOUNTS RECEIVABLE

	2012 HK$'000	2011 HK$'000
Variable Rent receivables	**96,800**	52,221
Accounts receivable	**1,416**	714
	98,216	52,935

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

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

The general credit terms for accounts receivable are 30 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Prepayments	**270**	971
Deposits	**1,669**	1,648
Other receivables	**—**	74
	1,939	2,693

Deposits in the amount of HK$1,212,000 (2011: HK$1,212,000) were placed with a related company with respect to services provided to Regal iClub Hotel. The amounts are unsecured and repayable on demand.

16. RESTRICTED CASH

At 31st December, 2012, the Group had HK$44.2 million (2011: HK$69.2 million) of cash which was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the FF&E Reserve for use in the Initial Hotels and Regal iClub Hotel - Hotel portion, and deposits from certain tenants in respect of Regal iClub Hotel – Other portions.

17. CASH AND CASH EQUIVALENTS

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

18. ACCOUNTS PAYABLE

	2012 HK$'000	2011 HK$'000
Amounts due to related companies	**72,929**	87,513
Other accounts payable	**425**	93
	73,354	87,606

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

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

19. INTEREST-BEARING BANK BORROWINGS

	2012 HK$'000	2011 HK$'000
Interest-bearing bank borrowings	**4,834,600**	4,775,500
Debt establishment costs	**(53,741)**	(3,180)
	4,780,859	4,772,320
Portion classified as current liabilities	**(4,794)**	(4,563,301)
Non-current portion	**4,776,065**	209,019
Analysed into bank loans repayable:		
Within one year	**4,794**	4,563,301
In the second year	**4,794**	5,552
In the third to fifth years, inclusive	**4,771,271**	203,467
	4,780,859	4,772,320

Under a banking facility agreement dated 13th December, 2006, the Group was granted a facility aggregating HK$4.5 billion (the "Initial Facility"). The Initial Facility bore interest at a floating interest rate based on 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. The Group had entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK$4.35 billion, details of which are set out in note 20.

On 7th March, 2012, Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, entered into an agreement in respect of a new term loan facility of HK$4.5 billion (the "New Term Loan Facility") for a term of three years. The full drawdown of the principal amount under the New Term Loan Facility was made on 30th March, 2012 to refinance the Initial Facility that matured on the same date. The New Term Loan Facility bears interest at HIBOR plus 2.1% per annum and is repayable in full on 9th March, 2015. The Group also entered into interest rate swap arrangements to hedge against the interest rate exposure for the New Term Loan Facility for a notional amount of HK$3.0 billion, details of which are set out in note 20.

On 28th January, 2011, Regal REIT entered into a loan agreement for loan facilities aggregating HK$280.0 million for a term of three years, comprised of a term loan of HK$220.0 million and a revolving credit facility of HK$60.0 million (the "Previous iClub Facilities"). The Previous iClub Facilities bore interest at rates ranging from 215 to 230 basis points above HIBOR per annum.

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

As at the end of the reporting period, the New iClub Facility had an outstanding amount of HK$334.6 million, a portion of HK$14.4 million is repayable quarterly and a final repayment portion of HK$320.2 million is due on 24th February, 2015.

Bank borrowings under the New Term Loan Facility are guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies of the Group. The New iClub Facility is guaranteed by Regal REIT.

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

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

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

(iii) charges over each relevant rental account, sales proceeds account and other control accounts, if any;

(iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant Group companies; and

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

20. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	2012	2011
	HK$'000	HK$'000
Interest rate swaps – cash flow hedges	**2,778**	31,991
Portion classified as non-current	**2,778**	—
Current portion	**—**	31,991

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to one of its floating rate term loans. As at 31st December, 2012, the interest rate swaps had an aggregate notional amount of HK$3.0 billion (2011: HK$4.35 billion) (note 19). The interest rate swaps will mature on 9th March, 2015 and the fixed swap interest rates range from 0.355% per annum to 0.483% per annum as at 31st December, 2012.

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

21. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK$'000	Depreciation allowances in excess of related depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
Gross deferred tax assets/(liabilities) at 1st January, 2011	—	(268,975)	30,610	(238,365)
Deferred tax charged to other comprehensive income during the year	(30,181)	—	—	(30,181)
Deferred tax charged to the consolidated income statement during the year (note 10)	—	(28,945)	(19,819)	(48,764)
Gross deferred tax assets/(liabilities) at 31st December, 2011	(30,181)	(297,920)	10,791	(317,310)
Gross deferred tax assets/(liabilities) at 1st January, 2012	**(30,181)**	**(297,920)**	**10,791**	**(317,310)**
Deferred tax charged to other comprehensive income during the year	**(21,804)**	**—**	**—**	**(21,804)**
Deferred tax credited/(charged) to the consolidated income statement during the year (note 10)	**378**	**(28,863)**	**(3,812)**	**(32,297)**
Gross deferred tax assets/(liabilities) at 31st December, 2012	**(51,607)**	**(326,783)**	**6,979**	**(371,411)**

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

22. NUMBER OF UNITS IN ISSUE

	Number of Units 2012	2011
Units in issue:		
At beginning of the year	**3,257,431,189**	3,241,560,101
REIT Manager fees paid in the form of Units	**—**	15,871,088
At end of the year	**3,257,431,189**	3,257,431,189

23. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2012 of HK$15,931,046,000 (2011: HK$12,651,849,000) by the number of Units in issue of 3,257,431,189 (2011: 3,257,431,189) as at that date.

24. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 13, and certain premises under operating lease arrangements. At 31st December, 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**746,653**	657,595
In the second to fifth years, inclusive	**26,998**	33,370
After five years	**25,655**	31,812
	799,306	722,777

Certain of the leases contain Base Rent and Variable Rent provisions.

Certain of the operating leases were entered into between the Group and a related company.

(b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for terms ranging from 1 to 12 years. At 31st December, 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**7,577**	7,667
In the second to fifth years, inclusive	**26,058**	27,510
After five years	**25,655**	31,812
	59,290	66,989

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

During the year ended 31st December, 2012, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK$7,684,000 (2011: HK$6,157,000) were charged to the consolidated income statement.

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	2012	2011
	HK$'000	HK$'000
Authorised, but not contracted for	**39,980**	37,280

26. CONNECTED AND RELATED PARTY TRANSACTIONS

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

Connected/related parties	**Relationship with the Group**
DB Trustees (Hong Kong) Limited (the "Trustee")	The Trustee of Regal REIT
Deutsche Bank AG and its associates (the "Deutsche Bank Group")	Connected persons of the Trustee
Regal Hotels International Holdings Limited and other members of its group (collectively the "RHIHL Group")	Significant Unitholder of Regal REIT
Regal Portfolio Management Limited (the "REIT Manager")	The Manager of Regal REIT and a member of the RHIHL Group
Paliburg Holdings Limited and other members of its group (collectively the "PHL Group")	Controlling shareholders of the RHIHL Group
Savills Valuation and Professional Services Limited	The current principal valuer of the Group
Colliers International (Hong Kong) Limited	The former principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	**2012**	2011
		HK$'000	HK$'000
Rental income received/receivable from the RHIHL Group	(i)	**792,930**	687,038
Hotel management fees charged by the RHIHL Group	(ii)	**(2,397)**	(2,313)
Marketing fee charged by the RHIHL Group	(iii)	**(463)**	(441)
Building management fee charged by the PHL Group	(iv)	**(416)**	(387)
Interest expense charged by the Deutsche Bank Group	(v)	**(2,716)**	(58,881)
REIT Manager fees	(vi)	**(88,656)**	(75,518)
Trustee fees	(vii)	**(3,305)**	(2,601)
Valuation fees paid/payable to the principal valuer	(viii)	**(1,243)**	(846)

Notes:

(i) The rental income earned by the Group was in accordance with the relevant agreements with respect to the Initial Hotel.

(ii) Hotel management fees in respect of Regal iClub Hotel – Hotel portion comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.

(iii) The marketing fee in respect of Regal iClub Hotel – Hotel portion was charged at 1% of the gross hotel revenue of Regal iClub Hotel – Hotel portion in accordance with the corresponding hotel management agreement.

(iv) The building management fee was charged at a mutually agreed amount payable on a monthly basis in respect of Regal iClub Hotel – Other portions.

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

(vi) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 7 to the consolidated financial statements.

(vii) 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.

(viii) The valuation fees were charged by the principal valuer in accordance with the terms of the relevant agreements.

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

	Notes	2012 HK$'000	2011 HK$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	**96,800**	52,221
Other receivables	(ii)	**—**	65
Accounts payable to related companies	(ii)	**(72,929)**	(87,513)
Other payables	(iii)	**(42)**	(9,662)
Amounts due to related companies	(iii)	**(210)**	(302)
Net amounts due from/(to) the PHL Group:			
Deposits paid	(ii)	**1,212**	1,212
Other payables and accruals	(iii)	**(43)**	(130)
Net amounts due to:			
The Trustee	(iv)	**(766)**	(707)
The principal valuer	(v)	**(780)**	(561)
Restricted and non-restricted bank balances with the Deutsche Bank Group	(vi)	**122**	40,271

Notes:

(i) Details of the balances are set out in note 14 to the consolidated financial statements.

(ii) The amounts are unsecured, interest-free and repayable on demand.

(iii) The amounts are unsecured, interest-free and repayable within one year.

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

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

(vi) The bank balances earn interest at prevailing market rates.

(c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK$4 billion. Under the Market Rental Package for 2011, the RHIHL Lessee had delivered a third party guarantee as a security deposit, for an amount of HK$280.0 million, which is equivalent to six months Base Rent for the year 2011, issued by a licensed bank in Hong Kong in favour of the Group and the Trustee for a period up to 30th June, 2012. On 28th October, 2011, a new third party guarantee was issued to raise the existing guarantee amount of HK$280.0 million to HK$322.5 million effective from 1st January, 2012 to 31st December, 2012.

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

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

27. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Loans and receivables	
	2012	2011
	HK$'000	HK$'000
Accounts receivable	**98,216**	52,935
Financial assets included in prepayments, deposits and other receivables	**1,669**	1,722
Restricted cash	**44,237**	69,226
Cash and cash equivalents	**25,364**	23,797
	169,486	147,680

Financial liabilities

	2012		
	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	**—**	**73,354**	**73,354**
Deposits received	**—**	**2,678**	**2,678**
Due to related companies	**—**	**210**	**210**
Other payables and accruals	**—**	**14,058**	**14,058**
Interest-bearing bank borrowings	**—**	**4,780,859**	**4,780,859**
Derivative financial instruments	**2,778**	**—**	**2,778**
	2,778	**4,871,159**	**4,873,937**

	2011		
	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	—	87,606	87,606
Deposits received	—	2,751	2,751
Due to related companies	—	302	302
Other payables and accruals	—	55,459	55,459
Interest-bearing bank borrowings	—	4,772,320	4,772,320
Derivative financial instruments	31,991	—	31,991
	31,991	4,918,438	4,950,429

28. FAIR VALUE HIERARCHY

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

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value
As at 31st December, 2012:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	—	2,778	—	2,778

As at 31st December, 2011:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial instruments	—	31,991	—	31,991

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements (2011: Nil).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

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

For Hong Kong dollar 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 in interest rates would have decreased the Group's profit before tax and distributions to Unitholders for the current year by HK$18.3 million (2011: HK$4.3 million). A 10 basis point decrease in interest rates would have increased the Group's profit before tax and distributions to Unitholders for the current year by HK$1.8 million (2011: HK$0.4 million).

For interest rate swap contracts, a 100 basis point increase in interest rates would have increased the Group's net assets attributable to Unitholders as at 31st December, 2012 by HK$61.9 million (2011: Nil) as a result of fair value changes on derivative financial instruments. A 10 basis point decease in interest rates would have decreased the Group's net assets attributable to Unitholders as at 31st December, 2012 by HK$6.3 million (2011: Nil).

The sensitivity to the interest rate used above is considered reasonable with the other variables held constant. The sensitivity for interest rate swap contracts is based on the assumption that there are parallel shifts in the yield curve.

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:

	2012			
	On demand HK$'000	Less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Accounts payable	**72,929**	**425**	**—**	**73,354**
Deposits received	**—**	**131**	**2,547**	**2,678**
Due to related companies	**—**	**210**	**—**	**210**
Other payables and accruals	**—**	**14,058**	**—**	**14,058**
Interest-bearing bank borrowings	**—**	**129,827**	**4,971,784**	**5,101,611**
Derivative financial instruments	**—**	**867**	**1,922**	**2,789**
	72,929	**145,518**	**4,976,253**	**5,194,700**

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

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 properties held by the Group.

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

The Group monitors the capital management position using the loan-to-value ratio and the gearing ratio. At the end of the reporting period, the loan-to-value ratio in connection with certain utilised banking facilities ranged from 22.4% to 37.1% (2011: 26.5% to 36.3%), which was below the thresholds as allowed under the respective banking facility agreements. At the end of the reporting period, the gearing ratio of 22.8% (2011: 26.6%), being the gross amount of the outstanding loans of HK$4,834.6 million (2011: HK$4,775.5 million) divided by the total assets of HK$21,201.8 million (2011: HK$17,922.3 million), was below the maximum limit of 45% stipulated under the REIT Code.

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

31. 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.

32. EVENTS AFTER THE REPORTING PERIOD

On 11th January, 2013, Regal REIT announced the establishment and listing of a US$1 Billion Medium Term Note Programme (the "MTN Programme"), which is intended to serve as a funding platform to finance the planned expansion of Regal REIT. On that same date, Regal REIT entered into a memorandum of understanding with P&R Holdings Limited ("P&R"), a joint venture that is 50/50 owned by RHIHL and PHL, for the proposed grant of call options by P&R for Regal REIT to acquire two hotel projects being developed by P&R, namely, a hotel in Sheung Wan with 248 rooms and suites and a 336-room hotel in North Point. Details of the proposed call options were contained in the announcement published by the REIT Manager on 11th January, 2013. In order to allow further time for the parties to consider various issues relating to the proposed call options and the corresponding funding arrangements, the memorandum of understanding was amended by the parties on 28th February, 2013 to extend the end of the exclusivity period thereunder to 30th April, 2013. It is expected that a definitive proposal in relation to the proposed acquisition will be able to be worked out before the expiry of the extended exclusivity period.

On 22nd March, 2013, Regal REIT has issued under the MTN Programmes, through private placements, a series of Hong Kong dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of HK$775.0 million at a coupon interest rate of 4.125% per annum.

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 49 to 94, which comprise the consolidated statement of financial position as at 31st December, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets, the consolidated statement of cash flows and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Manager of Regal REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 11th December, 2006, as supplemented by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011 and the sixth supplemental trust deed dated 21st July, 2011 (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the Manager of Regal REIT determines 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, 2012, 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

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

25th March, 2013

As at 31st December, 2012

	Notes	**Year ended 31st December, 2012**	Year ended 31st December, 2011	Year ended 31st December, 2010	Year ended 31st December, 2009	Year ended 31st December, 2008
Net assets attributable to Unitholders (HK$'million)		**15,931.0**	12,651.8	9,919.6	9,329.0	9,121.6
Net asset value per Unit attributable to Unitholders (HK$)		**4.891**	3.884	3.060	2.911	2.903
The highest traded price during the year (HK$)	1	**2.30**	2.66	2.24	1.70	2.37
The lowest traded price during the year (HK$)		**1.68**	1.43	1.65	0.84	0.66
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		**65.65%**	63.18%	46.08%	71.14%	77.26%
Distribution yield per Unit	2	**6.31%**	6.70%	8.52%	10.30%	17.28%

Notes:

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

2. Distribution yield per Unit for the year ended 31st December, 2012 is calculated by dividing the total distributions per Unit of HK$0.140 over the closing price of HK$2.22 as at 31st December, 2012, being the last trading day for the year. Details of the total distributions per Unit is set out in the section "Distribution Statement" on page 54.

TO THE UNITHOLDERS OF REGAL REAL ESTATE INVESTMENT TRUST

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

We hereby confirm that, in our opinion, the Manager of Regal Real Estate Investment Trust ("Regal REIT") has, in all material respects, managed Regal REIT in accordance with the provisions of the Trust Deed dated 11 December 2006 (as amended by first supplemental deed dated 2 March 2007, second supplemental deed dated 15 May 2008, third supplemental deed dated 8 May 2009, fourth supplemental deed dated 23 July 2010, fifth supplemental deed dated 3 May 2011 and sixth supplemental deed dated 21 July 2011), for the period from 1 January 2012 to 31 December 2012.

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

Hong Kong, 25 March 2013

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA LICENCE: C-023750
savills.com

Regal Portfolio Management Limited
(as "Manager" of Regal REIT)
Unit No. 1504, 15th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

DB Trustees (Hong Kong) Limited
(as "Trustee" of Regal REIT)
Level 52
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

28 February 2013

Dear Sir/Madam

RE: VALUATION OF REGAL AIRPORT HOTEL, REGAL HONGKONG HOTEL, REGAL KOWLOON HOTEL, REGAL ORIENTAL HOTEL, REGAL RIVERSIDE HOTEL AND REGAL ICLUB HOTEL IN HONG KONG (COLLECTIVELY THE "PROPERTIES")

In accordance with your instructions for us to value the Properties of Regal REIT, we confirm that we have carried out 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 Properties as at 31 December 2012 (the "Date of Valuation") for annual reporting purposes.

Basis of Valuation

Our valuation of the Properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation of the Properties is prepared in accordance with "The HKIS Valuation Standards on Properties (1st Edition 2005)" published by The Hong Kong Institute of Surveyors; and in compliance with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and paragraph 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2010.

Valuation Approach

In the course of our valuation analysis, we have principally adopted the Income Capitalization – Discounted Cash Flow Analysis and counter-checked by the Direct Comparison Approach.

Income Capitalization – Discounted Cash Flow Analysis ("DCF")

As the Properties are held for long term investment, we have adopted a 10-year projection time frame in our DCF. Such 10-year investment horizon enables an investor to make an assessment of the long-term return that is likely to be derived from the Properties.

In preparing the DCF, the income and expenses for the next ten years from the Date of Valuation are itemized and projected annually taking into account the expected growth (or decline) of incomes and expenses. The net cash flow over the ten-year period is discounted at a discount rate. In undertaking this analysis, we have relied to the actual results of operations of the Properties supplied by the Manager in respect of room sales, rental income from commercial area, outgoings, operating costs, gross operating profits, rent and rates. Our forecast of growth of room rates and occupancy rates of the Properties are based on the projected cash flow and budgeting prepared by the Manager and our analysis of relevant general and economic conditions and of the business prospects of the Properties.

The Properties are hypothetically assumed to be sold at the end of the ten years period. The net cash flow of each property from the 11th year onward to the unexpired term of the Government lease is capitalized at a terminal yield expected for this type of property investment in the market. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. This terminal rate of return is made by reference to the yields achieved in analyzed market sale of hotel premises and our knowledge of the market expectation from our day-to-day contact with property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential of future rental growth and capital appreciation, risk factor and the like. The capitalized future value is discounted at the discount rate.

We considered DCF is the most appropriate valuation approach for assessing the market value of the Properties as it would better reflect specific characteristics of the income-producing properties such as lease expiry profile, existing tenant covenants and level of passing and reversionary rents, lease duration, potential income growth, renewed rates, vacancy rates and all outgoings.

DCF is subject to various assumptions including incomes and expenses of the Properties and future economic conditions in the markets. The income and expense figures are mathematically extended and are fully dependent upon the accuracy of the assumptions as to incomes, expenses and market conditions.

Direct Comparison Approach

As a supporting approach to our valuations, we have considered the Direct Comparison Approach as a reference check for the valuations arrived from DCF. In this regard, comparable sale transactions around the Date of Valuation are collected and analyzed in term of a price per square foot. The rationale of this approach is to directly compare the market comparable transactions with a property to determine the market value. Appropriate adjustments are applied to the comparable transactions to adjust for the discrepancies between a property and the comparables.

Title Investigation

We have not been provided with extracts from title documents relating to the Properties but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

Source of Information

We have relied to a very considerable extent on information given by the Manager and have accepted advice to us on such matters as planning approvals, statutory notices, easements, tenure, occupancy status, lettings, building plans, site and floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Manager, and have been advised by the Manager that no material facts have been omitted from the information provided.

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 handed to us are correct. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us by the Manager and are therefore only approximations.

Site Inspection

We have inspected the exterior of the Properties and where possible, we have also inspected the interior of the Properties. During the course of our inspections, we did not note any serious defect. However, no structural survey has been made and we are therefore unable to report as whether the Properties are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

Valuation Assumptions

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

No allowance has been made in our report for any charge, mortgage or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In addition, we have made the following assumptions in our valuations:-

- All information on the Properties provided by the Manager is correct.
- The Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances and regulations except only where otherwise stated.
- All tenancies and licences of the Properties as stated in the tenancy schedules provided to us are valid, binding and enforceable.
- Unless otherwise stated, we have not carried out any valuation on redevelopment basis, nor the study of possible alternative options.

Valuer's interest

We hereby certify 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; and we are authorized to practice as valuer and have the necessary expertise and experience in valuing similar types of properties.

We hereby confirm that our valuations have been prepared on a fair and unbiased basis.

In accordance with our standard practice, we must state that this valuation report and our valuations are for the use only of the parties to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

We enclose herewith our valuation report and summary of values.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited

Charles C K Chan
MSc FRICS FHKIS MCIArb RPS (GP)
Managing Director

Note : Mr. Charles C K Chan is a Chartered Estate Surveyor and has about 28 years' experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

No.	Properties	Market Value in existing state as at 31 December 2012 HK$
1.	**Regal Airport Hotel** 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories, Hong Kong	3,300,000,000
2.	**Regal Hongkong Hotel** 88 Yee Wo Street Causeway Bay Hong Kong	4,630,000,000
3.	**Regal Kowloon Hotel** 71 Mody Road Tsimshatsui Kowloon, Hong Kong	5,370,000,000
4.	**Regal Oriental Hotel** 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road Kowloon City Kowloon, Hong Kong	2,080,000,000
5.	**Regal Riverside Hotel** 34-36 Tai Chung Kiu Road Shatin New Territories, Hong Kong	4,750,000,000
6.	**Regal iClub Hotel** Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F, Eastern and Western Elevations of External Walls, Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wanchai Hong Kong	902,000,000
	Total :	**21,032,000,000**

PROPERTY 1

REGAL AIRPORT HOTEL

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

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

1. DESCRIPTION OF PROPERTY

Regal Airport Hotel ("RAH") is a 14-storey (including a basement floor) High Tariff A hotel completed in 1999. The Asset Enhancement Programme completed in 2007 increased the number of guestrooms from 1,104 to 1,171.

RAH is located right next to the Hong Kong International Airport ("HKIA") and is directly connected to the passenger terminal of the HKIA by an air-conditioned footbridge on the 2nd floor. The AsiaWorld-Expo is located at close proximity to RAH by a few minutes walk.

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

Hotel Guestroom Configuration

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

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

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.) Area (sq. m.)	No. of normal dining seating
G/F	Café Aficionado	International Buffet	869	384
G/F	The China Coast Bar & Grill	American Steakhouse	644	184
G/F	Dragon Inn	Shanghainese Cuisine	359	182
G/F	Airport Izakaya	Japanese Cuisine	236	143
1/F	Rouge	Cantonese and Sichuan Cuisine	504	228
2/F	Regala Café & Dessert Bar	Desserts and Drinks	326	102
		Total	**2,938**	**1,223**

Banquet and Convention Facilities

					Seating Capacity (approx.) No. of seating	
Floor	Name of Room	Type	No. of Room	Area (sq. m.)	Theatre/ Boardroom Style	Banquet Style
B/F	Pre-function Area and Meeting Room	Conference and Exhibition	13	1,645	474	512
1/F	Ballroom	Banquet/Convention	1[1]	960	960	960
1/F	Multi-purpose Function Room	Meeting and Conference	7	490	403	312
2/F	Meeting Room	Meeting and Conference	3	94	38	n/a
9/F	Meeting Room	Meeting and Conference	1	60	40	n/a
		Total	**25**	**3,249**	**1,915**	**1,784**

Other Facilities

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

1 The Ballroom can be subdivided into three rooms.

2. OWNERSHIP AND TENURE

Registered Owner : Airport Authority[2]

Lease Term : Chek Lap Kok Lot No. 1 is held by the Government under New Grant No. IS7996 for a term commencing from 1 December 1995 and expiring on 30 June 2047

Major Registered Encumbrance

i. Sub-Lease of Hotel dated 12 August 2004 in favour of Bauhinia Hotels Limited, registered vide memorial no. IS342341. The term of Sub-Lease commencing from 31 December 2003 until the date occurring 25 years thereafter.

ii. Supplemental Lease (to Sub-Lease of Hotel registered vide memorial no. IS342341) dated 8 November 2006 in favour of Bauhinia Hotels Limited, registered vide memorial no. 06112400700018.

iii. Lease Agreement (No. 1 for Regal Airport Hotel) by Bauhinia Hotels Limited dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910065. The term of lease commencing from 30 March 2007 and expiring on 31 December 2015.

iv. First Supplemental Agreement amending Lease Agreement No. 1 for Regal Airport Hotel by Bauhinia Hotels Limited dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510099.

v. Mortgage and Assignment of Rights by Bauhinia Hotels Limited dated 30 March 2012 in favour of Hang Seng Bank Limited, registered vide memorial no. 12042002690401.

vi. G.N. 2761 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) (re: PWP Item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road), registered vide memorial no. 12051002590037.

vii. G.N. 2762 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) (re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities), registered vide memorial no. 12051002590012.

viii. G.N. 2763 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) for creation of easements and other permanent rights and rights of temporary occupation of land (re: PWP Item No. 844th Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road), registered vide memorial no. 12051002590049.

ix. G.N. 2764 dated 26 April 2012 under Roads (Works, Use and Compensation) Ordinance (Chapter 370) for creation of easements and other permanent rights and rights of temporary occupation of land (re: PWP Item No. 834th Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities), registered vide memorial no. 12051002590024.

[2] The hotel is sub-lease to Bauhinia Hotels Limited for a term commencing from 31 December 2003 until the date occurring 25 years thereafter.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	88%
Average Room Rate	:	HK$1,083

Lease Agreement

Lessor	:	Bauhinia Hotels Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, the Market Rent[3] to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK$175,000,000 per annum. According to the 2012 and 2013 Market Rental Package Determinations, Base Rents for RAH for the fiscal years of 2012 and 2013 are HK$190,000,000 and HK$212,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels[4] over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue[5] (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP[6] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

---

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

4 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

5 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

6 According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail[7]

Total Retail Area (Lettable)	:	Approx. 40,100 sq. ft. (3,725 sq. m.)
Leased Area (Lettable)	:	Approx. 9,299 sq. ft. (864 sq. m.)
Vacant Area (Lettable)	:	Approx. 30,801 sq. ft. (2,861 sq. m.)
Occupancy Rate	:	23%
Monthly Base Rent	:	HK$323,139 (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)
Latest Expiry Date	:	31 October 2014
Rent Free Period	:	0 to 4 months
Option to Renew	:	No tenancy has an option to renew.
Summary of Terms	:	The landlord[8] is responsible for payment of Government rent and the structural and external repairs whilst the tenant is responsible for the internal repairs of the property.

Tenancy Expiry Profile

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	794	8.5%	27,790	8.6%	1	12.5%
End of 2012	4,662	50.1%	122,378	37.9%	1	12.5%
End of 2013	429	4.6%	22,737	7.0%	1	12.5%
End of 2014	3,414	36.7%	150,234	46.5%	5	62.5%
Total	**9,299**	**100%**	**323,139**	**100%**	**8**	**100%**

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

8 All tenancy agreement/ licence are entered into by Favour Link International Ltd as Landlord.

Tenancy Duration

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	794	8.5%	27,790	8.6%	1	12.5%
More than 1 month and up to 1 year	4,662	50.1%	122,378	37.9%	1	12.5%
More than 1 year and up to 2 years	3,289	35.4%	145,271	45.0%	5	62.5%
More than 2 years and up to 3 years	554	6.0%	27,700	8.6%	1	12.5%
Total	**9,299**	**100%**	**323,139**	**100%**	**8**	**100%**

Licences for Mobile Phone Base Stations, Antennae, Signage Space and Poster Stand

Number of Licence	:	6
Monthly Licence Fee	:	HK$223,388
Latest Expiry Date	:	14 February 2013

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[9].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[10].

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[11].

9 Source: HKTB, Visitor Arrival Statistics – Dec 2012
10 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011
11 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

According to a recent Hong Kong Trade Development Council (HKTDC) survey[12], Hong Kong emerged as the most preferred CBD among ten Asian cities[13]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

With its strategic location at Hong Kong's International Airport (HKIA), RAH benefits from a comprehensive transport infrastructure. The phased completion of the airport 'SkyCity', which includes terminals 1 and 2, the SkyPier and the retail/dining/entertainment facilities within SkyPlaza, AsiaWorld-Expo, as well as the SkyCity Nine Hole Golf Course, will generate strong and diversified demand for hotel rooms at RAH.

Named the world's "Best Airport" at the TTG Travel Awards for ten years since 2002, HKIA handled 56.5 million passengers and 4.0 million tonnes of air cargo in 2012[14]. The airport is connected to about 170 destinations, including 50 in the mainland, through about 1,000 daily flights by more than 100 airlines. Meanwhile, HKIA's proposed third runway could increase the airport's capacity to handle 620,000 flight movements per year, meeting projected demand up to and possibly beyond 2030. The project has been granted government approval in principle and the Airport Authority Hong Kong has adopted the three-runway system for planning purposes as a future development option. This planned expansion of HKIA's capacity should strengthen its competitiveness within the region, and in turn benefit RAH in the long term.

12 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

13 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

14 Source: HKIA, Finalized Civil International Air Traffic Statistics at HKIA, Year 2012

Aside from HKIA, RAH is also in close proximity to some of Hong Kong's most important tourist attractions. Both Disneyland and Ngong Ping 360 are a 15-minute shuttle bus journey from the airport. Other shopping and dining facilities are located at the nearby CityGate Outlets Shopping Centre.

Given its proximity to the airport as well as ample meetings, incentives, conventions and exhibitions (MICE) facilities, both within the hotel and at AsiaWorld Expo, RAH had a higher proportion of business travellers (37%) than leisure travellers (31%) in 2012. Its location enables RAH to benefit from certain unique business opportunities, including airline crews (27%), as well as emergency layovers due to delays/cancellations of flights (5%), both percentages being significantly higher than other hotels within the Regal REIT portfolio over the same period.

In terms of geographical segmentation of hotel guests, mainland China accounted for (36%) for the full year of 2012, same as Asia (excluding China) (36%).

No new hotels are scheduled for completion within RAH's vicinity over the next five years, and the only competing projects are the SkyCity Marriott Hotel, which is in close proximity to AsiaWorld-Expo but further away from HKIA, as well as the Novotel Citygate Hong Kong in Tung Chung. RAH is considered to have a slight advantage over both competitors in terms of the number of airline crews as well as layovers referred by the ground handling unit at HKIA due to its close proximity to the airport, and as the three hotels have different market positionings and pricing strategies, competition is expected to be minimal.

Based on the generally positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of RAH and the comprehensive expansion programme of HKIA, it is expected that the growth in RevPAR at RAH will outperform the overall hotel market in 2013.

6. ESTIMATED NET PROPERTY YIELD[15]

7.0%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$3,300,000,000

15 The Estimated Net Property Yield of RAH is derived from the rental receivable in 2012 divided by the Market Value.

PROPERTY 2

REGAL HONGKONG HOTEL

88 Yee Woo 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. DESCRIPTION OF PROPERTY

Regal Hongkong Hotel ("RHK") is a 38-storey (including 4 basement floors) High Tariff A hotel completed in 1993. The Asset Enhancement Programme completed in 2007 increased the number of guestrooms from 424 to 474. In 2009, a Presidential Suite was converted into 6 Regal Royale guestrooms and 3 suites in January 2009 which resulted in an increase of the total number of guestrooms from 474 to 482.

Some spaces on the Ground Floor to 3rd Floor of 68 Yee Woo Street are rented as ancillary hotel space for the hotel.[16]

RHK is located at Causeway Bay, a prime shopping and tourist area where developments are predominately for retail and office uses.

Site Area	:	1,176 sq. m.
Gross Floor Area	:	25,083 sq. m.[17]
Covered Floor Area	:	Approx. 31,900 sq. m.[18]
Town Planning Zoning	:	"Commercial" zone under Causeway Bay Outline Zoning Plan No. S/H6/15 dated 17 September 2010.

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

17 The area excludes the rented space.

18 The area excludes the rented space.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	34	Executive Suite	20
Superior Room	210	Deluxe Suite	8
Deluxe Room	117	Presidential Suite	1
Premier Room	39	Imperial Suite	1
Regal Royale	12	Chairman Suite	1
Regal Royale – Harbour View	7	Regal Royale Suite	2
Regal Royale – Summit	30		
		Total	**482**

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

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.) Area (sq. m.)	No. of normal dining seating
G/F	Tiffany Lounge	Lobby Lounge	137	50
G/F	Regal Patisserie	Cake Shop	N/A	N/A
1/F	Café Rivoli	International Cuisine & Buffet	376	200
3/F	Regal Palace	Traditional Chinese Restaurant	746	500
31/F	Zeffirino Ristorante	Italian Restaurant	214	120
		Total	**1,473**	**870**

Banquet and Convention Facilities

				Seating Capacity (approx.)		
					No. of seating	
Floor	Name of Room	Type	No. of Room	Area (sq. m.)	Theatre/ Boardroom Style	Banquet Style
2/B	Multi-purpose Function Room	Banquet/Convention	5	325	250	228
1/B	Ballroom	Banquet/Convention	1	238	238	228
1/B	Multi-purpose Function Room	Banquet/Convention	3	194	176	132
3/F	Meeting Room	Banquet/Convention	6	336	255	228
		Total	**15**	**1,093**	**919**	**816**

Other Facilities

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

2. OWNERSHIP AND TENURE

Registered Owner : Cityability Limited

Lease Term : Inland Lot No. 1408 is held under a Government Lease for a term of 999 years commencing from 25 December 1884.

Major Registered Encumbrance

i. Deed of Restrictive Covenant dated 13 May 1992, registered vide memorial no. UB5287070.

ii. Deed of Covenant and Grant of Right of Way and Easements and Management Agreement dated 13 May 1992, registered vide memorial no. UB5287071.

iii. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. UB8033163.

iv. Lease Agreement (No. 2 for Regal Hongkong Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910073.

v. First Supplemental Agreement amending Lease Agreement No. 2 for Regal Hongkong Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510109.

vi. Cityability Debenture dated 30 March 2012 in favour of Hang Seng Bank Limited as agent and security trustee for the finance parties, registered vide memorial no. 12041702590232.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	89%
Average Room Rate	:	HK$1,492

Lease Agreement

Lessor	:	Cityability Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, the Market Rent[19] 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 2012 and 2013 Market Rental Package Determinations, Base Rents for RHK for the fiscal years of 2012 and 2013 are HK$129,000,000 and HK$146,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels[20] over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue[21] (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP[22] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

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

20 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

21 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

22 According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. LICENCE DETAILS

Licences for Mobile Radio Equipments and Integrated Radio Systems

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

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[23].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[24].

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[25].

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

23 Source: HKTB, Visitor Arrival Statistics – Dec 2012

24 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011

25 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

According to a recent Hong Kong Trade Development Council (HKTDC) survey[26], Hong Kong emerged as the most preferred CBD among ten Asian cities[27]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

RHK is located in Causeway Bay, one of Hong Kong's most popular tourism and retail destinations and benefits from extensive transport links with the rest of the territory. Causeway Bay MTR Station is just a five-minute walk from RHK, while the hotel is also accessible by taxis, buses and minibuses.

RHK is close to a variety of developments and facilities, including office/shopping developments such as Times Square, Lee Gardens, Hysan Place and SOGO Department Store; business facilities such as Hong Kong Convention and Exhibition Centre (HKCEC), and recreational facilities such as Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course.

Given its proximity to key office developments, as well as HKCEC, RHK had a significantly higher proportion of business travellers (63%) than leisure travellers (32%) in 2012.

In terms of geographical segmentation of hotel guests, mainland China had the highest proportion (46%) for the full year of 2012, followed by Asia (excluding China) with 35%.

26 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

27 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

One new hotel was completed in Causeway Bay in 2012, namely the Mini Hotel (Causeway Bay)[28], but its scale (98 rooms) and location (Sun Wui Road) mean it would have a very different market positioning and client base compared with RHK and thus does not constitute any competition. In 2013, there will be two more hotels in the locality, namely the 80-room hotel at 13 Pennington Street and the 38-room hotel at 2 Tang Lung Street[29]. Again the competition with RHK is expected to be minimal with the differences in size and target market.

Based on the generally positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of RHK in Causeway Bay welcoming both business and leisure travellers, it is expected that the growth in RevRAR at RHK will outperform the overall hotel market in 2013.

6. ESTIMATED NET PROPERTY YIELD[30]

3.2%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$4,630,000,000

28 Source: HKTB, Hotel Supply Situation – as at Sep 2012

29 Source: HKTB, Hotel Supply Situation – as at Sep 2012

30 The Estimated Net Property Yield of RHK is derived from the rental receivable in 2012 divided by the Market Value.

Property 3

REGAL KOWLOON HOTEL

71 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

Kowloon Inland Lot No. 10474

1. DESCRIPTION OF PROPERTY

Regal Kowloon Hotel ("RKH") is a 20-storey (including 4 basement floors) High Tariff A hotel with 600 guestrooms completed in 1982. The majority of guestrooms command open view of Centenary Garden. There are retail shops and restaurants on the Ground Floor to 2nd Floor and 1st Basement to 3rd Basement.

RKH is located at Tsim Sha Tsui, a renowned commercial and tourist area where developments in immediate locality consist of hotels, commercial and office buildings.

Site Area	:	2,560 sq.m.
Gross Floor Area	:	31,746 sq.m.
Covered Floor Area	:	Approx. 43,500 sq.m.
Town Planning Zoning	:	"Commercial" zone under Tsim Sha Tsui Outline Zoning Plan No. S/K1/27 dated 11 January 2013.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	69	Regal Club Premier Room	29
Superior Room	65	Executive Suite	12
Deluxe Room	105	Royal Suite	19
Premier Room	48	Deluxe Suite	6
Regal Club Superior Room	98	Presidential Suite	1
Regal Club Deluxe Room	148		
		Total	**600**

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

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.) Area (sq. m.)	No. of normal dining seating
1/B	Café Allegro	International Buffet	350	186
G/F	V Bar & Lounge	Light Snack and Bar	203[31]	80
G/F	Regala Health Cake	Cake Shop	N/A	N/A
1/F	Mezzo Grill	American Steakhouse	199	70
2/F	Regal Court	Chinese Cuisine	673	266
		Total	**1,425**	**602**

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.) Area (sq. m.)	No. of seating Theatre/ Boardroom Style	Banquet Style
2/B	Meeting Room	Banquet/Convention	1	156	140	72
2/F	Multi-purpose Function Room	Banquet/Convention	6	331	280	240
3/F	Ballroom	Banquet/Convention	1[32]	353	349	349
3/F	Multi-purpose Function Room	Banquet/Convention	5	566	233	180
		Total	**13**	**1,406**	**1,002**	**841**

Other Facilities

Other facilities include a business centre, a gymnasium and a shopping arcade.

[31] The area includes an outside seating area of approximately 44 sq. m. on the Ground Floor.

[32] The Ballroom can be subdivided into three rooms.

2. OWNERSHIP AND TENURE

Registered Owner	:	Ricobem Limited
Lease Term	:	Kowloon Inland Lot No. 10474 is held by the Government 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 Encumbrance

i. 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.

ii. Statutory Declaration as to Loss of Title Deeds dated 21 March 2000, registered vide memorial no. UB8033162.

iii. Lease Agreement (No. 3 for Regal Kowloon Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910082.

iv. First Supplemental Agreement amending Lease Agreement No. 3 for Regal Kowloon Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510128.

v. Ricobem Debenture dated 30 March 2012 in favour of Hang Seng Bank Limited as agent and security trustee for the finance parties, registered vide memorial no. 12041702590266.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	91%
Average Room Rate	:	HK$1,276

Lease Agreement

Lessor	:	Ricobem Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, the Market Rent[33] to be determined (the "Market Rental Package Determination") in accordance with the Lease Agreement, subject to a minimum rental guarantee of HK$65,000,000 per annum. According to the 2012 and 2013 Market Rental Package Determinations, Base Rents for RKH for the fiscal years of 2012 and 2013 are HK$130,000,000 and HK$150,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels[34] over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue[35] (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP[36] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

33 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.

34 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

35 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

36 According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail[37] [38]

Total Retail Area (Lettable)	:	Approx. 43,280 sq. ft. (4,021 sq. m.)
Leased Area (Lettable)	:	Approx. 42,798 sq. ft. (3,976 sq. m.)
Vacant Area (Lettable)	:	Approx. 482 sq. ft. (45 sq. m.)
Occupancy Rate	:	99%
Monthly Base Rent	:	HK$1,599,344 (all tenancies except four are exclusive of rates, management fees and air-conditioning charges; three of the remaining tenancies are inclusive of management fees and air-conditioning charges, but exclusive of rates; and one of the remaining tenancies is inclusive of management fees, air-conditioning charges and rates)
Latest Expiry Date	:	31 December 2015
Rent Free Period	:	0 to 3 months
Option to Renew	:	One of the tenancies has an option to renew for a further term of 3 years at market rent.
Summary of Terms	:	The landlord[39] 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.

37 The areas quoted exclude spaces which are used by RKH. The areas, monthly base rent and the number of tenancy quoted include two tenancies for terms of 2 to 3 years both commencing from 1 January 2013 with a total monthly base rent of HK$172,380. The total lettable area for such tenancies are 4,908 sq. ft. (456 sq. m.).

38 A tenant with a lettable area of 299 sq. ft. (28 sq. m.) is subject to a licence commencing from 19 November 2012 and expiring on 31 December 2012 at a monthly licence fee of $1,502. The tenancy of such unit commenced from 1 January 2013 for a term of 2 years at a monthly rent of $12,705. The monthly rent of $12,705 is taken in the calculation of total monthly base rent.

39 All tenancy agreement/ licence are entered into by Favour Link International Ltd as Landlord.

Tenancy Expiry Profile

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	8,082	18.9%	190,000	11.9%	3	10.3%
End of 2013	9,713	22.7%	327,268	20.5%	8	27.6%
End of 2014	8,148	19.0%	438,066	27.4%	14	48.3%
End of 2015	16,855	39.4%	644,010	40.3%	4	13.8%
Total	**42,798**	**100%**	**1,599,344**	**100%**	**29**	**100%**

Tenancy Duration

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	8,082	18.9%	190,000	11.9%	3	10.3%
Up to 1 year	295	0.7%	10,000	0.6%	1	3.4%
More than 1 year and up to 2 years	8,215	19.2%	414,016	25.9%	16	55.2%
More than 2 years and up to 3 years	20,039	46.8%	800,318	50.0%	8	27.6%
More than 3 years and up to 4 years	6,167	14.4%	185,010	11.6%	1	3.4%
Total	**42,798**	**100%**	**1,599,344**	**100%**	**29**	**100%**

Licences for Corridor, Showcase, Storeroom, Mobile Phone Stations, Antennae, etc.

Number of Licence : 7

Monthly Licence Fee : HK$102,350

Latest Expiry Date : 31 December 2015

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[40].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[41].

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[42].

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

According to a recent Hong Kong Trade Development Council (HKTDC) survey[43], Hong Kong emerged as the most preferred CBD among ten Asian cities[44]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

40 Source: HKTB, Visitor Arrival Statistics – Dec 2012

41 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011

42 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

43 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

44 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

RKH has access to Hong Kong's extensive rail network via Tsim Sha Tsui East MTR Station, which is a five-minute walk away. Located in Tsim Sha Tsui East, RKH is also well served by buses, taxis and minibuses, and is also a few minutes' drive to the East Rail Hung Hom MTR Station, which has direct access to mainland China via Lo Wu MTR Station.

Aside from the office cluster in Tsim Sha Tsui East which brings ample business travellers to RKH, the proximity of Tsim Sha Tsui as a well-established retail, entertainment and commercial centre is a significant factor contributing to the attractiveness of RKH. Harbour City is both a business and shopping/entertainment hub, while other new shopping/dining additions over the past few years, namely iSquare, The One, K11 and 1881 Heritage, add to the attraction of the district as a key tourist area. Other tourist attractions include The Cultural Centre, Avenue of Stars and the Star Ferry Pier.

Given its proximity to key office developments, both in its immediate vicinity as well as in Tsim Sha Tsui, RKH had a significantly higher proportion of business travellers (64%) than leisure travellers (35%) in 2012.

RKH has a diversified hotel guest profile in terms of geographical distribution, with Asian (excluding China) visitors accounting for 40% of guests in 2012, followed by mainland Chinese (34%) and European (14%) guests.

No new hotels were completed in Tsim Sha Tsui in 2012, while five hotels are scheduled to be completed in the district in 2013, namely Best Western Grand Hotel (396 rooms), a 59-room hotel on Hillwood Road, an 89-room hotel on Observatory Court, a 155-room hotel on Austin Road and Ai Boutique Hotel (76 rooms)[45]. Out of the five upcoming hotels, only Best Western may constitute some competition, given its scale and branding. Nevertheless, their location and marketing strategy may differentiate RKH from Best Western thus avoiding direct competition.

The generally positive outlook of the overall hotel industry as well as the strategic location of RKH in Tsim Sha Tsui East, welcoming both business and leisure travellers, should provide strong support to demand for RKH, while competition from future projects can be considered mild. Therefore, it is expected that the growth in RevPAR at RKH will be broadly in line with the overall hotel market in 2013.

45 Source: HKTB, Hotel Supply Situation – as at Sep 2012

6. ESTIMATED NET PROPERTY YIELD[46]

3.0%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$5,370,000,000

[46] The Estimated Net Property Yield of RKH is derived from the rental receivable in 2012 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 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

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

1. DESCRIPTION OF PROPERTY

Regal Oriental Hotel ("ROH") comprises a block of 17-storey (including 2 basement floors) High Tariff B hotel situated at 30-38 Sa Po Road ("ROH - 30-38 Sa Po Road") and completed in 1982. The Asset Enhancement Programme completed in 2007 increased the number of guestrooms from 390 to 439. ROH also comprises 9 shop units on the Ground Floor (with 3 units including cocklofts) and the 1st floor in an adjacent 14-storey building, namely Po Sing Court, completed in 1967 ("ROH - Po Sing Court").

ROH is located at Kowloon City and faces the site of the former Hong Kong International Airport at Kai Tak Area where a complex development project with a mix of community, housing, business and tourism uses will be constructed.

Site Area	:	New Kowloon Inland Lot No. 5754 – 1,797 sq. m. New Kowloon Inland Lot No. 4917 – 741 sq. m.
Gross Floor Area	:	22,601 sq. m.
Covered Floor Area	:	Approx. 27,300 sq. m.
Town Planning Zoning	:	ROH - 30-38 Sa Po Road falls within "Commercial" zone and ROH – Po Sing Court falls within "Residential (Group A) 2" zone under Ma Tau Kok Outline Zoning Plan No. S/K10/20 dated 4 November 2010.

Hotel Guestroom Configuration

Room Type	No. of Rooms	Room Type	No. of Rooms
Standard Room	2	Regal iClub Deluxe Room	47
Superior Room	28	Executive Suite	2
Deluxe Room	243	Royal Suite	1
Premier Room	58	Deluxe Suite	19
Regal iClub Superior Room	38	Presidential Suite	1
		Total	**439**

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

Food and Beverage Outlets

Floor	Name of Outlet	Type	Seating Capacity (approx.) Area (sq. m.)	No. of normal dining seating
1/B	Café Neo	International Cuisine & Buffet	535	298
G/F	Regal Patisserie	Cake Shop	N/A	N/A
G/F	The China Coast Pub & Restaurant[47]	Restaurant & Pub	301	154
2/F	Regal Terrace	Cantonese Cuisine	385	300
		Total	**1,221**	**752**

Banquet and Convention Facilities

Floor	Name of Room	Type	No. of Room	Seating Capacity (approx.) Area (sq. m.)	No. of seating: Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/Convention	1	345	250	300
1/F	Multi-purpose Function Room	Banquet/Convention	7	302	254	216
2/F	Multi-purpose Function Room	Banquet/Convention	10	352	220	276
3/F	Meeting room in Club Lounge	Meeting and conference	1	15	8	N/A
		Total	**19**	**1,014**	**732**	**792**

Other Facilities

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

47 Additional outside seating areas are provided on Ground Floor next to China Coast Pub & Restaurant.

2. OWNERSHIP AND TENURE

Registered Owner	:	Gala Hotels Limited
Lease Term	:	New Kowloon Inland Lot No. 5754 is held by the Government 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. New Kowloon Inland Lot No. 4917 is held by the Government 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 Encumbrance

ROH - 30-38 Sa Po Road

i. Deed of Grant of Easement dated 23 June 1981, registered vide memorial no. UB2111189.

ii. Modification Letter dated 26 August 1981, registered vide memorial no. UB2144106.

iii. Letter of Compliance from District Lands Office Kowloon West to Paliburg Project Management Ltd dated 27 July 1982, registered vide memorial no. UB3990406.

iv. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. UB8033164.

v. Lease Agreement (No. 4 for Regal Oriental Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910095.

vi. First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510111.

vii. Gala Debenture dated 30 March 2012 in favour of Hang Seng Bank Limited as agent and security trustee for the finance parties, registered vide memorial no. 12041702590240.

ROH - Po Sing Court

i. Management Agreement dated 28 November 1967 in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager), registered vide memorial no. UB604982.

ii. Deed of Mutual Covenant dated 12 December 1967, registered vide memorial no. UB607737.

iii. Lease Agreement (No. 4 for Regal Oriental Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910095.

iv. First Supplemental Agreement amending Lease Agreement No. 4 for Regal Oriental Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510111.

v. Gala Debenture dated 30 March 2012 in favour of Hang Seng Bank Limited as agent and security trustee for the finance parties, registered vide memorial no. 12041702590240.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	86%
Average Room Rate	:	HK$888

Lease Agreement

Lessor	:	Gala Hotels Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, the Market Rent[48] 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 2012 and 2013 Market Rental Package Determinations, Base Rents for ROH for the fiscal years of 2012 and 2013 are HK$65,000,000 and HK$76,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels[49] over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue[50] (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP[51] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

48 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.

49 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

50 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

51 According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail[52]

Total Retail Area (Lettable)	:	ROH - 30-38 Sa Po Road – approx. 12,263 sq. ft. (1,139 sq. m.) ROH - Po Sing Court – approx. 4,052 sq. ft. (376 sq. m.)
Leased Area (Lettable)	:	ROH - 30-38 Sa Po Road – Nil ROH - Po Sing Court – Nil
Vacant Area (Lettable)	:	ROH - 30-38 Sa Po Road – approx. 12,263 sq. ft. (1,139 sq. m.) ROH - Po Sing Court – approx. 4,052 sq. ft. (376 sq. m.)
Occupancy Rate	:	0%
Monthly Base Rent	:	HK$0
Latest Expiry Date	:	N/A
Rent Free Period	:	N/A
Option to Renew	:	N/A
Summary of Terms	:	N/A

Licences for Mobile Phone Stations and Antennae

Number of Licence	:	4
Monthly Licence Fee	:	HK$74,328
Latest Expiry Date	:	31 December 2013

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

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[53].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[54].

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[55].

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

According to a recent Hong Kong Trade Development Council (HKTDC) survey[56], Hong Kong emerged as the most preferred CBD among ten Asian cities[57]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

53 Source: HKTB, Visitor Arrival Statistics – Dec 2012

54 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011

55 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

56 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

57 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

ROH is located in Kowloon City, opposite the vibrant Kai Tak Development area (KTD). Although ROH is not served by rail links, Prince Edward Road East on the doorstep of ROH is the major trunk road serving Kowloon East and connects the area with major industrial/business districts including Kwun Tong, Kowloon Bay, Tsim Sha Tsui and Mong Kok.

The major development in the vicinity of ROH is KTD, an integrated business/retail/entertainment and recreational area expected to house 11.4 million sq ft of offices, 8.6 million sq ft of retail/hotels and over 30,000 residential units upon full completion[58]. One of the two cruise terminal berths will be in operation in 2013[59], while a multi-function sport stadium as well as an edutainment facility – "Kai Tak Fantasy", are also planned in the area. All of these are expected to boost guest demand for ROH.

The accessibility of ROH will also be vastly improved upon the completion of the Sha Tin–Central Link, which will connect the New Territories and Central with stations in major Kowloon districts, such as Kai Tak, Ho Man Tin and Hung Hom. The proposed Kai Tak MTR Station will be in close proximity to ROH.

ROH has a balanced hotel guest profile by purpose of visit, with 56% of guests being business travellers, while another 44% of guests staying for vacation purposes in 2012. In terms of geographical distribution, a majority of guests (56%) came from Asia (excluding mainland China) in 2012, followed by mainland China (30%).

No new hotels were completed in Kowloon City in 2012, and there are no new hotels scheduled for completion in 2013 in the area.

Based on the generally positive outlook of the overall hotel industry and supply constraints in the short term, as well as the strategic location of ROH close to both the Kowloon East business area and KTD, welcoming both business and leisure travellers, it is expected that the growth in RevPAR at ROH will outperform the overall hotel market in 2013.

6. ESTIMATED NET PROPERTY YIELD[60]

3.3%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$2,080,000,000

58 Source: Development Bureau

59 Source: Hong Kong Tourism Commission

60 The Estimated Net Property Yield of ROH is derived from the rental receivable in 2012 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. DESCRIPTION OF PROPERTY

Regal Riverside Hotel ("RRH") is a 20-storey (including 2 basement floors) High Tariff B hotel completed in 1986. The two Asset Enhancement Programmes completed in 2007 and 2009 respectively increased the number of guestrooms from 830 to 1,138.

RRH is located at Shatin, a well established new town in the New Territories. RRH is located right next to Shing Mun River, developments in the immediate locality mainly comprise recreational facilities and residential buildings.

Site Area	:	4,956 sq. m.
Gross Floor Area	:	59,668 sq. m.
Covered Floor Area	:	Approx. 69,000 sq. m.
Town Planning Zoning	:	"Commercial" zone under Sha Tin Outline Zoning Plan No. S/ST/27 dated 26 October 2012.

Hotel Guestroom Configuration

Room Type	**No. of Rooms**	**Room Type**	**No. of Rooms**
Standard Room	225	Spa Standard Room	4
Superior Room	114	Spa Superior Room	3
Deluxe Room	120	Executive Suite	11
Regal iClub Superior Room	394	Royal Suite	1
Regal iClub Deluxe Room	137	Deluxe Suite	6
Regal iClub Premier Room	122	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	Seating Capacity (approx.) Area (sq. m.)	No. of normal dining seating
G/F	Vi Viet-Thai Fantasies[61]	Thai-Vietnamese Cuisine	149	92
G/F	Moon River	Local Authentic Restaurant	97	72
G/F	Dragon Inn	Huai Yang Cuisine	118	76
G/F	Avanti Pizzeria[62]	Italian Cuisine	154	98
G/F	Scene Bar[63]	Wine & Snack	233	88
G/F	Regal Patisserie	Cake Shop	N/A	N/A
1/F	Carnival Bar	Drink & Snack	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	International Buffet	409	220
		Total	**2,714**	**1,486**

Banquet and Convention Facilities

				Seating Capacity (approx.)		
					No. of seating	
Floor	Name of Room	Type	No. of Room	Area (sq. m.)	Theatre/ Boardroom Style	Banquet Style
1/F	Ballroom	Banquet/Convention	1	474	450	456
1/F	Multi-purpose Function Room	Banquet/Convention	2	108	70	72
1/F	Forum	Meeting and convention	1	518	500	432
2/F	Multi-purpose Function Room	Banquet/Convention	4	319	140	264
3/F	Multi-purpose Function Room	Banquet/Convention	4	313	200	216
3/F	Meeting Room	Banquet/Convention	1	42	40	24
15/F	Meeting room in Club Lounge	Meeting and conference	1	14	8	N/A
		Total	**14**	**1,788**	**1,408**	**1,464**

Other Facilities

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

61 Additional outside seating area is provided on the Ground Floor.
62 Additional outside seating area is provided on the Ground Floor.
63 Additional outside seating area is provided on the Ground Floor.

2. OWNERSHIP AND TENURE

Registered Owner : Regal Riverside Hotel Limited

Lease Term : Sha Tin Town Lot No. 160 is held by Government 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 Encumbrance

i. Modification Letter dated 4 June 1982, registered vide memorial no. ST211142.

ii. Modification Letter dated 28 August 1986, registered vide memorial no. ST353344.

iii. Letter of Compliance dated 18 July 1986, registered vide memorial no. ST430228.

iv. Statutory Declaration as to loss of title deeds dated 21 March 2000, registered vide memorial no. ST1145794.

v. Lease Agreement (No. 5 for Regal Riverside Hotel) dated 16 March 2007 in favour of Favour Link International Limited, registered vide memorial no. 07041300910108

vi. Modification Letter from the Government of the Hong Kong Special Administrative Region by the District Lands Officer/Sha Tin dated 14 November 2007, registered vide memorial no. 07111601000553.

vii. First Supplemental Agreement amending Lease Agreement No. 5 for Regal Riverside Hotel dated 12 February 2010 in favour of Favour Link International Limited, registered vide memorial no. 10052602510131.

viii. Regal Riverside Debenture dated 30 March 2012 in favour of Hang Seng Bank Limited as agent and security trustee for the finance parties, registered vide memorial no. 12041702590250.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	93%
Average Room Rate	:	HK$796

Lease Agreement

Lessor	:	Regal Riverside Hotel Limited
Lessee	:	Favour Link International Limited
Term of Lease Agreement	:	Commencing from 30 March 2007 and expiring on 31 December 2015
Rental	:	From 2011 to 2015, the Market Rent[64] 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 2012 and 2013 Market Rental Package Determinations, Base Rents for RRH for the fiscal years of 2012 and 2013 are HK$131,000,000 and HK$150,000,000 respectively; and the Variable Rent is 50% of the excess of the aggregate NPI of the Five Initial Hotels[65] over the aggregate Base Rent of the Initial Hotels for the respective years, which portion shall be the proportion by which the excess NPI of this hotel bears to the aggregate excess NPI of all the Initial Hotels.

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	20 years from 30 March 2007
Base Fee	:	1% of Gross Revenue[66] (for so long as the Lease Agreement is in subsistence); or 2% of Gross Revenue (for other cases during the Operating Term)
Incentive Fee	:	1% of the excess of the Adjusted GOP[67] over the Base Fee and the Fixed Charges (for so long as the Lease Agreement is in subsistence); or 5% of the excess of the Adjusted GOP over the Base Fee and the Fixed Charges (for other cases during the Operating Term)

64 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.

65 Five Initial Hotels include Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel.

66 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.

67 According to the HMA, "Adjusted GOP" means the aggregate of Gross Operating Profit and Net Rental Income.

4. TENANCY/LICENCE DETAILS

Retail[68]

Total Retail Area (Lettable)	:	Approx. 3,663 sq. ft. (340 sq. m.)
Leased 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$146,720 (all are exclusive of rates, management fees and air conditioning charges)
Latest Expiry Date	:	14 November 2015
Rent Free Period	:	0 to 2 months
Option to Renew	:	N/A
Summary of Terms	:	The landlord[69] 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.

Tenancy Expiry Profile

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	966	26.4%	13,800	9.4%	1	33.3%
End of 2014	724	19.8%	57,920	39.5%	1	33.3%
End of 2015	1,973	53.9%	75,000	51.1%	1	33.3%
Total	**3,663**	**100%**	**146,720**	**100%**	**3**	**100%**

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

69 All tenancy agreement/ licence are entered into by Favour Link International Ltd as Landlord.

Tenancy Duration

Year	Lettable Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
Monthly	966	26.4%	13,800	9.4%	1	33.3%
More than 1 year and up to 2 years	724	19.8%	57,920	39.5%	1	33.3%
More than 2 years and up to 3 years	1,973	53.9%	75,000	51.1%	1	33.3%
Total	**3,663**	**100%**	**146,720**	**100%**	**3**	**100%**

Licences for Mobile Phone Stations

Number of Licence : 5

Monthly Licence Fee : HK$212,000

Latest Expiry Date : 31 March 2013

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[70].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[71].

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[72].

70 Source: HKTB, Visitor Arrival Statistics – Dec 2012

71 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011

72 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

According to a recent Hong Kong Trade Development Council (HKTDC) survey[73], Hong Kong emerged as the most preferred CBD among ten Asian cities[74]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

Located in Sha Tin, Hong Kong's largest new town, RRH offers easy access to both the mainland Chinese border and Kowloon via the MTR East Rail. Although not a traditional tourist destination, nearby attractions include the Sha Tin Racecourse and the International Dragon Boat Races in June.

Shopping and entertainment facilities can be found in the nearby New Town Plaza, which has gradually evolved into a regional shopping centre catering to high-spending mainland shoppers. With its increasing appeal to mainland tourists, coupled with the easy access to China via railway, 62% of guests staying in RRH in 2012 were mainlanders.

Given its location in the New Territories, being close to a number of tourist attractions, 60% of RRH's guests were leisure travellers in 2012, while around 36% of guests came for business purposes.

73 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

74 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

No hotels were completed in Sha Tin in 2012, while one hotel will be opened in 2013, namely the Courtyard Marriott Hotel[75]. Featuring 548 rooms and with Marriott as the operator, this upcoming hotel may pose a threat to RRH. Nevertheless, given the differences in location and market positioning, competition between the two may not be fierce.

The generally positive outlook of the overall hotel industry, as well as the positioning of RRH hosting leisure travellers should provide strong support to demand for RRH, while competition from the Courtyard Marriott can be considered mild due to the different positioning. Therefore, it is expected that the growth in RevPAR at RRH will be broadly in line with the overall hotel market in 2013.

6. ESTIMATED NET PROPERTY YIELD[76]

3.6%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$4,750,000,000

75 Source: HKTB, Hotel Supply Situation – as at Sep 2012

76 The Estimated Net Property Yield of RRH is derived from the rental receivable in 2012 divided by the Market Value.

PROPERTY 6

REGAL ICLUB HOTEL

Shops A, B and C on G/F, Flat Roof on 3/F, whole of 5-12/F,15-23/F and 25-29/F, Eastern and Western Elevations of External Walls, Architectural Feature at Roof Top and Upper Roof 211 Johnston Road, Wanchai Hong Kong

3,062/3,637th undivided shares of and in Sub-Section 1 and The Remaining Portion of Section F, and Sub-Section 1 and The Remaining Portion of Section G, of Inland Lot No. 2769

1. DESCRIPTION OF PROPERTY

Regal iClub Hotel ("RiClub") comprises Shops A, B and C on the Ground Floor, a flat roof on the 3rd Floor, 22 entire floors (from 5th to 29th Floors, of which 13th, 14th and 24th Floors are omitted), the eastern and western elevations of external walls, the architectural feature at roof top and the upper roof of a 26-storey composite building completed in 1997. The remaining portion of the building, comprises a portion of the Ground Floor, whole of the 1st Floor and 2nd Floor, are owned by The Financial Secretary Incorporated (the property agent of the Government of HKSAR.) and does not form part of RiClub.

RiClub started operation on 25 December 2009 subsequent to an Asset Enhancement Programme ("AEP") completed in 2009 by Paliburg Development BVI Holdings Limited. The AEP involved a conversion of 9 office floors (from 5th to 15th Floors) into hotel usage with 50 guestrooms. A conversion project for the purpose of converting another 10 office floors (from 16th to 26th floors) into 49 guestrooms was completed in November 2010 by Sonnix Limited. The total number of guestrooms increased from 50 to 99. The hotel licence was obtained and the 99-room High Tariff B hotel started its full operation on 17 December 2010.

The 99-room hotel portion includes a portion of the Ground Floor and the whole of the 5th to 26th Floors of the building. The portion of the Ground Floor comprises the hotel lobby and a shop which is let to an independent third party. The mechanical floor is situated on the 3rd Floor. The 27th to 29th Floors have been leased to independent third parties and are occupied for retail/restaurant/bar/karaoke uses. As advised by the Manager, relevant approvals for such uses have been obtained from the Buildings Department.

RiClub is located at Wanchai, a well-established commercial area in Hong Kong. The immediately locality is predominantly office and commercial buildings.

Site Area	:	413 sq. m.
Gross Floor Area	:	5,326 sq. m.
Covered Floor Area	:	Approx. 5,530 sq. m.
Town Planning Zoning	:	"Commercial" zone under Wan Chai Outline Zoning Plan No. S/H5/27 dated 3 August 2012.

Hotel Guestroom Configuration

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

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

Food and Beverage Outlets

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

2. OWNERSHIP AND TENURE

Registered Owner : Sonnix Limited

Lease Term : Inland Lot No. 2769 is held under a Government lease for a term of 99 years commencing from 25 May 1929 and renewable for a further term of 99 years.

Major Registered Encumbrance

i. Licence dated 22 November 1994, registered vide memorial no. UB6186840.

ii. Statutory Declaration of Liu Yee Man John dated 17 April 1997, registered vide memorial no. UB7020522.

iii. Occupation Permit No. H73/97 dated 20 November 1997, registered vide memorial no. UB7355437.

iv. Deed of Mutual Covenant and Management Agreement dated 28 November 1997 in favour of Paliburg Estate Management Limited, registered vide memorial UB7376631.

v. Supplemental Deed of Mutual Covenant and Management Agreement dated 19 October 2009 in favour of Paliburg Estate Management Limited, registered vide memorial no. 09103001380118.

vi. Debenture and Mortgage dated 28 February 2012 in favour of The Bank of East Asia, Limited, registered vide memorial no. 12030602360191.

3. HOTEL OPERATION

Hotel Performance in 2012

Occupancy Rate	:	97%
Average Room Rate	:	HK$1,303

Hotel Management Agreement ("HMA")

Hotel Manager	:	Regal Hotels International Limited
Term of HMA	:	From the Effective Date[77], and unless sooner terminated as herein provided, shall continue thereafter through and inclusive of 31 December 2020.
Base Fee	:	2% of the Gross Revenue[78]
Incentive Fee	:	5% of the excess of the Gross Operating Profit[79] over the Base Fee and the Fixed Charges.

4. TENANCY DETAILS

Retail[80]

Total Retail Area (Gross Area)	:	Approx. 1,800 sq. ft. (167 sq. m.)
Leased Area (Gross Area)	:	Approx. 1,800 sq. ft. (167 sq. m.)
Vacant Area (Gross Area)	:	0 sq. ft. (0 sq. m.)
Occupancy Rate	:	100%
Monthly Base Rent	:	HK$138,000 (the tenancy is exclusive of Government rent, management fees, air-conditioning charges and all other charges and outgoings)
Latest Expiry Date	:	9 March 2014
Rent Free Period	:	0 month
Option to Renew	:	The tenancy has an option to renew for 2 years at market rent but within pre-determined range.
Summary of Terms	:	The landlord[81] and/or other responsible party is/are to be responsible for the structural and external repairs whilst the tenant is to be responsible for the internal repairs of the property.

77 According to the HMA, "Effective Date" means 1 January 2011.
78 According to the HMA, "Gross Revenue" means all revenue derived from the Hotel.
79 According to the HMA, "Gross Operating Profit" means Total Hotel Revenue less Hotel Operating Expenses during the same period.
80 The areas quoted exclude spaces which are used by RiClub.
81 All tenancy agreements are entered into by Sonnix Limited as Landlord.

Tenancy Expiry Profile

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
End of 2014	1,800	100%	138,000	100%	1	100%
Total	**1,800**	**100%**	**138,000**	**100%**	**1**	**100%**

Tenancy Duration

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
More than 2 years and up to 3 years	1,800	100%	138,000	100%	1	100%
Total	**1,800**	**100%**	**138,000**	**100%**	**1**	**100%**

Office

Total Office Area (Gross Area)	:	Approx. 8,304 sq. ft. (771 sq. m.)
Leased Area (Gross Area)	:	Approx. 8,304 sq. ft. (771 sq. m.)
Vacant Area (Gross Area)	:	0 sq. ft. (0 sq. m.)
Occupancy Rate	:	100%
Monthly Base Rent	:	HK$290,640 (all tenancies are inclusive of air conditioning charges and management fees, but exclusive of rates)
Latest Expiry Date	:	28 February 2014
Rent Free Period	:	4 months
Option to Renew	:	All tenancies have an option to renew for two years at market rent.
Summary of Terms	:	The landlord[82] and/or other responsible party is/are to be responsible for the structural and external repairs whilst the tenant is to be responsible for the internal repairs of the property.

82 All tenancy agreements are entered into by Sonnix Limited as Landlord.

Tenancy Expiry Profile

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
End of 2014	8,304	100%	290,640	100%	3	100%
Total	**8,304**	**100%**	**290,640**	**100%**	**3**	**100%**

Tenancy Duration

Year	Gross Area (sq. ft.)	% of Total (rounded)	Monthly Base Rent (HK$)	% of Total (rounded)	No. of Tenancy	% of Total (rounded)
More than 3 years and up to 4 years	8,304	100%	290,640	100%	3	100%
Total	**8,304**	**100%**	**290,640**	**100%**	**3**	**100%**

5. HOTEL MARKET ANALYSIS

Over 2012, visitor arrivals recorded a robust 16.0% year-on-year growth rate, with 48.6 million visitors arriving in Hong Kong. The majority of visitors came from the mainland, representing 71.8% of visitors (34.9 million), and their staggering 24.2% year-on-year growth rate is the only above-average growth among major markets of origin. For the first time, the number of same-day mainland visitors surpassed their overnight counterparts in 2012, standing at 19.8 million (56.7% of total mainland arrivals)[83].

Overnight visitors from the Americas were the highest spenders on hotel bills at over HK$3,500 per capita, followed by European and Australian/New Zealand hotel guests in 2011. While still spending the majority of their budgets on shopping (71% in 2011), mainland travellers' aspirations for personal style and leisure mean that they are willing to stay at higher grade and more expensive hotels for a more comfortable and rounded travel experience, with their spending on hotel bills standing at slightly over HK$1,000 per capita in the same year[84].

83 Source: HKTB, Visitor Arrival Statistics – Dec 2012

84 Source: HKTB, Tourist Expenditure Associated to Inbound Tourism 2011

In 2012, with the increasing number of visitor arrivals and their changing travelling patterns, especially mainland tourists who are moving towards leisure travel experiences, demand for hotel rooms surged, with room rates increasing by 9.8% to stand at HK$1,489 per night. With an estimated 4,564 new rooms added to the market in 2012, and thus alleviating the limited availability issue, hotel occupancy rates remained at 89%, the highest over the past two decades. Revenue per available room (RevPAR) improved by 9.8% in 2012 and amounted to HK$1,325 per night as a result, 24% higher than the previous peak in 1996[85].

Hong Kong's hospitality industry outlook over the next few years remains optimistic, as a number of positive influences will continue to have an impact on the sector. Leisure travellers will be drawn to Hong Kong by the recently completed and ongoing extensions of both Disneyland and Ocean Park, as well as the first berth of the cruise terminal at Kai Tak which is due to open in 2013. The appeal of Hong Kong for mainland Chinese as China's most cosmopolitan and prosperous city is expected to endure, in particular for the more affluent and mature groups who now aim for a more complete travel experience and are willing to spend more on hotels and sightseeing. Other factors, such as rising incomes, improving employment prospects, a more global perspective and more leisure time, should also ensure a continuing flow of visitors from across Asia.

The number of business travellers is also expected to increase, alongside Hong Kong's strengthening role in the Pearl River Delta, China's wealthiest and most advanced region. Hong Kong is increasingly becoming economically integrated with China and today plays an important role as a finance, logistics and business services hub.

According to a recent Hong Kong Trade Development Council (HKTDC) survey[86], Hong Kong emerged as the most preferred CBD among ten Asian cities[87]. Hong Kong's excellent geographical location, low risk, ease of doing business and a strong institutional structure, to name but a few, were all cited as important factors. All of these positive attributes will continue to strengthen Hong Kong's position as a place for doing regional business and should therefore induce an increasing number of overnight business travellers.

Hong Kong's current transport infrastructure projects will make cross-border travel easier as well as improving mobility within the territory itself. These include the Hong Kong section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the Hong Kong–Zhuhai–Macao Bridge, a rail connection between the Hong Kong and Shenzhen airports, the South Island Line (rail), the Sha Tin–Central Link (rail), the Tuen Mun–Chek Lap Kok Link and the Tuen Mun Western Bypass.

However, hotel supply is not expected to keep pace with demand, particularly in core tourist areas where site availability is the key constraint of future hotel developments. Therefore, we expect both occupancy rates and room rates of hotel to continue to flourish in 2013, but with occupancy rates already at high levels (89%), we expect further improvements in RevPAR to be driven by growth in room rates.

Located in Wanchai, one of the most vibrant business and entertainment districts in Hong Kong, RiClub is well-served by different modes of transport, with Wanchai MTR Station a five-minute walk away.

85 Source: HKTB, Hotel Room Occupancy Report – Dec 2012

86 Hong Kong as Asia's Central Business District, HKTDC Research, November 2012.

87 The ten cities include Hong Kong, Singapore, Shanghai, Tokyo, Beijing, Guangzhou, Taipei, Seoul, Kuala Lumpur and Bangkok.

Its close proximity to HKCEC as well as to the office cluster in Wanchai north such as Sun Hung Kai Centre, CRC Building and Great Eagle Centre, has made RiClub an ideal place for business travellers, and in 2012, 94% of hotel guests stayed for business purposes.

RiClub had a balanced hotel guest profile by geographical distribution in 2012, with 35% of guests from Asia (excluding China), 26% of guests from mainland China, 23% of guests from Europe and 10% of guests from the Americas.

Two new hotels were completed in Wanchai in 2012, namely Mingle Place: With the Star (28 rooms) and V Wan Chai 2 (79 rooms)[88]. Neither is regarded as competition to RiClub as the former is of a different scale and the latter has a different marketing strategy. In 2013, three more hotels will be completed in the area, namely a hotel at 388 Jaffe Road (to be operated by Miramar Group), Hotel Indigo (150 rooms) and Brighton Hotel (70 rooms)[89]. While these hotels are of a similar scale and positioning as RiClub, targeting the business segment, the booming business travel market as well as the continuous strong performance of HKCEC should alleviate the degree of competition.

The generally positive outlook of the overall hotel industry as well as the strategic location of RiClub in Wanchai, welcoming business travellers from HKCEC and the nearby office cluster, should provide strong support to demand for RiClub, while competition from future projects can be considered moderate. Therefore, it is expected that the growth in RevRAR at RiClub will outperform the overall hotel market in 2013.

6. ESTIMATED NET PROPERTY YIELD[90]

3.6%

7. MARKET VALUE IN EXISTING STATE AS AT 31 DECEMBER 2012

HK$902,000,000

88 Source: HKTB, Hotel Supply Situation – as at Sep 2012

89 Source: HKTB, Hotel Supply Situation – as at Sep 2012

90 The Estimated Net Property Yield of RiClub is derived from the net income receivable in 2012 divided by the Market Value.

As at 31st December, 2012

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,083	31,900	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100

	Description	Use	Lease	Gross Floor Area *(sq.m.)*	Approx Covered Floor Area *(sq.m.)*	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,000	100
(6)	Regal iClub Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wanchai Hong Kong	Hotel/ 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, 2012 HK$'000	Year ended 31st December, 2011 HK$'000	Year ended 31st December, 2010 HK$'000	Year ended 31st December, 2009 HK$'000	Year ended 31st December, 2008 HK$'000
Gross rental and hotel revenue	**844,350**	736,034	909,974	763,408	761,963
Net rental and hotel income	**814,390**	707,029	899,259	754,004	750,039
Profit/(loss) before tax and distributions to Unitholders	**3,643,729**	3,070,523	1,120,407	787,990	(2,684,941)
Profit/(loss) for the year, before distributions to Unitholders	**3,548,799**	2,997,263	997,093	682,282	(2,757,046)
Distributable income for the year attributable to Unitholders	**464,658**	397,886	682,879	558,166	501,930
Total distributions per Unit	**HK$0.140**	HK$0.120	HK$0.190	HK$0.170	HK$0.16761

Summary of the assets and liabilities

	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000
Non-current assets:					
Property, plant and equipment	**740,000**	615,000	—	—	—
Investment properties	**20,292,000**	17,154,000	14,880,000	14,290,000	13,036,743
Prepaid construction costs	**—**	—	—	—	430,000
Other non-current assets	**—**	—	—	1,913	20,661
Current assets	**169,756**	153,306	227,343	203,480	332,940
Total assets	**21,201,756**	17,922,306	15,107,343	14,495,393	13,820,344
Current liabilities	**117,909**	4,741,639	187,669	73,875	64,257
Non-current liabilities	**5,152,801**	528,818	5,000,063	5,070,969	4,634,478
Total liabilities	**5,270,710**	5,270,457	5,187,732	5,144,844	4,698,735
Non-controlling interest	**—**	—	—	21,508	—
Net assets attributable to Unitholders	**15,931,046**	12,651,849	9,919,611	9,329,041	9,121,609
Net asset value per Unit attributable to Unitholders	**HK$4.891**	HK$3.884	HK$3.060	HK$2.911	HK$2.903

www.RegalREIT.com