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MAJOR TRANSACTION

**RH SHARE REPURCHASE (POST-CONSOLIDATION)
AND
REGAL REIT OFFER**

Financial adviser to
Paliburg Holdings Limited



A letter from the board of directors of Paliburg Holdings Limited is set out on pages 6 to 20 of this circular.

8 June 2012

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning given to it in the Takeovers Code
“associate(s)”	has the meaning given to it in the Listing Rules
“Board”	the board of directors of the Company
“Century City”	Century City International Holdings Limited (Stock code: 355), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange
“Century City Board”	the board of directors of Century City
“Century City Director(s)”	the director(s) of Century City
“Century City Group”	Century City and its subsidiaries (and for the purpose of this circular, excluding the Regal Hotels Group)
“Century City Shareholder(s)”	the holder(s) of Century City Share(s)
“Century City Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of Century City
“Company”	Paliburg Holdings Limited (Stock code: 617), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange
“Concert Group”	the Company and parties acting in concert with it, including the Offeror itself
“connected person(s)”	has the meaning given to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group immediately after the RH Share Repurchase Programme and the Regal REIT Offer
“First Announcement”	the announcement dated 20 April 2012 jointly made by the Century City Board, the Board, the Regal Hotels Board and the Regal REIT Manager Board in relation to the RH Share Repurchase Programme and the possible Regal REIT Offer
“Group”	the Company and its subsidiaries (and for the purpose of this circular, excluding the Regal Hotels Group)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Regal REIT Unit Holders”	Regal REIT Unit Holders other than the Concert Group
“Latest Practicable Date”	5 June 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. LO”	Mr. LO Yuk Sui, who is the Chairman, Chief Executive Officer and executive director of each of Century City, the Company and Regal Hotels, and is also the Chairman and non-executive director of Regal REIT Manager
“NAV”	net asset value
“Offer Announcement”	the announcement dated 18 May 2012 jointly made by the Century City Board, the Board, the board of directors of the Offeror and the Regal REIT Manager Board in relation to, among others, the Regal REIT Offer
“Offeror”	Glorymark Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China and for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Regal Hotels”	Regal Hotels International Holdings Limited (Stock code: 78), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange
“Regal Hotels Board”	the board of directors of Regal Hotels
“Regal Hotels Director(s)”	the director(s) of Regal Hotels
“Regal Hotels Group”	Regal Hotels and its subsidiaries
“Regal Hotels Shareholder(s)”	the holder(s) of Regal Hotels Share(s)
“Regal Hotels Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of Regal Hotels

DEFINITIONS

“Regal REIT”	Regal Real Estate Investment Trust (Stock code: 1881), a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange
“Regal REIT Group”	Regal REIT and its subsidiaries
“Regal REIT Manager”	Regal Portfolio Management Limited, the manager of Regal REIT and a wholly-owned subsidiary of Regal Hotels
“Regal REIT Manager Board”	the board of directors of Regal REIT Manager
“Regal REIT Manager Director(s)”	the director(s) of Regal REIT Manager
“Regal REIT Offer”	the unconditional mandatory general cash offer to acquire all the issued Regal REIT Units (other than those already owned or agreed to be acquired by the Concert Group) pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code
“Regal REIT Offer Price”	the cash consideration per Regal REIT Offer Unit payable under the Regal REIT Offer, being HK\$1.00 per Regal REIT Offer Unit
“Regal REIT Offer Unit(s)”	issued Regal REIT Unit(s) and Regal REIT Unit(s) which may be issued by Regal REIT following the date of the Offer Announcement, other than those already owned or agreed to be acquired by the Concert Group
“Regal REIT Unit Holder(s)”	the holder(s) of Regal REIT Unit(s)
“Regal REIT Unit(s)”	unit(s) of Regal REIT
“REIT Code”	the Code on Real Estate Investment Trusts published by the SFC (as amended from time to time)
“RH Share Repurchase (Post-Consolidation)”	all and any repurchases of up to 26,295,789 Regal Hotels Shares by Regal Hotels under the RH Share Repurchase Programme <i>after</i> Regal Hotels becomes a subsidiary of the Company
“RH Share Repurchase (Pre-Consolidation)”	all and any repurchases of up to 12,590,611 Regal Hotels Shares by Regal Hotels under the RH Share Repurchase Programme <i>before</i> Regal Hotels becomes a subsidiary of the Company

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“RH Share Repurchase Programme”	an on-market programme of repurchases of up to 38,886,400 Regal Hotels Shares, comprising the RH Share Repurchase (Pre-Consolidation) and the RH Share Repurchase (Post-Consolidation)
“Second Announcement”	the announcement dated 9 May 2012 jointly made by the Century City Board, the Board, the Regal Hotels Board and the Regal REIT Manager Board in relation to Rule 13.09 of the Listing Rules and 10.3 of the REIT Code
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers, issued by the SFC (as amended from time to time)
“Trust Deed”	the trust deed constituting Regal REIT dated 11 December 2006, entered into between DB Trustees (Hong Kong) Limited, in its capacity as trustee of Regal REIT and the Regal REIT Manager, as supplemented by a first supplemental deed dated 2 March 2007, a second supplemental deed dated 15 May 2008, a third supplemental deed dated 8 May 2009, a fourth supplemental deed dated 23 July 2010, a fifth supplemental deed dated 3 May 2011 and a sixth supplemental deed dated 21 July 2011 entered into between the same parties (as may be further amended and supplemented from time to time)
“%”	per cent.
“2011 Regal Hotels AGM”	the annual general meeting of Regal Hotels held on 31 May 2011
“2011 RH Share Repurchase Mandate”	the general mandate granted to the Regal Hotels Directors to repurchase up to 10% of the then issued Regal Hotels Shares as at the date of 2011 Regal Hotels AGM
“2012 Regal Hotels AGM”	the annual general meeting of Regal Hotels held on 30 May 2012

DEFINITIONS

“2012 RH Share Repurchase
Mandate”

the general mandate granted to the Regal Hotels Directors to repurchase up to 10% of the then issued Regal Hotels Shares as at the date of 2012 Regal Hotels AGM and as may be renewed, refreshed or re-granted at general meetings of Regal Hotels thereafter pursuant to the Listing Rules from time to time

LETTER FROM THE BOARD



Executive Directors:

Mr. LO Yuk Sui (*Chairman and Chief Executive Officer*)

Mr. Donald FAN Tung (*Chief Operating Officer*)

Mr. Jimmy LO Chun To

Miss LO Po Man

Mr. Kenneth NG Kwai Kai

Mr. Kenneth WONG Po Man

Independent non-executive Directors:

Mr. Bowen Joseph LEUNG Po Wing, GBS, JP

Mr. NG Siu Chan

Hon. Abraham SHEK Lai Him, SBS, JP

Mr. WONG Chi Keung

*Head office and principal place
of business:*

11th Floor, 68 Yee Wo Street

Causeway Bay

Hong Kong

Registered office:

Rosebank Centre

11 Bermudiana Road

Pembroke, Bermuda

8 June 2012

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

RH SHARE REPURCHASE (POST-CONSOLIDATION) AND REGAL REIT OFFER

1. INTRODUCTION

Reference is made to the First Announcement, the Second Announcement and the Offer Announcement in relation to the RH Share Repurchase Programme and the Regal REIT Offer.

In the First Announcement, the Regal Hotels Board announced that it had authorised and approved the RH Share Repurchase Programme, for repurchasing not more than 38,886,400 Regal Hotels Shares on the market. Under the RH Share Repurchase Programme, the maximum price for the repurchases of Regal Hotels Shares is HK\$3.80 per Regal Hotels Share and the cash consideration payable by Regal Hotels will amount to not more than approximately HK\$147.8 million in aggregate.

According to the Second Announcement and the Offer Announcement, taking into consideration that the 12,600,000 Regal Hotels Shares repurchased by Regal Hotels up to 7 May 2012 under the RH Share Repurchase Programme had been cancelled, the aggregate proportionate shareholdings of the

LETTER FROM THE BOARD

Group and the Concert Group in the 494,413,861 Regal Hotels Shares and 495,750,238 Regal Hotels Shares increased from approximately 49.37% to approximately 50.00% and from approximately 49.50% to approximately 50.14% of the then issued share capital of Regal Hotels respectively, and crossed over the 50% shareholding threshold on 7 May 2012. Accordingly, on 7 May 2012, Regal Hotels became a subsidiary of each of Century City and the Company; and Regal REIT, being a listed subsidiary of Regal Hotels, has also in turn become a subsidiary of each of Century City and the Company. As such, the accounts of the Regal Hotels Group including the Regal REIT Group will be consolidated into the accounts of Century City and the Company.

Pursuant to the chain principle under Note 8 to Rule 26.1 of the Takeovers Code, the Company is required and has procured the Offeror, being an indirect wholly-owned subsidiary of the Company, to make the Regal REIT Offer for all the issued Regal REIT Units not already owned or agreed to be acquired by the Concert Group. As at the Latest Practicable Date, there were 3,257,431,189 Regal REIT Units in issue and the Concert Group was interested in an aggregate of 2,433,549,739 Regal REIT Units, representing approximately 74.71% of the issued Regal REIT Units. Assuming these unit numbers will remain the same, a total of 823,881,450 Regal REIT Units would be subject to the Regal REIT Offer. The Regal REIT Offer Price under the Regal REIT Offer is HK\$1.00 per Regal REIT Offer Unit and the cash consideration payable under the Regal REIT Offer will amount to approximately HK\$823.88 million in aggregate.

The purpose of this circular is to provide you with, among other things, further information in respect of the transactions contemplated under the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer in accordance with the Listing Rules.

2. RH SHARE REPURCHASE PROGRAMME

The following material particulars of the RH Share Repurchase Programme are adapted from the First Announcement and, where appropriate, updated to the Latest Practicable Date.

(a) *Number of Regal Hotels Shares involved*

Not more than 38,886,400 Regal Hotels Shares may be repurchased on the market under the RH Share Repurchase Programme.

As at the date of the First Announcement, there were 1,001,418,333 Regal Hotels Shares in issue and listed on the Stock Exchange. The Company, through its wholly-owned subsidiaries, was interested in a total of 494,413,861 Regal Hotels Shares, representing approximately 49.37% of the then issued share capital of Regal Hotels. As at the date of the First Announcement, the aggregate shareholding interests of the Concert Group in Regal Hotels (inclusive of the said 494,413,861 Regal Hotels Shares) amounted to 495,750,238 Regal Hotels Shares, representing approximately 49.50% of the then entire issued share capital of Regal Hotels. Assuming the RH Share Repurchase Programme is executed in full, a maximum of 38,886,400 Regal Hotels Shares would be repurchased by Regal Hotels, and the aggregate shareholdings of the Group and the Concert Group in Regal Hotels will increase to approximately 51.36% and approximately 51.50% of the entire issued share capital of Regal Hotels respectively.

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Based on the returns filed by Regal Hotels under Rule 13.25A of the Listing Rules and information provided by Regal Hotels up to the Latest Practicable Date, a total of 29,746,000 Regal Hotels Shares, of which 17,155,389 Regal Hotels Shares were repurchased at a total consideration of HK\$52,132,688 under the RH Share Repurchase (Post-Consolidation), have been repurchased by Regal Hotels under the RH Share Repurchase Programme since its commencement up to the Latest Practicable Date, and out of such repurchased Regal Hotels Shares, a total of 18,580,000 repurchased Regal Hotels Shares had been cancelled up to the Latest Practicable Date. The total issued Regal Hotels Shares were 982,838,333 as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company, through its wholly-owned subsidiaries, was interested in a total of 494,413,861 Regal Hotels Shares, representing approximately 50.88% of the issued share capital of Regal Hotels, on the basis that a total of 971,672,333 Regal Hotels Shares will be in issue as a result of the cancellation of all the 29,746,000 Regal Hotels Shares repurchased up to the Latest Practicable Date. As at the Latest Practicable Date, the aggregate shareholding interests of the Concert Group in Regal Hotels (inclusive of the said 494,413,861 Regal Hotels Shares) amounted to 495,750,238 Regal Hotels Shares, representing approximately 51.02% of the entire issued share capital of Regal Hotels, on the basis that a total of 971,672,333 Regal Hotels Shares will be in issue as a result of the cancellation of all the 29,746,000 Regal Hotels Shares repurchased up to the Latest Practicable Date.

As stated in the First Announcement, the Company had received confirmation from the Stock Exchange that the repurchases of Regal Hotels Shares by Regal Hotels would constitute transactions for the Company under Chapter 14 of the Listing Rules only *after* Regal Hotels had become a subsidiary of the Company. Accordingly, only the RH Share Repurchase (Post-Consolidation), under which not more than 26,295,789 Regal Hotels Shares in aggregate might be repurchased *after* Regal Hotels became a subsidiary of the Company, would constitute transaction for the Company under Chapter 14 of the Listing Rules.

(b) *Consideration*

Under the RH Share Repurchase Programme, the maximum price for the repurchases of Regal Hotels Shares is HK\$3.80 per Regal Hotels Share. Further, the Regal Hotels Board has confirmed that Regal Hotels will also comply with Rule 10.06(2)(a) of the Listing Rules, under which Regal Hotels shall not purchase Regal Hotels Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which the Regal Hotels Shares are traded on the Stock Exchange.

The maximum repurchase price of HK\$3.80 per Regal Hotels Share represents:

- (i) a premium of approximately 28.38% over the closing price of HK\$2.960 per Regal Hotels Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 24.35% over the average closing price of approximately HK\$3.056 per Regal Hotels Share for the last 5 trading days immediately prior to and including the Latest Practicable Date;

LETTER FROM THE BOARD

- (iii) a premium of approximately 24.43% over the average closing price of approximately HK\$3.054 per Regal Hotels Share for the last 10 trading days immediately prior to and including the Latest Practicable Date;
- (iv) a premium of approximately 25.87% over the average closing price of approximately HK\$3.019 per Regal Hotels Share for the last 30 trading days immediately prior to and including the Latest Practicable Date;
- (v) a premium of approximately 31.99% over the average closing price of approximately HK\$2.879 per Regal Hotels Share for the last 60 trading days immediately prior to and including the Latest Practicable Date;
- (vi) a premium of approximately 32.54% over the average closing price of approximately HK\$2.867 per Regal Hotels Share for the last 90 trading days immediately prior to and including the Latest Practicable Date; and
- (vii) a discount of approximately 68.01% to the NAV per Regal Hotels Share of approximately HK\$11.88 (calculated based on the audited NAV of the Regal Hotels Group of approximately HK\$11,542.8 million as at 31 December 2011 and 971,672,333 Regal Hotels Shares will be in issue assuming that a total of 29,746,000 Regal Hotels Shares repurchased up to the Latest Practicable Date had been cancelled).

As shown above, the maximum repurchase price of HK\$3.80 per Regal Hotels Share represents a deep discount to the NAV per Regal Hotels Share of approximately HK\$11.88. This maximum repurchase price was determined by the Regal Hotels Board after assessment of, among other things, the positive impact and benefits that would be brought about in enhancing the NAV and the earnings per Regal Hotels Share, and the need to allow for flexibility in the execution of the RH Share Repurchase Programme.

On the basis that all of the above 38,886,400 Regal Hotels Shares would be repurchased at the maximum price of HK\$3.80 per Regal Hotels Share, the cash consideration payable by Regal Hotels will amount to not more than approximately HK\$147.8 million in aggregate. The total consideration for repurchases of the Regal Hotels Shares in relation to the RH Share Repurchase (Post-Consolidation) will not exceed HK\$100 million, based on a maximum of 26,295,789 Regal Hotels Shares being repurchased at the maximum price of HK\$3.80 per Regal Hotels Share.

(c) *Period of the RH Share Repurchase Programme*

The RH Share Repurchase Programme shall be operative from the business day immediately following the date of the First Announcement until 21 July 2012, being 90 days after the effective date of the RH Share Repurchase Programme, or the date when the maximum of 38,886,400 Regal Hotels Shares are repurchased, whichever is earlier. During this period, repurchases of the Regal Hotels Shares on the Stock Exchange under the RH Share Repurchase Programme may be made from time to time on the market.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the RH Share Repurchase Programme was still in operation.

(d) *Counterparties*

None of the Regal Hotels Directors nor their associates has any intention to sell any Regal Hotels Shares to Regal Hotels under the RH Share Repurchase Programme. No other connected persons of Regal Hotels has notified Regal Hotels that they had an intention to sell Regal Hotels Shares to Regal Hotels, or has undertaken not to do so, under the RH Share Repurchase Programme.

The Directors have confirmed that, to the best of their knowledge, information and belief having made all reasonable enquiries, the counterparties and the ultimate beneficial owners of the counterparties in the repurchases of Regal Hotels Shares under the RH Share Repurchase (Post-Consolidation) are third parties independent of the Company and its connected persons.

As set out in the First Announcement, Regal Hotels would comply with the applicable provisions of the Listing Rules (including those set out in Chapter 10 of the Listing Rules) and the applicable law with respect to the repurchases of Regal Hotels Shares under the RH Share Repurchase Programme. The timing, manner, price and amount of any repurchases would be determined by the Regal Hotels Board at its discretion, and are subject to economic and market conditions, stock prices, applicable legal requirements and other factors.

Regal Hotels' share repurchase mandates

As referred to in the First Announcement, the RH Share Repurchase Programme would utilise the 2011 RH Share Repurchase Mandate, under which the Regal Hotels Directors had been authorised at the 2011 Regal Hotels AGM to repurchase up to a maximum of 100,141,833 Regal Hotels Shares on the market. As confirmed by the Regal Hotels Board, the 2011 RH Share Repurchase Mandate had only been used for the repurchases of 18,580,000 Regal Hotels Shares up to the date of the 2012 Regal Hotels AGM, at which the 2011 RH Share Repurchase Mandate expired. Pursuant to the 2012 RH Share Repurchase Mandate in force, as granted by the Regal Hotels Shareholders at the 2012 Regal Hotels AGM, the Regal Hotels Directors had been authorised to repurchase up to a maximum of 98,881,833 Regal Hotels Shares on the market. Accordingly, any repurchase made or to be made by Regal Hotels under the RH Share Repurchase Programme after the 2012 Regal Hotels AGM would be made under the 2012 RH Repurchase Mandate. The 2012 RH Share Repurchase Mandate has only been used for the repurchases of 11,166,000 Regal Hotels Shares up to the Latest Practicable Date.

Takeovers Code implications

Regal Hotels did not intend to implement the RH Share Repurchase Programme to such extent that it would result in obligations to make any general offer for Regal Hotels Shares arising under the Takeovers Code. As referred to in the section headed “**3. REGAL REIT OFFER**” below, repurchases of Regal Hotels Shares under the RH Share Repurchase Programme had given rise to the obligations to make a general offer for the Regal REIT Units under the chain principle in Note 8 to Rule 26.1 of the Takeovers Code.

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If the RH Share Repurchase Programme is executed in full, a maximum of 38,886,400 Regal Hotels Shares would be repurchased by Regal Hotels, thereby increasing the aggregate proportionate interests of the Company in Regal Hotels by approximately 2% to approximately 51.36%. Pursuant to Rule 32.1 of the Takeovers Code, the abovementioned increase of the proportionate interests of the Company in the issued share capital of Regal Hotels would be treated as an acquisition of Regal Hotels Shares for the purposes of the Takeovers Code. As the increase would be within (and not exceed) the 2% creeper band (above its lowest percentage shareholdings in Regal Hotels, of approximately 49.37%, in the 12-month period ending on and inclusive of the date of such repurchases) prescribed under Rule 26.1 of the Takeovers Code, no obligations to make a general offer for Regal Hotels Shares would arise as a result. Further details of the shareholding structure of Regal Hotels are set out below.

Impact of the RH Share Repurchase Programme on the shareholdings of Regal Hotels

Assuming the RH Share Repurchase Programme is executed in full, a maximum of 38,886,400 Regal Hotels Shares would be repurchased by Regal Hotels for cancellation, and the aggregate shareholdings of the Group and the Concert Group in Regal Hotels will increase to approximately 51.36% and approximately 51.50% of the entire issued share capital of Regal Hotels respectively.

According to the Regal Hotels Board, from the business day immediately following the date of the First Announcement and up to the Latest Practicable Date, an aggregate of 29,746,000 Regal Hotels Shares have been repurchased by Regal Hotels under the RH Share Repurchase Programme. On the basis that 18,580,000 Regal Hotels Shares repurchased by Regal Hotels under the RH Share Repurchase Programme had been cancelled up to the Latest Practicable Date and 11,166,000 Regal Hotels Shares repurchased by Regal Hotels under the RH Share Repurchase Programme up to the Latest Practicable Date had been treated as cancelled, the aggregate proportionate shareholdings of the Group and the Concert Group in Regal Hotels have increased from approximately 49.37% and approximately 49.50% as at the date of the First Announcement to approximately 50.88% and approximately 51.02% as at the Latest Practicable Date.

LETTER FROM THE BOARD

The impact of the RH Share Repurchase Programme on the shareholdings of Regal Hotels is illustrated below:

	As at the date of the First Announcement		Assuming a total of 29,746,000 Regal Hotels Shares repurchased up to the Latest Practicable Date had been cancelled		Assuming the RH Share Repurchase Programme is fully executed	
	<i>Number of Regal Hotels Shares</i>		<i>Number of Regal Hotels Shares</i>		<i>Number of Regal Hotels Shares</i>	
	%	%	%	%	%	%
The Group	494,413,861	49.37	494,413,861	50.88	494,413,861	51.36
Century City Group	421,400	0.04	421,400	0.04	421,400	0.04
Mr. LO and his spouse	284,900	0.03	284,900	0.03	284,900	0.03
Other Regal Hotels Directors	579,369	0.06	579,369	0.06	579,369	0.06
Other Century City Director and Director and a director of subsidiaries of Century City and the Company	50,708	0.00	50,708	0.01	50,708	0.01
<i>Sub-total for the Concert Group</i>	<i>495,750,238</i>	<i>49.50</i>	<i>495,750,238</i>	<i>51.02</i>	<i>495,750,238</i>	<i>51.50</i>
Dr. Francis CHOI Chee Ming (Note 1)	50,240,000	5.02	50,240,000	5.17	50,240,000	5.22
Public Regal Hotels Shareholders	455,428,095	45.48	425,682,095	43.81	416,541,695	43.28
Total	<u>1,001,418,333</u>	<u>100.00</u>	<u>971,672,333</u>	<u>100.00</u>	<u>962,531,933</u>	<u>100.00</u>

Note:

- Dr. Francis CHOI Chee Ming is a non-executive Regal Hotels Director and vice chairman of Regal Hotels.

3. REGAL REIT OFFER

According to the Second Announcement and the Offer Announcement, taking into consideration that the 12,600,000 Regal Hotels Shares repurchased by Regal Hotels up to 7 May 2012 under the RH Share Repurchase Programme had been cancelled, the aggregate proportionate shareholdings of the Group and the Concert Group of the 494,413,861 Regal Hotels Shares and 495,750,238 Regal Hotels Shares have increased from approximately 49.37% to approximately 50.00% and from approximately 49.50% to approximately 50.14% of the then issued share capital of Regal Hotels respectively, and crossed over the 50% shareholding threshold on 7 May 2012. Accordingly, pursuant to the chain

LETTER FROM THE BOARD

principle under Note 8 to Rule 26.1 of the Takeovers Code, the Company is required and has procured the Offeror, being an indirect wholly-owned subsidiary of the Company, to make the Regal REIT Offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Concert Group.

The material particulars of the Regal REIT Offer are set out below:

(a) *Number of Regal REIT Units involved*

As at the Latest Practicable Date, there were 3,257,431,189 Regal REIT Units in issue. The Concert Group was interested in an aggregate of 2,433,549,739 Regal REIT Units, representing approximately 74.71% of the Regal REIT Units in issue. Assuming these unit numbers will remain the same, a total of 823,881,450 Regal REIT Offer Units would be subject to the Regal REIT Offer.

(b) *Consideration*

As set out in the First Announcement and the Offer Announcement, the Regal REIT Offer Price is determined based on the implied value of the Regal REIT Units deemed acquired by the Group, which is derived from:

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

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

LETTER FROM THE BOARD

Comparison of value

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

- (i) a discount of approximately 41.18% to the closing price of HK\$1.700 per Regal REIT Unit as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 41.66% to the average closing price of approximately HK\$1.714 per Regal REIT Unit for the last 5 trading days immediately prior to and including the Latest Practicable Date;
- (iii) a discount of approximately 41.86% to the average closing price of approximately HK\$1.720 per Regal REIT Unit for the last 10 trading days immediately prior to and including the Latest Practicable Date;
- (iv) a discount of approximately 46.61% to the average closing price of approximately HK\$1.873 per Regal REIT Unit for the last 30 trading days immediately prior to and including the Latest Practicable Date;
- (v) a discount of approximately 49.08% to the average closing price of approximately HK\$1.964 per Regal REIT Unit for the last 60 trading days immediately prior to and including the Latest Practicable Date;
- (vi) a discount of approximately 49.47% to the average closing price of approximately HK\$1.979 per Regal REIT Unit for the last 90 trading days immediately prior to and including the Latest Practicable Date; and
- (vii) a discount of approximately 74.25% to the NAV per Regal REIT Unit of approximately HK\$3.884 (calculated based on the audited NAV of the Regal REIT Group of approximately HK\$12,651.8 million as at 31 December 2011 and 3,257,431,189 Regal REIT Units in issue as at the Latest Practicable Date).

On the basis that the Regal REIT Offer is made for all of the 823,881,450 Regal REIT Offer Units at the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit, and assuming that it is fully accepted, the maximum cash consideration payable under the Regal REIT Offer will amount to approximately HK\$823.88 million in aggregate.

(i) *Timetable*

The Company will comply with the applicable provisions of the Takeovers Code and the applicable law with respect to the Regal REIT Offer. For details of the timetable, the Shareholders are recommended to read the composite offer document which will be jointly issued by the Company, the Offeror and Regal REIT in accordance with the Takeovers Code.

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(ii) Counterparties

The Regal REIT Offer will only be made to the Independent Regal REIT Unit Holders for the Regal REIT Offer Units. Accordingly, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties and the ultimate beneficial owners of the counterparties in the acquisition of Regal REIT Offer Units under or in respect of the Regal REIT Offer, if made, will be third parties independent of the Company and its connected persons.

Regal REIT Units holding structure

As at the Latest Practicable Date, there were 3,257,431,189 Regal REIT Units in issue. The unit holding structure of Regal REIT as at the Latest Practicable Date is set out below:

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

Notes:

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

4. INFORMATION ON THE GROUP, THE REGAL HOTELS GROUP AND THE REGAL REIT GROUP

The Group

The principal activity of the Company is that of a holding company. The principal activities of the Group are property development and investment, construction and building related businesses, the investment in Regal Hotels, and other investments.

The Regal Hotels Group

The principal activity of Regal Hotels is that of a holding company. The principal activities of the Regal Hotels Group are hotel ownership through Regal REIT, hotel operation and management, asset management of Regal REIT, property development and investment, and other investments.

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The Regal REIT Group

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

The portfolio of investment properties of Regal REIT currently comprises six hotel properties, being Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and Regal iClub Hotel. As at 31 December 2011, the NAV of the Regal REIT Group was approximately HK\$12,651.8 million, representing NAV of approximately HK\$3.884 per Regal REIT Unit.

Financial information of the Regal Hotels Group and the Regal REIT Group

The following is a summary of the audited consolidated results of the Regal Hotels Group and the Regal REIT Group for the two financial years ended 31 December 2010 and 2011, respectively:

	For the financial year ended 31 December 2010		For the financial year ended 31 December 2011	
	Regal Hotels Group	Regal REIT Group	Regal Hotels Group	Regal REIT Group
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit before taxation	<u>7,064.8</u>	<u>1,120.4</u>	<u>147.0</u>	<u>3,070.5</u>
Profit after taxation (before non-controlling interests)	<u>6,990.8</u>	<u>1,017.6</u>	<u>130.7</u>	<u>2,997.3</u>

As at 31 December 2011, the audited NAV of the Regal Hotels Group and the Regal REIT Group were approximately HK\$11,542.8 million (representing approximately HK\$11.53 per Regal Hotels Share) and approximately HK\$12,651.8 million (representing approximately HK\$3.884 per Regal REIT Unit) respectively.

5. REASONS FOR THE TRANSACTIONS

As set out in the First Announcement, the Regal Hotels Board noted that the Regal Hotels Shares have been trading at a deep discount to the NAV per Regal Hotels Share. As at the Latest Practicable Date, the NAV per Regal Hotels Share was approximately HK\$11.88 (calculated based on the audited NAV of the Regal Hotels Group of approximately HK\$11,542.8 million as at 31 December 2011 and

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971,672,333 Regal Hotels Shares will be in issue assuming that a total of 29,746,000 Regal Hotels Shares repurchased up to the Latest Practicable Date had been cancelled), which represents:

- (i) a premium of approximately 4.00 times over the closing price of HK\$2.960 per Regal Hotels Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 3.87 times over the average closing price of approximately HK\$3.056 per Regal Hotels Share for the last 5 trading days immediately prior to and including Latest Practicable Date;
- (iii) a premium of approximately 3.87 times over the average closing price of approximately HK\$3.054 per Regal Hotels Share for the last 10 trading days immediately prior to and including Latest Practicable Date;
- (iv) a premium of approximately 3.92 times over the average closing price of approximately HK\$3.019 per Regal Hotels Share for the last 30 trading days immediately prior to and including Latest Practicable Date;
- (v) a premium of approximately 4.11 times over the average closing price of approximately HK\$2.879 per Regal Hotels Share for the last 60 trading days immediately prior to and including Latest Practicable Date; and
- (vi) a premium of approximately 4.13 times over the average closing price of approximately HK\$2.867 per Regal Hotels Share for the last 90 trading days immediately prior to and including Latest Practicable Date.

As set out in the First Announcement, through implementation of the RH Share Repurchase Programme under appropriate market conditions (particularly when the Regal Hotels Shares might be undervalued by the market), the Regal Hotels Board considered that it would enhance the NAV as well as the earnings per Regal Hotels Share, and achieve better returns for the Regal Hotels Shareholders in the long run. The Regal Hotels Directors, having considered all the relevant circumstances and factors including those mentioned above, were of the view that the repurchases of Regal Hotels Shares under the RH Share Repurchase (Post-Consolidation) are on normal commercial terms, fair and reasonable and in the interests of Regal Hotels and the Regal Hotels Shareholders as a whole.

According to the Second Announcement and the Offer Announcement, taking into consideration that the 12,600,000 Regal Hotels Shares repurchased by Regal Hotels up to 7 May 2012 under the RH Share Repurchase Programme had been cancelled, the aggregate proportionate shareholdings of the Group and the Concert Group of the 494,413,861 Regal Hotels Shares and 495,750,238 Regal Hotels Shares increased from approximately 49.37% to approximately 50.00% and from approximately 49.50% to approximately 50.14% of the then issued share capital of Regal Hotels respectively, and crossed over the 50% shareholding threshold on 7 May 2012. Accordingly, pursuant to the chain

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principle under Note 8 to Rule 26.1 of the Takeovers Code, the Company is required and has procured the Offeror, being an indirect wholly-owned subsidiary of the Company, to make the Regal REIT Offer for all the issued Regal REIT Units other than those already owned or agreed to be acquired by the Concert Group.

The terms of the Regal REIT Offer will comply with the Takeovers Code in all respects.

The Board does not have intention to privatise Regal REIT by means of the Regal REIT Offer. The Company intends to maintain the listing status of Regal REIT on the Stock Exchange after the Regal REIT Offer.

As set out above, the total number of Regal REIT Offer Units being the subject of the Regal REIT Offer will be 823,881,450, which are held by the Independent Regal REIT Unit Holders, representing approximately 25.29% of the Regal REIT Units outstanding as at the Latest Practicable Date. As stated in the Offer Announcement, if the percentage of the outstanding Regal REIT Units in the public hands has fallen below 25% as a result of the Regal REIT Offer, the Company will take appropriate steps, including placement of Regal REIT Units, to ensure that sufficient public float exists in the Regal REIT Units after the close of the Regal REIT Offer in compliance with the minimum public float requirement under Rule 8.08 the Listing Rules.

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

Taking into consideration the above, the Directors consider that the transactions contemplated under the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

6. FINANCIAL EFFECTS ON THE GROUP

As aforementioned, as of 7 May 2012, Regal Hotels has become a listed subsidiary of the Company and the financial statements of the Regal Hotels Group will be consolidated into the financial statements of the Company. Assuming full execution of the RH Share Repurchase (Post-Consolidation) and full acceptance of the Regal REIT Offer by the Independent Regal REIT Unit Holders, the Company will have effective interests of approximately 51.36% and 63.58% of the then issued share capital of Regal Hotels and the then Regal REIT Units in issue respectively.

As set out in the unaudited pro forma statement of financial position of the Enlarged Group in Appendix IV to this circular, assuming the RH Share Repurchase Programme and the Regal REIT Offer were completed as at 31 December 2011, the total assets as at 31 December 2011 would have increased from approximately HK\$9,071.8 million to approximately HK\$27,839.6 million on a pro forma basis, the total liabilities would have increased from approximately HK\$125.0 million to approximately HK\$8,871.6 million on a pro forma basis and the net assets would have increased from approximately HK\$8,946.8 million to approximately HK\$18,968.0 million on a pro forma basis.

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On the bases that (i) 12,600,000 Regal Hotels Shares were repurchased under the RH Share Repurchase Programme up to 7 May 2012; (ii) the fair value of the Regal Hotels Group is derived based on the audited net asset value of the Regal Hotels Group as at 31 December 2011 as presented in its annual report for the year ended 31 December 2011 after the fair value adjustments of HK\$3,613.8 million and HK\$878.7 million to the hotel properties included in property, plant & equipment, and properties held for sale, respectively, as well as the recognition of deferred tax liabilities of HK\$741.3 million (“**Adjusted Net Asset Value**”); and (iii) the non-controlling interests are recognised based on the non-controlling shareholders’ proportionate share of the Adjusted Net Asset Value of the Regal Hotels Group as at 31 December 2011, an estimated overall accounting gain of approximately HK\$1,700 million is resulted from the implementation of the RH Share Repurchase Programme and the Regal REIT Offer. The estimated overall accounting gain is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the impact on the earnings of the Group as a result of the implementation of the RH Share Repurchase Programme and the Regal REIT Offer as the actual impact on the earnings of the Group may be different from the estimated overall accounting gain which is calculated mainly based on the information as at 31 December 2011 instead of 7 May 2012 and no other fair value adjustments and additional recognition of assets and liabilities are made in estimating such accounting gain.

Further details of the financial effects of the RH Share Repurchase Programme and the Regal REIT Offer, assuming the completion thereof took place on 31 December 2011, on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out in Appendix IV to this circular.

7. LISTING RULES IMPLICATIONS

As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the RH Share Repurchase (Post-Consolidation) when aggregated with the Regal REIT Offer are more than 25% but less than 100%, the transactions contemplated under the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer constitute a major transaction for the Company under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interests in the transactions contemplated under the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer. As such, no Shareholder would be required to abstain from voting under the Listing Rules if the Company were to convene a general meeting for the approval of the transactions contemplated under the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer.

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As no Shareholders are required to abstain from voting if the Company were to convene a general meeting for the approval of these transactions in accordance with the Listing Rules, the Company has received written Shareholders' approval of the RH Share Repurchase (Post-Consolidation) and the acquisition of Regal REIT Offer Units under the Regal REIT Offer, in lieu of holding general meeting of the Company in accordance with Rule 14.44 of the Listing Rules, given by a closely allied group of the Shareholders as at the date of the First Announcement comprising the following persons:

Shareholders	% of shareholding in the Company
Mr. LO	7.14
Select Wise Holdings Limited (<i>Note 1</i>)	1.42
Splendid All Holdings Limited (<i>Note 1</i>)	2.65
Almighty International Limited (<i>Note 2</i>)	30.13
Century City Holdings Limited (<i>Note 2</i>)	2.65
Cleerview Investments Limited (<i>Note 2</i>)	15.74
Gold Concorde Holdings Limited (<i>Note 2</i>)	2.54
Meylink Limited (<i>Note 2</i>)	4.23
Smartaccord Limited (<i>Note 2</i>)	0.73
Splendour Corporation (<i>Note 2</i>)	4.33
Total	<u>71.56</u>

Note:

1. Companies controlled by Mr. LO.
2. Wholly-owned subsidiaries of Century City.

8. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
LO Yuk Sui
Chairman

I. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2009, 2010 AND 2011

Financial information of the Group for each of the three years ended 31 December 2009, 2010 and 2011 is disclosed on pages 50 to 130 of the annual report of the Company for the year ended 31 December 2010 and pages 43 to 124 of the annual report of the Company for the year ended 31 December 2011 (the “**Annual Report 2011**”), which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.paliburg.com.hk).

II. INDEBTEDNESS

As at the close of business on 30 April 2012, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding borrowings of approximately HK\$5,506.0 million which represented bank loans secured by certain of the Enlarged Group’s property, plant and equipment, properties under development, investment properties, properties held for sale, held-to-maturity investments, bank deposits and bank balances.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 30 April 2012, any outstanding mortgages, charges, debentures, bank loans and overdrafts, debt securities or loan notes or other similar indebtedness, loan capital issued or outstanding or agreed to be issued, finance leases, liabilities under acceptances or acceptance credits or any finance leases commitments, or any guarantees or other material contingent liabilities.

III. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present internal financial resources, the existing available banking facilities and the completion of the RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer, the Enlarged Group has sufficient working capital to satisfy its present requirements, that is for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**FINANCIAL RESULTS**

For the year ended 31 December 2011, the Group achieved a consolidated profit attributable to the Shareholders of HK\$1,484.2 million, as compared to the profit of HK\$2,150.5 million attained in 2010.

The profit achieved in 2011 was principally attributable to the profit contribution from the Larvotto joint venture while, for the previous financial year, a very significant part of the profit attained was related to a one-off accounting gain recognised by Regal Hotels on the consolidation of Regal REIT as a subsidiary of Regal Hotels in July 2010.

BUSINESS OVERVIEW

PROPERTIES

The Group has a 30% interest in Larvotto, the luxury residential development at Ap Lei Chau Inland Lot No. 129, Hong Kong. As mentioned in the interim report of the Company for the six months ended 30 June 2011 (the “**Interim Report 2011**”), most of the residential apartments and a majority of the car parks had been sold, with total sale consideration exceeding HK\$16 billion. The share of the net cash proceeds attributable to the Group had been received and the corresponding profit already reflected in the financial statements of the Group for the year ended 31 December 2011. Save for the comparatively minor distribution yet to be received from the disposal of the remaining units, the Group’s investment in the Larvotto joint venture project can virtually be regarded as having been successfully completed.

In April 2011, Flourish Lead Investments Limited (currently known as “P&R Holdings Limited” (“**P&R Holdings**”)) was established by Regal Hotels and the Group as a 50:50 owned joint venture for the development of real estate projects for sale and/or leasing.

As mentioned in the Interim Report 2011, P&R Holdings had, since its establishment, acquired a total of 3 sites in Hong Kong, two of which are located in Sheung Wan District and were acquired from the Group, while the other one is located in North Point and was acquired from a third party. All the three sites are planned for hotel developments. In June 2011, P&R Holdings further acquired a 70% effective interest in the composite development in Xindu District, Chengdu, Sichuan, the PRC, which was previously owned by the joint venture entity 50:50 held by each of Regal Hotels and Cosmopolitan International Holdings Limited (“**Cosmopolitan**”).

Later in September 2011, through one of its wholly-owned subsidiaries, P&R Holdings has successfully acquired at a government land auction another development site at Tan Kwai Tsuen Road, Yuen Long, New Territories, Hong Kong, which is intended to be developed into residential houses and apartments.

CONSTRUCTION AND BUILDING RELATED BUSINESSES

The Group operates a comprehensive range of construction and other building related businesses. Although overall business volume has relatively contracted due to keen market competition, these operating units are providing to the Group and its affiliates strong logistic support on different essential aspects of the property development and related businesses. Apart from the professional services rendered by the development consultancy unit, Chatwin Engineering Limited, the Group’s construction arm, has recently been awarded, after a competitive tendering process, the main contract for the hotel construction works at Nos.132-140 Bonham Strand in Sheung Wan, Hong Kong being developed by P&R Holdings.

OTHER INVESTMENTS

As at 31 December 2011, the Group held, as long term strategic investments, 17.1% of the issued shares and certain 2013 convertible bonds of Cosmopolitan. Like most other financial assets, these holdings of shares and convertible bonds of Cosmopolitan are stated in the financial statements at their fair values based on the traded price of the Cosmopolitan shares and, in the case of the convertible bonds, valued by an independent professional valuer. On account of the fluctuation in the traded price of the Cosmopolitan shares, the changes in the fair values of the Group's holdings in the shares and convertible bonds of Cosmopolitan have been relatively substantial. Due to the weak performance of the stock market in Hong Kong in 2011 and the fall in the traded price of the Cosmopolitan shares, the fair values of the shares and convertible bonds of Cosmopolitan have substantially declined. This has resulted in a loss on changes in fair values of approximately HK\$630.5 million, which more than reversed the corresponding profit of approximately HK\$466.6 million recorded in the previous year. Although the investments in Cosmopolitan are held for long term strategic purpose and the loss resulting from the changes in their fair values is non-cash flow in nature, such changes have nevertheless adversely impacted the results of the Group for the year ended 31 December 2011.

OUTLOOK

With the net cash proceeds received from the Larvotto joint venture project, the financial strength of the Group has been significantly enhanced. The Group is effectively debt free with substantial cash reserves. While the Group has already been expanding its property development businesses actively through P&R Holdings, the Group will continue to look out for any suitable acquisition opportunities to further enlarge its development land bank.

The Directors are hopeful that when the projects presently undertaken by P&R Holdings are progressively completed as planned, the results of the Group over the next few years would be very rewarding.

With regard to the financial and business review of the Regal Hotels Group, please refer to Appendix II to this circular.

I. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE REGAL HOTELS GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2011

Financial information of the Regal Hotels Group for each of the three years ended 31 December 2009, 2010 and 2011 is disclosed on pages 65 to 157 of the annual report of Regal Hotels for the year ended 31 December 2010 and pages 59 to 152 of the annual report of Regal Hotels for the year ended 31 December 2011, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of Regal Hotels (www.regal.com.hk).

II. MANAGEMENT DISCUSSION AND ANALYSIS ON THE REGAL HOTELS GROUP**(A) FOR THE YEAR ENDED 31 DECEMBER 2011****FINANCIAL RESULTS**

For the year ended 31 December 2011, the Regal Hotels Group achieved a consolidated profit attributable to Regal Hotels Shareholders of HK\$107.9 million, as compared to the HK\$6,928.8 million attained in 2010. However, as previously explained, a very significant part of the profit attained last year was related to a one-off accounting gain of HK\$6,637.4 million recognised on the consolidation of Regal REIT as a subsidiary of Regal Hotels in July 2010.

During the year ended 31 December 2011, the performance of the Regal Hotels Group's core hotel operations has improved substantially, with the gross operating profits of the hotel operations of the six Regal hotels in Hong Kong owned by the Regal Hotels Group through Regal REIT having increased by about 31% to approximately HK\$852.5 million. Moreover, there were gains of over HK\$600 million from share of profits of jointly controlled entities, which were principally derived from the transaction relating to the sale to P&R Holdings of 70% effective interest in the composite development in Chengdu, Sichuan, the PRC by a jointly controlled entity that is 50%-owned by the Regal Hotels Group.

Due to the weak performance of the stock market in Hong Kong in 2011, the Regal Hotels Group recorded losses of approximately HK\$822.8 million on the changes in the fair values of the Regal Hotels Group's portfolio of financial assets, including in particular the Regal Hotels Group's long term holdings in the convertible bonds and shares of Cosmopolitan. In addition, the five Regal hotels leased to the Regal Hotels Group are owned by Regal REIT as investment properties, but they are treated by the Regal Hotels Group in its consolidated financial statements as fixed assets and depreciation charges in a total amount of HK\$351.2 million were required to be provided for these hotel properties in the financial year ended 31 December 2011. Although the fair value losses and depreciation charges are non-cash flow items, they have nevertheless adversely affected the financial results of the Regal Hotels Group for the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

The Regal Hotels Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits and yield enhancement products are deployed from time to time as management of the Regal Hotels Group considers to be appropriate.

BORROWINGS AND GEARING

As at 31 December 2011, the Regal Hotels Group's borrowings net of cash and bank balances and deposits amounted to HK\$4,132.2 million.

As at 31 December 2011, the gearing ratio of the Regal Hotels Group is 20.8%, representing the Regal Hotels Group's borrowings net of cash and bank balances and deposits of HK\$4,132.2 million as compared to the total assets of the Regal Hotels Group of HK\$19,860.8 million.

PLEDGE OF ASSETS

As at 31 December 2011, part of the Regal Hotels Group's bank deposits, bank balances, financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments in the amount of HK\$404.0 million were pledged to secure a bank guarantee procured by the Regal Hotels Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and the Regal Hotels Group's investment properties and certain of the Regal Hotels Group's property, plant and equipment, properties held for sale, held-to-maturity investments, bank deposits and bank balances in the total amount of HK\$15,219.6 million were also pledged to secure other banking facilities granted to the Regal Hotels Group.

The Regal Hotels Group had loan facilities aggregating to HK\$5,519.0 million as at 31 December 2011, including a term loan of HK\$4,500.0 million granted to Regal REIT due to mature on 30 March 2012, the refinancing arrangement of which has recently been concluded.

CAPITAL COMMITMENTS

The Regal Hotels Group had capital commitments in respect of its hotel buildings amounting to HK\$37.3 million.

CONTINGENT LIABILITY

The Regal Hotels Group had contingent liability not provided for in the financial statements for a corporate guarantee provided in respect of attributable share of banking facilities granted to a subsidiary of a jointly controlled entity in the amount of HK\$170.0 million, of which HK\$90.0 million was utilised.

EXCHANGE RISK AND HEDGE

The Regal Hotels Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

BUSINESS OVERVIEW**HOTELS****MARKET OVERVIEW**

The first half of 2011 saw positive signs of gradual recovery in the global economy, but the recovery pace was stalled in the second half by the intensifying strains in the sovereign debt crisis

across the Euro-zone. Towards the end of 2011, the economy in the United States was able to regain some momentum as a result of an improved labour market and its monetary policy to maintain a low interest environment. As the second largest economy in the world, China's Gross Domestic Product continued to expand by about 9.2% in 2011, although the growth rate has slowed down as compared to the past few years. Benefiting from its close economic ties with China and the resilience of its domestic economy, Hong Kong's GDP has managed to grow by about 5% in 2011.

During the year ended 31 December 2011, tourist arrivals to Hong Kong hit a historical record of approximately 41.9 million, representing a 16.4% increase over the previous year. Visitors from Mainland China were still the strongest growth segment and accounted for about two-thirds of the total visitors to Hong Kong. The ever-growing affluence of the Chinese visitors have continued to drive market demands on the retail and lodging businesses in Hong Kong.

According to the Hotel Survey published by Hong Kong Tourism Board, the average hotel room occupancy rate for all the surveyed hotels in different categories for 2011 was 89%, a year-on-year increase of about 2.3%, while the average RevPAR (Revenue per Available Room) improved by about 19%.

HOTEL OWNERSHIP

The Regal Hotels Group's hotel ownership business is undertaken through Regal REIT.

For the year ended 31 December 2011, Regal REIT achieved a consolidated net profit before distribution to Regal REIT Unit Holders of HK\$2,997.3 million, which was an increase of about 200% over the comparative amount of HK\$997.1 million recorded for the year 2010. The significant improvement in the net profit achieved was principally attributable to the increase in the fair values of the five Regal hotels leased to the Regal Hotels Group and held by Regal REIT as investment properties. Total distributable income of Regal REIT for the year 2011 amounted to approximately HK\$397.9 million, as compared to HK\$682.9 million for the preceding year.

However, as the five Regal hotels in Hong Kong leased to the Regal Hotels Group are treated by the Regal Hotels Group as fixed assets, they are stated in the Regal Hotels Group's consolidated financial statements at their fair values as at the time when Regal REIT became a subsidiary of the Regal Hotels Group in July 2010, plus subsequent capital additions and deducting accumulated depreciation. Accordingly, any subsequent changes in their fair values, including those recorded by Regal REIT in its results for 2011, would not be reflected in the consolidated financial statements of the Regal Hotels Group. On the other hand and as mentioned above, depreciation charges in a total amount of HK\$351.2 million were required to be provided for such hotel properties in the financial year ended 31 December 2011.

The annual base rent for the five Regal hotels leased to the Regal Hotels Group, namely, the Regal Airport Hotel, the Regal Hongkong Hotel, the Regal Kowloon Hotel, the Regal Oriental Hotel and the Regal Riverside Hotel, for the year 2011 was HK\$560 million, as determined by a jointly

appointed independent professional valuer. On account of the satisfactory operating results achieved by these hotels in 2011, Regal REIT received from the Regal Hotels Group additional variable rent of approximately HK\$116.0 million, based on 50% sharing of the excess of the aggregate net property income for the year over the annual base rent.

The annual base rent payable by the Regal Hotels Group for the year 2012 under the market rental package determined by the independent professional valuer was HK\$645 million, an increase of approximately 15.2% over the base rent for 2011, and likewise with an equal sharing of the excess net property income.

Regal REIT continues to invest in capital additions projects as an ongoing programme to upgrade the quality and standards of the rooms and facilities in the hotels. During 2011, over 450 guestrooms and suites across the five Regal hotels and various ballrooms, function rooms and food and beverage outlets in the Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel have been renovated. Recently, government approvals have been obtained for the conversion of part of the second floor and the fourteenth floor at the Regal Oriental Hotel into 56 new additional rooms and interior fitting out plans are being finalised to convert these areas, which are now being used for food and beverage operations, into the more lucrative room business.

The sixth Regal hotel owned by Regal REIT, the Regal iClub Hotel in Wanchai, is managed by the Regal Hotels Group's wholly owned subsidiary but operated by Regal REIT itself. The hotel began full operation with 99 rooms and suites in December 2010 and has performed very well during 2011. Year round occupancy was recorded at a level of about 96% and the RevPAR was about 41% higher than that attained in 2010.

Regal REIT recently concluded arrangements for a new 3-year HK\$4,500 million term loan facility that will mature in March 2015, involving a syndicate of 12 local and international banks, to refinance the previous term loan facilities. Due to the changes in the financial market, the interest margin for the new term loan facility will be higher than that under the previous loan facilities, but the interbank interest rate is now much lower than the level when the interest rate swap and hedging arrangements were put in place for the previous facilities in 2007. Therefore, it is expected that there would be overall savings in the finance costs for the bank loans of Regal REIT, as compared with the effective loan interest paid in the previous years. Management of Regal REIT will closely monitor the interest rate market to determine whether and when it will be beneficial to put in place new interest rate swaps for the new term loan facility.

HOTEL OPERATIONS

The five Regal hotels in Hong Kong leased by the Regal Hotels Group from Regal REIT have all performed very satisfactorily in the year ended 31 December 2011. Their combined average occupancy rate has increased over the previous year by about 5.8% to 90.7%, with average RevPAR having at the same time improved by about 28.7%. Total gross operating profits for the five hotels for 2011 amounted to approximately HK\$822.7 million.

After adjusting its marketing strategy to increase market share, the occupancy rate for Regal Airport Hotel has increased year-on-year by about 11.1% to 86.7%, while its average RevPAR improved by about 17.9%. Having regard to the superior quality and standards of the Regal Airport Hotel as well as its strategic location, which for many consecutive years have been voted as the Best Airport Hotel in Asia Pacific and the World, the Regal Hotels Group considers that there is still further room for improvement in its overall profitability.

HOTEL MANAGEMENT

All the six Regal hotels in Hong Kong are managed by Regal Hotels International Limited, a wholly owned subsidiary of the Regal Hotels Group.

In the PRC, there are presently seven hotels under operation which are managed by the Regal Hotels Group, of which four are in Shanghai, one in Chengdu, Sichuan, one in Dezhou, Shandong and the latest one in Guiyang, Guizhou, which was taken over and renamed as the Regal Poly Guiyang Hotel in October 2011. There are another six hotel projects with which the Regal Hotels Group has entered into management services contracts, which are in different stages of development. In the order of their targeted dates of opening, spreading out from late 2012 to the 3rd quarter of 2014, these hotel projects are, respectively, the 310-room Regal Yuhong Hotel in Zhengzhou, Henan, the 310-room Regal Xindu Hotel in Chengdu, Sichuan, the 260-room Regal Fanhua Center Hotel in Suzhou, Jiangsu, the 220-room Regal Financial Center Hotel in Foshan, Guangdong, the 300-room Regal Royale Hotel in Kunshan, Jiangsu and the 300-room Regal Wolong Hotel in Wuhan, Hubei.

The Regal Hotels Group will continue to invest additional management and financial resources to its management businesses in the PRC, with a view to expanding its network to other major cities.

PROPERTIES

Due to the tightening of market liquidity, the property market in Hong Kong was faced with some consolidation since the latter part of last year. Viewing from a longer term perspective, a cooling down of overheated demands with resultant stabilisation in price levels might indeed be beneficial to the development of a healthy and sustainable market.

The Regal Hotels Group still retains 19 houses in Regalia Bay, Stanley, Hong Kong, apart from the 2 houses contracted to be sold and scheduled for completion later in 2012. Three houses have been leased out during the year 2011. The Regal Hotels Group will continue with the disposal of some houses if the price is considered favourable but, in the meantime, may also consider leasing out further houses for rental income.

Through P&R Holdings, a joint venture company equally owned by the Regal Hotels Group and the Company established in April 2011, the Regal Hotels Group has been actively expanding its property development business. As mentioned in the interim report of Regal Hotels for the six months ended 30 June 2011, P&R Holdings has since its establishment acquired a total of 3 sites in Hong Kong, two of which are located in Sheung Wan District acquired from the Company and one located

in North Point acquired from a third party, which are all planned for hotel developments. As also reported before, P&R Holdings has acquired a 70% effective interest in the composite development in Xindu District, Chengdu, Sichuan previously held by the jointly controlled entity that is 50:50 owned by each of the Regal Hotels Group and the Cosmopolitan group.

Further in September 2011, through one of its wholly owned subsidiaries, P&R Holdings has successfully acquired at a government land auction another development site at Tan Kwai Tsuen Road, Yuen Long, New Territories, which is intended to be developed into residential houses and apartments.

OTHER INVESTMENTS

The Regal Hotels Group held a sizable investment portfolio consisting primarily of listed securities. The Regal Hotels Group owned within this portfolio a substantial holding of two series of convertible bonds due 2013 and a relatively minor interest in the shares of Cosmopolitan, which are held as long term strategic investments. Like most other financial assets, these holdings of convertible bonds and shares of Cosmopolitan are stated in the financial statements at their fair values based on the traded price of the Cosmopolitan shares as at the financial reporting date and, in the case of the convertible bonds, valued by an independent professional valuer. On account of the fluctuation in the traded price of the Cosmopolitan shares, the changes in the fair values of the Regal Hotels Group's holdings in the convertible bonds and shares of Cosmopolitan have been relatively substantial. Due to the weak performance of the stock market in Hong Kong in 2011 and the fall in the traded price of the Cosmopolitan shares, the fair values of these convertible bonds and shares have substantially declined. This has resulted in a loss on changes in fair values of approximately HK\$716.3 million in the year ended 31 December 2011, which more than reversed the corresponding gain of approximately HK\$534.7 million recorded in the previous year. In this regard, it should however be noted that the convertible bonds and shares in Cosmopolitan are held for long term strategic purpose and that the prevailing conversion prices of these 2013 convertible bonds are still below the traded price of the Cosmopolitan shares as at 31 December 2011.

STAFF AND REMUNERATION POLICY

The Regal Hotels Group employs approximately 1,930 staff in Hong Kong. The Regal Hotels Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Regal Hotels Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Regal Hotels Group include a mandatory provident fund scheme as well as medical and life insurance.

With a view to providing long term incentives, Regal Hotels maintains a share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme", under which share options had been granted to selected eligible persons.

OUTLOOK

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

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

The Regal Hotels Group is confident of the prospects of the hotel industry in Hong Kong. The Regal Hotels Group's hotel portfolio in Hong Kong has grown to command a total of 3,929 quality guestrooms and suites, representing about 10% of the current High Tariff A & B hotel room inventory in Hong Kong. Through its 50%-owned joint venture company with the Company, the Regal Hotels Group is developing three new hotels in Hong Kong which, on their completion within the next three years, will add about 700 rooms and suites to its hotel portfolio. The Regal Hotels Group will continue to look for acquisition opportunities, both with a view to maintaining its eminence in the local market and, when circumstances are considered appropriate, to expand its hotel network overseas.

Although there has been some consolidation in the property market in Hong Kong since 2010, the Regal Hotels Group is still optimistic of the high end residential sector due to limited supply. The additional cash resources to be generated from time to time from the continuing gradual disposal of the retained houses in Regalia Bay will be useful for the funding of the Regal Hotels Group's ongoing business development.

Having regard to the strong financial position and business prospects of the Regal Hotels Group, the Regal Hotels Directors believe that Regal Hotels will be able to bring to Regal Hotels Shareholders increasing returns in the coming years.

(B) FOR THE YEAR ENDED 31 DECEMBER 2010**FINANCIAL RESULTS**

For the year ended 31 December 2010, the Regal Hotels Group achieved a consolidated profit attributable to Regal Hotels Shareholders of HK\$6,928.8 million, which is significantly above the comparative amount of HK\$448.0 million (as restated) attained for the preceding financial year.

As explained in the joint announcement dated 2 December 2010 by Regal Hotels, Regal REIT, which was formerly treated as an associate, has become a subsidiary of the Regal Hotels Group with effect from 23 July 2010. Before the consolidation of Regal REIT, the Regal Hotels Group's interest

in Regal REIT as at 30 June 2010 was only stated at a very low amount of HK\$218.7 million for reasons previously explained. Consequently, on the consolidation of the assets and liabilities of Regal REIT as a subsidiary of the Regal Hotels Group, a very substantial accounting profit of HK\$6,637.4 million was recognised and reflected in the Regal Hotels Group's results for the year ended 31 December 2010.

LIQUIDITY AND FINANCIAL RESOURCES

The Regal Hotels Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits and yield enhancement products are deployed from time to time as management of the Regal Hotels Group considers to be appropriate.

BORROWINGS AND GEARING

As at 31 December 2010, the Regal Hotels Group's borrowings net of cash and bank balances and deposits amounted to HK\$3,334.3 million. The increase in the level of borrowings was primarily due to the consolidation of the bank borrowings of Regal REIT.

As at 31 December 2010, the gearing ratio of the Regal Hotels Group is 16.8%, representing the Regal Hotels Group's borrowings net of cash and bank balances and deposits of HK\$3,334.3 million as compared to the total assets of the Regal Hotels Group of HK\$19,791.2 million.

PLEDGE OF ASSETS

As at 31 December 2010, part of the Regal Hotels Group's bank deposits in the amount of HK\$1,000.0 million were pledged to secure a bank guarantee procured by the Regal Hotels Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and the Regal Hotels Group's investment properties and certain of the Regal Hotels Group's property, plant and equipment, properties held for sale, bank deposits and cash balances in the total amount of HK\$15,670.5 million were also pledged to secure other banking facilities granted to the Regal Hotels Group. Prior to Regal REIT becoming a subsidiary of the Regal Hotels Group, the Regal Hotels Group has also guaranteed a total minimum variable rent payable for the period from 30 March 2007 to 31 December 2010 in the amount of HK\$220.0 million for the leasing of the hotel properties from Regal REIT, of which HK\$101.6 million has been paid by the Regal Hotels Group up to 31 December 2009.

Regal REIT had loan facilities aggregating HK\$4,711.0 million as at 31 December 2010 and in order to hedge against the floating interest rate, Regal REIT had, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK\$4,350.0 million.

CAPITAL COMMITMENT

The Regal Hotels Group had capital commitments in respect of its hotel buildings amounting to HK\$33.3 million.

CONTINGENT LIABILITIES

The Regal Hotels Group had no contingent liability as at 31 December 2010.

EXCHANGE RISK AND HEDGE

The Regal Hotels Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

BUSINESS OVERVIEW**HOTELS****HONG KONG HOTEL MARKET**

2010 was on the whole a favourable year for the tourism and hotel industries in Hong Kong, with particularly strong performance in the fourth quarter. Visitors from all overseas markets generally recorded healthy growth, while the increase in the visitors from Mainland China has been most notable. Total visitor arrivals to Hong Kong during the year 2010 hit a new record high of over 36 million, with visitors from Mainland China increased to account for about 63% of the total count.

Visitors from Mainland China are on the whole growing in affluence. Based on the information published by Hong Kong Tourism Board, for the six months from January to June 2010, visitors from Mainland China had the highest Per Capita Overnight Visitor Spending among major market areas, exceeding those from the Americas and Europe. With the further relaxation of the restrictions on overseas travel for the Mainland residents, the visitors from Mainland China are expected to grow in number and will continue to provide substantial support to the tourism and hotel industries in Hong Kong.

According to the Hotel Survey published by Hong Kong Tourism Board, the average hotel room occupancy rate for all hotels in different categories in Hong Kong for the year 2010 was 87%, as compared to 78% in the preceding year, while the average achieved room rate has improved by 13.9%.

HOTEL OWNERSHIP

The Regal Hotels Group's hotel ownership business is undertaken through Regal REIT, in which the Regal Hotels Group is holding approximately 74.4% of the issued Regal REIT Units.

For the year ended 31 December 2010, Regal REIT achieved a consolidated net profit before distribution to Regal REIT Unit Holders of HK\$997.1 million, which was an increase of 46.1% over the comparative amount of HK\$682.3 million (as restated) recorded for the year 2009. Total distributable income for the year 2010 amounted to approximately HK\$682.9 million, as compared to HK\$558.2 million for the preceding year.

The second stage conversion project at the Regal iClub Building in Wanchai has been completed in December 2010 and added another 49 fully furnished hotel guestrooms and suites. All the 99 guestrooms and suites in the Regal iClub Hotel are now in full operation. Regal REIT has also completed on 31 December 2010 the transaction to acquire from the Company the remaining 25% beneficial interest in this property. The business model of the Regal iClub Hotel has proven to be successful and generated very satisfactory operating results.

All the six Regal hotels in Hong Kong, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel and the latest Regal iClub Hotel, are now wholly owned by Regal REIT. This hotel portfolio commands an aggregate of 3,929 quality guestrooms and suites and accounts for over 11% of the total High Tariff A and High Tariff B hotel room inventory in Hong Kong. The total valuation of this portfolio amounted to HK\$14,880.0 million as at 31 December 2010, representing an increase of about 4.1% as compared with that of the preceding year end.

Regal Portfolio Management Limited, a wholly owned subsidiary of the Regal Hotels Group, acts as the Regal REIT Manager.

HOTEL OPERATIONS

Benefiting from a relatively favourable operating environment and the extensive upgrading works invested over the recent years on enhancing the quality and standards of the hotel properties, the average occupancy rate for the five Regal hotels in Hong Kong (apart from the Regal iClub Hotel which only came into full operation in December 2010) for the year was 85.8%, representing a year-on-year increase of 15.5%.

Faced with the added competition in the airport area, the Regal Airport Hotel has adjusted its marketing strategy to take on some additional tour group businesses, with a view to regaining market share. For the year ended 31 December 2010, the average occupancy rate for this hotel has rebounded by 36.2% which, although had some diluting effect on the average room rate, has served to increase the Revenue per Available Room (RevPAR) by 12.9% as compared with the previous year. The other four Regal hotels have performed well and achieved a year-on-year increase of 19.6% in average RevPAR.

The five Regal hotels in Hong Kong (other than the Regal iClub Hotel which is owned and operated by Regal REIT) are under lease by Regal REIT to a wholly owned subsidiary of the Regal Hotels Group. For the years 2011 to 2015, the rental package for the five hotels is subject to annual review and is to be determined by an independent professional property valuer to be jointly appointed by the lessors and the lessee under the lease arrangement. The rental review process to determine the rental package for 2011 has been completed and the aggregate base rent has been determined to be HK\$560 million, with variable rent basing on a sharing of 50% of the excess of the aggregate net property income of the five hotels over the aggregate base rent. Based on present forecasts and barring any unforeseen circumstances, the net property income of these five Regal hotels in 2011 should well exceed the base rent level.

HOTEL MANAGEMENT

All the six Regal hotels in Hong Kong are managed by Regal Hotels International Limited, a wholly owned subsidiary of the Regal Hotels Group.

In China, the Regal Kangbo Hotel in Dezhou, Shandong was soft opened for business in September 2010. This 215-room deluxe hotel is the first five-star international hotel in Dezhou and is also the fifth hotel managed under the Regal name and operating in China. Earlier in the year 2010, the Regal Hotels Group entered into two management contracts for the provision of hotel management services to a four-star business hotel in Suzhou, Jiangsu, to be named as the Regal Fanhua Center Hotel, and a five-star hotel in Zhengzhou, Henan, to be named as the Regal Yuhong Hotel, respectively. The Regal Yuhong Hotel in Zhengzhou is scheduled to be opened for business in 2012 and the Regal Fanhua Center Hotel in Suzhou in 2013.

Recently, the Regal Hotels Group concluded a management contract for a hotel project being constructed on top of a metro station in Foshan, Guangdong, located on the Guangzhou-Foshan railway network. The hotel will be a four-star business hotel with 230 well-appointed guestrooms and is scheduled to be opened in 2013. The Regal Plaza Hotel & Residence located in Waigaoqiao Free Trade Zone in Pudong, Shanghai, which is a hotel with service apartments offering a total of 282 units, is targeted to be soft opened in the second quarter of the year 2011. This will be the fourth Regal hotel to come on stream in Shanghai and the sixth overall in China.

Backed by its strong operating base in Hong Kong, the Regal Hotels Group will continue to expand its hotel network as planned.

PROPERTIES

The property market in Hong Kong during the year 2010 has been very active and buoyant, with property prices in most sectors reaching new highs. Due to the scarcity of supply of luxury residential properties and the soaring land prices, the Regal Hotels Group has been cautious in the sale of the remaining houses held in Regalia Bay, Stanley, Hong Kong. Towards the end of the year 2010, the Regal Hotels Group entered into an agreement with the other shareholder in the jointly controlled entity that developed the Regalia Bay project, pursuant to which the Regal Hotels Group agreed to acquire from that other shareholder its interests in the two remaining allocated houses held through the jointly controlled entity. The relevant transaction under the agreement was completed in January 2011. Presently, the Regal Hotels Group still owns 21 houses in Regalia Bay, in addition to the two connected houses which have been contracted to be sold and pending completion.

The Regal Hotels Group owns a 50% interest in a composite development project in Chengdu, Sichuan. The project has an overall total gross floor area of approximately 5,360,000 square feet and will be developed in stages. The first stage now primarily comprises a five-star hotel and three residential towers, to be constructed on two separate land parcels. The hotel will have 306 hotel rooms and extensive facilities, with total gross floor area above ground of approximately 420,000 square feet. Foundation and basement works for the hotel development have commenced and the first phase of hotel is presently scheduled to be soft opened in the fourth quarter of 2012. The three residential

towers included in the first stage will have about 340 apartment units with car parks and some ancillary commercial accommodation, commanding total saleable area of approximately 489,000 square feet. Site preparation and formation works for this part of the development have been completed and the basement works will commence shortly, with overall construction works scheduled to be completed in the fourth quarter of 2012. Presale of the residential units is anticipated to be launched in the first quarter of 2012. Development works for the other stages are planned to be carried out progressively.

The joint development project in the Central Business District in Beijing is held through an associate that is 50% owned by each of the Regal Hotels Group and the Group. As reported before, the overall situation pertaining to this project remains very complicated. Despite strenuous efforts by management to overcome the adverse legal proceedings and to resolve the disputes with the other relevant parties in the Sino-foreign joint venture, progress in those regards was lacking and the project was virtually at standstill. While management will persist in striving to tackle the overall difficult situation and to protect the Regal Hotels Group's interests in the project, it was considered appropriate that further provision be made on the investment in this project, having regard to the adverse circumstances affecting the project. The provision made has been reflected in the results of the year ended 31 December 2010.

OTHER INVESTMENTS

The Regal Hotels Group holds an investment portfolio consisting primarily of listed investments. The Regal Hotels Group also holds within the portfolio a substantial holding of convertible bonds issued by the Cosmopolitan group, apart from certain minor holding of issued shares of Cosmopolitan. The fair value gains arising from the securities held in the Cosmopolitan group, which were intended to be held for long term strategic purpose, have been reflected in the consolidated financial statements for the year ended 31 December 2010.

STAFF AND REMUNERATION POLICY

The Regal Hotels Group employs approximately 1,910 staff in Hong Kong. The Regal Hotels Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Regal Hotels Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Regal Hotels Group include a mandatory provident fund scheme as well as medical and life insurance.

With a view to providing long term incentives, Regal Hotels maintains a share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme", under which share options have been granted to selected eligible persons.

OUTLOOK

The continuing integration of Hong Kong with China's economy, which will be heightened through the construction of large scale infrastructure projects and transport networks connecting with the Pearl River Delta region, will increase Hong Kong's competitive edge as an international gateway city. China's 12th Five-year Plan has further endorsed and strengthened the positioning of Hong Kong as an international financial center, an international asset management center and a Renminbi offshore center. In the meantime, Hong Kong is embarking on a number of new tourism projects, such as the Ocean Park redevelopment and the Hong Kong Disneyland expansion, which will all help to maintain Hong Kong as a favourite tourist destination. All these positive factors will boost tourist and business travels to Hong Kong, which will in turn benefit the growth in the future capital value and earnings of the Regal Hotels Group's hotel properties.

The property market in Hong Kong continued on the rise during the first few months of this year. Considering the scarcity of supply and the mounting demand for high end luxury properties, management believes that the value of the houses in Regalia Bay will further appreciate.

Having regard to the prosperous outlook of the real estate market in Hong Kong and in Mainland China and in preparation for suitable acquisition opportunities that may become available, as announced on 17 March 2011, the Regal Hotels Group and the Group have entered into a conditional agreement to establish a joint venture for the development of real estate projects for sale and/or leasing. As many new development projects will be of varying scales and may involve different property types, it was considered to be of mutual benefit to both groups that they join force to form a sizeable joint venture company with greater financial capability and to tap and capitalise on the different experience and expertise of the two groups. The joint venture company will provide the Regal Hotels Group and the Group with the required flexibility to swiftly respond to available opportunities, should the two groups consider it to be in their mutual interests that such opportunities should be undertaken through the joint venture.

The joint venture will be owned by the Regal Hotels Group and the Group on a 50:50 basis and the maximum total capital commitment to the joint venture will be HK\$3,800 million, to be contributed by the Regal Hotels Group and the Group in a maximum capital commitment of HK\$1,900 million each and on pro-rata basis in accordance with their respective shareholding in the joint venture. The formation of the joint venture will be conditional upon, among others, the approval by the independent Regal Hotels Shareholders. It is the intention of the two groups that, upon the due establishment of the joint venture, the joint venture may acquire from the Group certain development projects in Hong Kong as its starting projects.

The Regal Hotels Group is in a very solid financial position with strong funding resources. The Regal Hotels Group is presently considering a number of investment proposals with a view to expanding the asset and income base, which will create long term benefits for the Regal Hotels Shareholders.

(C) FOR THE YEAR ENDED 31 DECEMBER 2009**FINANCIAL RESULTS**

For the year ended 31 December 2009, the Regal Hotels Group achieved a consolidated profit attributable to Regal Hotels Shareholders of HK\$431.1 million, as compared to the consolidated loss of HK\$808.8 million recorded in 2008. The profit attained for the year ended 31 December 2009 is mainly attributable to the fair value gains on the financial assets and investment properties held by the Regal Hotels Group and the contribution from its listed associate, Regal REIT.

LIQUIDITY AND FINANCIAL RESOURCES

The Regal Hotels Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits and yield enhancement products are deployed from time to time as management of the Regal Hotels Group considers to be appropriate.

BORROWINGS AND GEARING

As at 31 December 2009, the Regal Hotels Group had total cash and bank balances and deposits, net of bank loans, of HK\$1,297.1 million.

As at 31 December 2009, there was no gearing ratio for the Regal Hotels Group as the Regal Hotels Group had total cash and bank balances and deposits, net of bank loans, of HK\$1,297.1 million.

PLEDGE OF ASSETS

As at 31 December 2009, part of the Regal Hotels Group's bank deposits in the amount of HK\$1,000.0 million were pledged to secure a bank guarantee procured by the Regal Hotels Group pursuant to the lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Regal Hotels Group's investment properties, properties held for sale, bank deposits and cash balances in the total amount of HK\$1,055.1 million were also pledged to secure other banking facilities granted to the Regal Hotels Group. Under the lease agreements in connection with the leasing of the hotel properties from Regal REIT, the Regal Hotels Group has also guaranteed a total minimum variable rent payable for the period from 30 March 2007 to 31 December 2010 in the amount of HK\$220.0 million, of which HK\$101.6 million has been paid by the Regal Hotels Group up to 31 December 2009.

CAPITAL COMMITMENT

The Regal Hotels Group did not have any capital commitments as at 31 December 2009, apart from its share of capital commitments of a jointly-controlled entity in respect of property development projects amounting to HK\$82.0 million.

CONTINGENT LIABILITIES

The Regal Hotels Group had guaranteed a total minimum variable rent payable to the Regal REIT Group under certain lease agreements in the amount of HK\$220.0 million of which HK\$101.6 million had been paid up to 31 December 2009. The Regal Hotels Group had no other contingent liability as at 31 December 2009 apart from the above.

EXCHANGE RISK AND HEDGE

The Regal Hotels Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

BUSINESS OVERVIEW**REGAL REIT**

The Regal Hotels Group presently holds approximately 74.2% of the issued Regal REIT Units, which owns the five Regal hotels in Hong Kong as well as a 75% majority interest in Regal iClub Building in Hong Kong. As explained previously, in conforming to the prescribed accounting standards, the interests of the Regal Hotels Group held in Regal REIT, representing one of the most significant investments held by the Regal Hotels Group, were only stated in the consolidated financial statements for the year ended 31 December 2009 at a value of HK\$140.0 million, which was by far below its underlying value.

For the year ended 31 December 2009, Regal REIT attained a consolidated profit before distributions to Regal REIT Unit Holders of HK\$626.8 million, as compared to a consolidated net loss of HK\$2,150.2 million before distributions to Regal REIT Unit Holders recorded in 2008. Total distributable income for 2009 amounted to approximately HK\$558.2 million, as compared to HK\$501.9 million in 2008. Total contribution from Regal REIT attributable to the Regal Hotels Group, inclusive of the excess over the cost of acquisition by the Regal Hotels Group of additional interests in Regal REIT, amounted to HK\$468.9 million for the year ended 31 December 2009.

Regal Portfolio Management Limited, a wholly owned subsidiary of the Regal Hotels Group, is acting as the Regal REIT Manager. For the management services provided, the Regal REIT Manager received fees in an aggregate amount of HK\$70.8 million from Regal REIT for the year 2009, a majority part of which is settled by the issue of Regal REIT Units.

HOTELS

2009 was on the whole a challenging year for hotel operators in Hong Kong. In the first half of the year, the travel market was adversely affected by the aftermath of the financial tsunami and the H1N1 swine flu pandemic. As the worldwide economies began to stabilise in the second half, hotel businesses in Hong Kong gradually improved. Total visitor arrivals to Hong Kong in 2009 were maintained at about the same level as that of 2008 and recorded a total count of approximately 29.6 million. Travelers from major overseas markets generally declined, particularly those from the Americas, Europe, Japan and South Korea. However, visitors from Mainland China continued to increase, rising to account for slightly over 60% of the total arrivals in 2009 and provided key supporting demand for the local hotel sector.

Based on the information published by Tourism Research of the Hong Kong Tourism Board, the average hotel room occupancy rate for all hotels in different categories in Hong Kong for the year 2009 was 78%, dropped from 85% in the previous year, with average achieved hotel room rate having also declined by 16.3%, primarily due to the reduced travelers from major overseas markets. The performance of the five Regal hotels in Hong Kong in 2009 was likewise affected by the market downturn, with the average occupancy rate and the average achieved room rate having decreased by approximately 9.1% and 16.1%, respectively, as compared with 2008, which was generally in line with the overall market. Consequently, the results of the Regal Hotels Group's hotel operation business for the year ended 31 December 2009 have been adversely impacted.

Alongside the hotel operation business, important focus has also been placed on the development of the hotel management network under the "Regal" brand, particularly in Mainland China. The Regal Jinfeng Hotel, located in Jinqiao Export Processing Zone in Pudong, was opened in October 2009 and is the third managed hotel property in Shanghai. In January 2010, the Regal Hotels Group landed in Chengdu, Sichuan with the soft opening of the Regal Master Hotel, a 350-room luxurious international five-star hotel located in a prime commercial district in Chengdu city and managed by the Regal Hotels Group. Another managed hotel expected to come on stream is the Regal Kangbo Hotel, a 215-room five-star hotel project under development in Dezhou, Shandong, scheduled to be opened in the third quarter of 2010. Recently, the Regal Hotels Group has also entered into a memorandum of understanding to manage a block of service apartments under development in Waigaoqiao Free Trade Zone, Pudong, Shanghai, planned to be opened by the end of 2010 under a new Regal brand, the "Regal Residence".

Locally, the Regal Hotels Group is providing management services to the 50-room Regal iClub Hotel in Wanchai, which is 75% owned by Regal REIT and 25% owned by the Company. Business at this new hotel since it commenced operation in late December 2009 has been encouraging. In the meantime, the Regal Hotels Group is also actively working on extending its management services to hotel properties and projects overseas.

PROPERTIES

The Regal Hotels Group sold in 2009 a total of 9 houses in Regalia Bay, Stanley for an aggregate sale consideration of HK\$754 million and certain of these sale contracts are still pending completion.

The Regal Hotels Group is currently retaining over 20 houses in Regalia Bay, some of which have been leased out for rental income. Due to the very limited supply, the price level of luxury residential properties on Hong Kong Island is expected to remain firm and the remaining houses will only be disposed of when the offered price is considered to be satisfactory.

The Regal Hotels Group is steadily progressing with the composite development project in Chengdu, which is 50% owned by each of the Regal Hotels Group and Cosmopolitan. The first stage of the project will entail the construction on the two separate land parcels, respectively, a 300-room five-star hotel with extensive facilities and a residential development comprising 9 tower blocks with total gross floor area of about 1.5 million square feet and providing over 1,200 apartment units. Development works for the first stage have been commenced and presale of the residential development is expected to be launched before the end of this year. Stage two of the development project also comprises residential development which will have total gross floor area of about 1.9 million square feet, while stage three is planned for commercial and office accommodations with total gross floor area of about 1.5 million square feet.

On the other hand, the joint development project in the Central Business District of Beijing, which is owned through an associate that is in turn 50% owned by each of the Regal Hotels Group and the Group, is presently encountering some complicated and complex issues. The Regal Hotels Group's management will jointly with the Group use their best endeavours to deal with these difficult issues and to protect the interest of the Regal Hotels Group's associate in the development project.

OTHER INVESTMENTS

During the year ended 31 December 2009, the Regal Hotels Group participated as one of the cornerstone investors in the initial public offering of China Pacific Insurance (Group) Co., Ltd. Moreover, the Regal Hotels Group also owns within its investment portfolio substantial interests in the convertible bonds issued by the Cosmopolitan group and, in addition, certain issued ordinary shares of Cosmopolitan. For the year ended 31 December 2009, the Regal Hotels Group recorded significant fair value gains on its portfolio of financial assets, including those attributable to the interests held in the shares and convertible bonds of the Cosmopolitan group.

STAFF AND REMUNERATION POLICY

The Regal Hotels Group employs approximately 1,870 staff in Hong Kong. The Regal Hotels Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Regal Hotels Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Regal Hotels Group include a mandatory provident fund scheme as well as medical and life insurance.

With a view to providing long term incentives, Regal Hotels maintains a share option scheme named as “The Regal Hotels International Holdings Limited Share Option Scheme”, under which share options have been granted to selected eligible persons.

OUTLOOK

With the sustained economic growth expected in China, the overall economy in Hong Kong should gradually continue to recover. In view of China’s policies to promote Chinese citizens to travel to Hong Kong, including the relaxation of multiple entry permits for Shenzhen residents and the Individual Visit Schemes for major Mainland cities, and, more importantly, the staging of the World Expo in Shanghai later in 2010, the tourism market in Hong Kong should further improve. Moreover, it is also expected that the increasing number of travelers from Mainland China will not only serve to benefit the local hotel businesses with regard to occupancy level but, given their growing affluence and their willingness to spend more on hotel accommodation, should also help to enhance the average room rate. Overall, the Regal Hotels Group is anticipating that the business operations at the Regal hotels in Hong Kong in 2010 should produce more positive results than those achieved in the year 2009.

The Regal Hotels Group is maintaining a very solid financial position and, taking into account the cash resources, is effectively free of debt. Although the financial environment could still be volatile, general economic conditions are gradually stabilising. The Regal Hotels Group will make use of its financial strength to explore various investment opportunities with a view to expanding its investment and income base.

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

I. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE REGAL REIT GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2011

Financial information of the Regal REIT Group for each of the three years ended 31 December 2009, 2010 and 2011 is disclosed on pages 48 to 98 of the annual report of Regal REIT for the year ended 31 December 2010 and pages 48 to 100 of the annual report of Regal REIT for the year ended 31 December 2011, which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of Regal REIT (www.regalreit.com).

II. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REGAL REIT GROUP

(A) FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL RESULTS

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

Total distributable income for the year ended 31 December 2011 amounted to approximately HK\$397.9 million, as compared to HK\$682.9 million last year. On account of the fact that the total base rent for 2010 of HK\$780.0 million was predetermined based on earlier projections in 2007 and part of the minimum guaranteed variable rent for the period from the date of listing of Regal REIT in 2007 to 31 December 2010 of HK\$118.4 million was recognised in 2010, the total distributable income for 2010 was comparatively higher than that in 2011.

FINANCIAL STRATEGY

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

The Regal 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 Regal REIT Manager intends to implementing a conservative hedging strategy to minimise the impact of interest rate fluctuations.

As at 31 December 2011, Regal REIT had loan facilities aggregating HK\$4,780.0 million comprised of a term loan of HK\$4,500.0 million, secured by the five Regal hotels in Hong Kong and loan facilities of HK\$280.0 million secured by the Regal iClub Hotel in Hong Kong.

GEARING AND CASH

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

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

Regal REIT had a total of approximately HK\$23.8 million in unrestricted and HK\$69.2 million in restricted cash balances and bank deposits at 31 December 2011. At 31 December 2011, Regal REIT's current liabilities exceeded its current assets by approximately HK\$4,588.3 million, primarily as a result of the previous term loan facility of HK\$4,500.0 million being repayable in full on 30 March 2012 and, therefore, required to be classified as a current liability. The full principal amount under the new term loan facility has been drawdown in March 2012 to repay the previous term loan facility in full. Accordingly, the Regal REIT Manager Directors believe that Regal REIT will have sufficient resources to satisfy its working capital requirements.

PLEDGE OF ASSETS

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

CAPITAL COMMITMENT

The Regal REIT Group had capital commitments in respect of its investment properties amounting to HK\$37.3 million.

CONTINGENT LIABILITIES

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

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

EXCHANGE RISK AND HEDGE

The Regal REIT Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

MARKET OVERVIEW

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

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

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

During the year 2011, tourist arrivals to Hong Kong hit a historical record of approximately 41.9 million, with China's visitors accounted for about 67.0% of the total count. As China continues to extend its liberalisation policy to relax restrictions on overseas travel for the Mainland residents through the Individual Visit Scheme, this will further boost Hong Kong's tourism industry.

BUSINESS OVERVIEW

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

During the year 2011, there were 451 hotel guestrooms and suites in Regal REIT's investment properties having been upgraded, and approximately 2,600 square meters of banqueting and function areas renovated to cater to the anticipated demand on wedding banquets and business functions, particularly for the much favoured Year of the Dragon.

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

For the years 2011 to 2015, the rental package for the five Regal hotels is subject to annual review and is to be determined by an independent professional property valuer to be jointly appointed by the lessors and the lessee. The rental review process for 2012 has been completed in August 2011

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

and the aggregate base rent was determined at HK\$645.0 million, with variable rent based on a sharing of 50% of the excess of the aggregate net property income of the five Regal hotels over the aggregate fixed base rent. Based on present forecast and barring any unforeseen circumstances, the net property income of the five Regal hotels in 2012 should well exceed the base rent level.

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

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

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

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

EMPLOYEES

Regal REIT is managed by the Regal REIT Manager and DB Trustees (Hong Kong) Limited (the "Trustee"). By contracting out such services, Regal REIT does not employ any staff in its own right.

OUTLOOK

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

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

(B) FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL RESULTS

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

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

FINANCIAL STRATEGY

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

The Regal REIT Manager monitors interest rate movements in HIBOR on an on-going basis and makes judgements with a view to containing fluctuation risks. The Regal REIT Manager intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

At 31 December 2010, Regal REIT had loan facilities aggregating HK\$4,711.0 million comprised of a term loan of HK\$4,500.0 million secured by the five Regal hotels in Hong Kong and a loan facility of HK\$211.0 million secured by the Regal iClub Building in Hong Kong.

GEARING AND CASH

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

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

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

PLEDGE OF ASSETS

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

CAPITAL COMMITMENT

The Regal REIT Group had capital commitments in respect of its investment properties amounting to HK\$33.3 million.

CONTINGENT LIABILITIES

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

On 1 February 2010, the High Court released a judgement to dismiss the Plaintiff's Claims and the defendant's Counterclaim and made a costs order nisi that the Plaintiff pays the defendant the costs of the Claims and the defendant pays the Plaintiff the costs of the Counterclaim (the "**Judgement**"). On 26 February 2010, an appeal was filed by the Plaintiff against the Judgement on the Claims made by the High Court and the hearing for the appeal had been re-scheduled to November 2011. The outcome of such appeal remained uncertain at the date of approval of the financial statements for the year ended 31 December 2010.

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

EXCHANGE RISK AND HEDGE

The Regal REIT Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

MARKET OVERVIEW

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

During the year 2010, tourist arrivals to Hong Kong hit a historical high of over 36 million, with China's visitors accounting for about 63% of the total count. China has continued to extend its liberalization policies to relax restrictions on overseas travel for Mainland residents. Since 2003 when the Individual Visit Scheme was first introduced, the number of Mainland visitors to Hong Kong under the Scheme has grown by an average of about 20% per annum. Meanwhile, the number of visitors from the United States and other long haul markets has generally improved, although to a lesser extent as compared to the increase in Mainland visitors.

BUSINESS OVERVIEW

Benefiting from a relatively favourable operating environment and the extensive upgrading works invested over the recent years to enhance the quality and standards of the hotel properties, the five Regal hotels achieved an average occupancy rate of 85.8% during the year 2010, representing an increase of 15.5% year-on-year, with RevPAR (Revenue per Available Room) also having increased by 17.3%. The Regal iClub Hotel in Wan Chai has proven to be a success and has attained very satisfactory results.

For the years 2011 to 2015, the rental package for the five Regal hotels in Hong Kong is subject to annual review and is to be determined by an independent professional property valuer to be jointly appointed by the lessors and the lessee. The rental review process for 2011 has been completed in September 2010 and the aggregate base rent determined to be HK\$560.0 million, with variable rent calculated based on a sharing of 50% of the excess of the aggregate net property income of the five Regal hotels over the aggregate base rent. Based on present forecasts and barring any unforeseen circumstances, the net property income of the five Regal hotels in 2011 should well exceed the base rent level.

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

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

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

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

EMPLOYEES

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

OUTLOOK

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

(C) FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL RESULTS

For the year ended 31 December 2009, Regal REIT achieved a consolidated net profit before distributions to Regal REIT Unit Holders of approximately HK\$626.8 million, as compared to the loss before distributions to Regal REIT Unit Holders of approximately HK\$2,150.2 million recorded for the year 2008. The profit achieved during the year ended 31 December 2009 included a gain of approximately HK\$272.0 million arising from the changes in the fair values of Regal REIT's portfolio of investment properties, while for the preceding year a loss of approximately HK\$3,133.7 million was incurred on such fair value changes.

Total distributable income for the year 2009 amounted to approximately HK\$558.2 million, as compared to HK\$501.9 million for the year 2008. The Regal REIT Manager Directors have declared a final distribution of HK\$0.085 per Regal REIT Unit for the year ended 31 December 2009, bringing the total distributions per Regal REIT Unit for 2009 to HK\$0.17, which exceed the HK\$0.16761 distributed for 2008. The total amount of distributions for the year, including both the interim and final

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

distributions, will be approximately HK\$532.6 million and represent a payout ratio of approximately 95.4% of the total distributable income for 2009. The NAV per Regal REIT Unit attributable to Regal REIT Unit Holders amounted to HK\$2.593 as at 31 December 2009, which was comparable to the NAV of HK\$2.596 as at the end of year 2008.

FINANCIAL STRATEGY

In adopting a prudent approach, the Regal REIT Manager would ensure that the leverage ratios would not exceed the thresholds prescribed under the REIT Code and relevant financial facilities.

The Regal REIT Manager monitors interest rate movements in the HIBOR rate on an on-going basis and makes judgements with a view to contain fluctuation risks. The Regal REIT Manager intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

At 31 December 2009, Regal REIT had loan facilities aggregating HK\$4,711.0 million comprised of a term loan of HK\$4,500.0 million secured by the five Regal hotels in Hong Kong and a loan facility of HK\$211.0 million secured by the Regal iClub Building in Hong Kong.

GEARING AND CASH

At 31 December 2009, the gearing ratio of Regal REIT was 31.9%, being the gross amount of the outstanding loans of HK\$4,641.0 million as compared to the total gross assets of Regal REIT of approximately HK\$14,563.9 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$68.3 million in unrestricted and HK\$56.5 million in restricted cash balances and bank deposits at 31 December 2009 and, therefore, in the opinion of the Regal REIT Manager Directors, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

PLEDGE OF ASSETS

At 31 December 2009, Regal REIT's investment properties, with an aggregate carrying value of HK\$14,290.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

CAPITAL COMMITMENT

The Regal REIT Group had capital commitments in respect of its investment properties amounting to HK\$21.8 million.

CONTINGENT LIABILITIES

A wholly owned subsidiary of Regal REIT Group that owns the Regal Hongkong Hotel had instituted legal proceedings with the High Court in 2007 as plaintiff (the "Plaintiff") against a defendant who is the owner of a neighboring commercial building regarding a claim for reinstatement

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

of easements and rights of way on the 1st floor and basement and for damages for interference during the renovation period of that commercial building (the “**Claims**”). The defendant made a counterclaim against the Plaintiff with respect to the usage of certain driveway areas on the ground floor of the Regal Hongkong Hotel (the “**Counterclaim**”).

On 1 February 2010, the High Court released a judgement to dismiss the Plaintiff’s Claims and the defendant’s Counterclaim and made a costs order nisi that the Plaintiff pays the defendant the costs of the Claims and the defendant pays the Plaintiff the costs of the Counterclaim (the “**Judgement**”).

Having considered opinions from the Regal REIT Group’s legal counsel, the Regal REIT Manager Directors took the view the subsidiary had reasonable grounds to make an appeal against the Judgement. On 26 February 2010, an appeal was filed by the Plaintiff against the Judgement on the Claims made by the High Court. Accordingly, the Regal REIT Group had not provided for any losses which could arise from the Judgement, other than its own related legal and other costs.

EXCHANGE RISK AND HEDGE

The Regal REIT Group had no or insignificant exchange risk and no hedging was considered necessary thereof.

MARKET OVERVIEW

The worldwide travel market plummeted in early 2009 due to the aftermath of the financial tsunami that started off in late 2008. The overall situation was worsened by the H1N1 swine flu pandemic around the globe during the second quarter, which deterred many long haul travellers from visiting Hong Kong in 2009. As a result, Hong Kong’s industry-wide room occupancy rate dropped to approximately 78% in 2009 from 85% in 2008. Amidst such adverse situation, the average RevPAR (Revenue per Available Room) of the five Regal hotels in Hong Kong has likewise declined generally in line with the market.

BUSINESS OVERVIEW

In 2009, subsequent to the 2008 approved amount of approximately HK\$85.0 million, Regal REIT committed a further amount of approximately HK\$24.2 million in the capital additions projects in the five Regal hotels so as to further increase their market competitiveness and with a view to improving efficiency of spatial utilisation and to rejuvenating the asset life cycle. In 2008 and 2009, Regal REIT expended a total amount of approximately HK\$107.7 million against the total approved sum of HK\$109.2 million in capital additions projects.

In October 2009, Regal REIT completed the acquisition of 75% equity interests in the companies that own major portions of the commercial building at No. 211 Johnston Road, located in the commercial district in Wan Chai, Hong Kong. Part of the building has since been converted into 50 hotel rooms for the establishment of “Regal iClub Hotel” and the building renamed as “Regal iClub Building”. Since the commencement of business operations in December 2009, the Regal iClub Hotel

APPENDIX III FINANCIAL INFORMATION OF THE REGAL REIT GROUP

has been well received. In view of the hotel's encouraging performance, an application was made for the conversion of the remaining 10 office floors into 49 additional guestrooms and suites and the requisite approval has recently been obtained. Regal REIT is presently formulating plans to implement this new conversion programme.

With the addition of this new Regal iClub Hotel, Regal REIT's hotel portfolio in Hong Kong now commands a total of 3,880 quality guestrooms and when the new conversion programme at the Regal iClub Hotel is completed, will boast a total of approximately 3,930 guestrooms.

EMPLOYEES

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

OUTLOOK

The business environment of Hong Kong is anticipated to improve gradually. With China's forecast of GDP growth by 8% in 2010 and its promulgated policies to promote Chinese citizens to travel to Hong Kong, including the relaxation of multiple entry permits for Shenzhen residents and Individual Visit Scheme for major Mainland cities, and coupling with the staging of the World Expo in Shanghai in 2010, outlook for the Hong Kong hotel sector in 2010 is positive.

The Regal REIT Manager Directors continue to be confident on the competitive strength of the five Regal hotels and the newly added Regal iClub Hotel in Hong Kong, as well as the capability of Regal REIT to grow the long term value of its investment portfolio with dedication under appropriate investment strategies.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma statement of financial position of the Enlarged Group (“**Unaudited Pro Forma Financial Information**”) has been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the implementation of the RH Share Repurchase Programme and the Regal REIT Offer in full as if they had taken place on 31 December 2011.

The unaudited pro forma statement of financial position has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the implementation of the RH Share Repurchase Programme and the Regal REIT Offer been completed in full as at 31 December 2011 or any future date.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 December 2011	Regal Hotels Group as at 31 December 2011	Pro forma adjustments					Pro forma statement of financial position of the Enlarged Group
	<i>(Audited)</i> <i>Note 1</i>	<i>(Audited)</i> <i>Note 2</i>	<i>(Unaudited)</i> <i>Note 3</i>	<i>(Unaudited)</i> <i>Note 4</i>	<i>(Unaudited)</i> <i>Note 5</i>	<i>(Unaudited)</i> <i>Note 6</i>	<i>(Unaudited)</i> <i>Note 7</i>	<i>(Unaudited)</i>
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
NON-CURRENT ASSETS								
Property, plant and equipment	1.7	14,041.4	—	3,613.8	0.2	—	—	17,657.1
Properties under development	—	—	—	—	3,217.2	—	—	3,217.2
Investment properties	0.2	886.0	—	—	—	—	—	886.2
Investments in jointly controlled entities	940.9	1,689.6	—	—	(2,261.1)	—	—	369.4
Investments in associates	6,043.3	16.7	—	(5,939.7)	308.5	(15.4)	—	413.4
Available-for-sale investments	3.6	18.0	—	—	—	—	—	21.6
Financial assets at fair value through profit or loss	348.3	508.6	—	—	—	—	—	856.9
Loans receivable	3.0	—	—	—	—	—	—	3.0
Other loan	—	17.6	—	—	—	—	—	17.6
Total non-current assets	7,341.0	17,177.9	—	(2,325.9)	1,264.8	(15.4)	—	23,442.4
CURRENT ASSETS								
Financial assets at fair value through profit or loss	112.2	240.5	—	—	—	—	—	352.7
Available-for-sale investments	—	7.7	—	—	—	—	—	7.7
Held-to-maturity investments	36.7	45.1	—	—	—	—	—	81.8
Properties held for sale	6.0	914.3	—	878.7	—	—	—	1,799.0
Inventories	9.4	26.0	—	—	—	—	—	35.4
Debtors, deposits and prepayments	88.3	208.8	—	—	2.0	38.2	—	337.3
Other loan	—	14.5	—	—	—	—	—	14.5
Restricted cash	—	69.2	—	—	—	—	—	69.2
Pledged time deposits	—	301.6	—	—	—	—	—	301.6
Time deposits	1,317.6	569.2	—	—	10.0	—	(823.9)	1,072.9
Cash & bank balances	160.6	286.0	(147.8)	—	26.2	0.1	—	325.1
Total current assets	1,730.8	2,682.9	(147.8)	878.7	38.2	38.3	(823.9)	4,397.2

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group as at 31 December 2011	Regal Hotels Group as at 31 December 2011	Pro forma adjustments					Pro forma statement of financial position of the Enlarged Group
			(Audited) Note 1	(Unaudited) Note 2	(Unaudited) Note 3	(Unaudited) Note 4		(Unaudited) Note 5
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
CURRENT LIABILITIES								
Creditors and accruals	(38.1)	(372.8)	—	—	(242.3)	(22.9)	—	(676.1)
Tax payable	(3.7)	(1.4)	—	—	—	—	—	(5.1)
Deposits received	(0.2)	—	—	—	(4.0)	—	—	(4.2)
Derivative financial instruments	—	(32.0)	—	—	—	—	—	(32.0)
Interest bearing bank borrowings	(83.0)	(4,731.1)	—	—	—	—	—	(4,814.1)
Total current liabilities	<u>(125.0)</u>	<u>(5,137.3)</u>	<u>—</u>	<u>—</u>	<u>(246.3)</u>	<u>(22.9)</u>	<u>—</u>	<u>(5,531.5)</u>
NET CURRENT ASSETS/ (LIABILITIES)	1,605.8	(2,454.4)	(147.8)	878.7	(208.1)	15.4	(823.9)	(1,134.3)
TOTAL ASSETS LESS CURRENT LIABILITIES	8,946.8	14,723.5	(147.8)	(1,447.2)	1,056.7	—	(823.9)	22,308.1
NON-CURRENT LIABILITIES								
Interest bearing bank borrowings	—	(627.1)	—	—	(178.1)	—	—	(805.2)
Other payable	—	—	—	—	(648.1)	—	—	(648.1)
Deferred tax liabilities	—	(1,093.3)	—	(741.3)	(52.2)	—	—	(1,886.8)
Total non-current liabilities	<u>—</u>	<u>(1,720.4)</u>	<u>—</u>	<u>(741.3)</u>	<u>(878.4)</u>	<u>—</u>	<u>—</u>	<u>(3,340.1)</u>
Net assets	<u>8,946.8</u>	<u>13,003.1</u>	<u>(147.8)</u>	<u>(2,188.5)</u>	<u>178.3</u>	<u>—</u>	<u>(823.9)</u>	<u>18,968.0</u>
EQUITY								
Equity attributable to equity holders of the parent								
Issued capital	114.9	100.1	(3.9)	(96.2)	—	—	—	114.9
Reserves	8,739.1	11,352.6	(143.9)	(9,368.4)	—	—	627.2	11,206.6
Proposed final dividend	91.9	90.1	—	(90.1)	—	—	—	91.9
	8,945.9	11,542.8	(147.8)	(9,554.7)	—	—	627.2	11,413.4
Non-controlling interests	0.9	1,460.3	—	7,366.2	178.3	—	(1,451.1)	7,554.6
Total equity	<u>8,946.8</u>	<u>13,003.1</u>	<u>(147.8)</u>	<u>(2,188.5)</u>	<u>178.3</u>	<u>—</u>	<u>(823.9)</u>	<u>18,968.0</u>

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Notes:

- (1) The balances have been extracted from the audited consolidated statement of financial position of the Company as at 31 December 2011 as presented in its 2011 annual report.
- (2) The balances have been extracted from the audited consolidated statement of financial position of Regal Hotels as at 31 December 2011 as presented in its 2011 annual report.
- (3) The adjustments represent the cash consideration payable of approximately HK\$147.8 million for the repurchase of 38,886,400 Regal Hotels Shares assuming the RH Share Repurchase Programme is fully executed based on the maximum repurchase price of HK\$3.80 per Regal Hotels Share.
- (4) The amounts represent the adjustments to the Group's investments in Regal Hotels of HK\$5,939.7 million (included under investments in associates) which has become a subsidiary of the Company only upon the full execution of the RH Share Repurchase Programme and is accounted for by applying the acquisition method. For the purpose of this unaudited pro forma financial information, fair value adjustments of HK\$3,613.8 million and HK\$878.7 million are made to the hotel properties included in property, plant and equipment, and properties held for sale, respectively, based on the valuation reports as at 31 December 2011 issued by independent professionally qualified valuers. Deferred tax liabilities of HK\$741.3 million is also recognised in respect of these fair value adjustments. It is assumed that no other fair value adjustments and additional recognition of assets and liabilities are required in this unaudited pro forma statement of financial position. The adjustment to non-controlling interests represents the non-controlling shareholders' proportionate share of the net identifiable assets of the Regal Hotels Group.
- (5) The amounts represent the adjustments to the Group's and the Regal Hotels Group's investments in a jointly controlled entity which has become a subsidiary of the Company upon the consolidation of Regal Hotels as a subsidiary of the Company and is accounted for by applying the acquisition method. It is assumed that no other fair value adjustments and additional recognition of assets and liabilities are required in this unaudited pro forma statement of financial position.
- (6) The amounts represent the adjustments to the Group's and the Regal Hotels Group's investment in an associate of HK\$15.4 million which has become a subsidiary of the Company upon the consolidation of Regal Hotels as a subsidiary of the Company and is accounted for by applying the acquisition method. It is assumed that no other fair value adjustments and additional recognition of assets and liabilities are required in this unaudited pro forma statement of financial position.
- (7) The amounts represent the adjustments to the non-controlling shareholders' interests in Regal REIT and the cash consideration payable by the Group assuming the Regal REIT Offer is fully taken up based on the Regal REIT Offer Price of HK\$1.00 per Regal REIT Offer Unit.

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
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**2. LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP**

The following is the text of a report received from the auditors of the Company, Ernst & Young, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.



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

8 June 2012

The Directors
Paliburg Holdings Limited
11th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

We report on the unaudited pro forma statement of financial position of Paliburg Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") after the implementation of an on-market programme of repurchases of up to 38,886,400 ordinary shares of HK\$0.10 each in the share capital of Regal Hotels International Holdings Limited (the "RH Share Repurchase Programme") and the unconditional mandatory general cash offer to acquire all the issued units of Regal Real Estate Investment Trust (other than those already owned or agreed to be acquired by the Company and parties acting in concert with it) (the "Regal REIT Offer") (hereinafter the "Enlarged Group") (the "Unaudited Pro Forma Financial Information"), which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the implementation of the RH Share Repurchase Programme and the Regal REIT Offer in full might have affected the financial information presented, for inclusion in Appendix IV to the circular of the Company dated 8 June 2012 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix IV to the Circular.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**APPENDIX IV UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standards on Investment Circular Reporting Engagement 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2011 or any future dates.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors, chief executive and senior management

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company and its associated corporations

The Company/ Name of its associated corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal interests	Corporate interests	Family/ Other interests	
1. The Company	Mr. LO	Ordinary (issued)	82,014,014	739,970,803 <i>(Note b)</i>	15,000	821,999,817 (71.82%)
	Mr. Donald Fan Tung	Ordinary (issued)	556	—	—	556 (0.000%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	2,274,600	—	—	2,274,600 (0.20%)
	Miss Lo Po Man	Ordinary (issued)	1,116,000	—	—	1,116,000 (0.10%)
	Mr. Kenneth Ng Kwai Kai	Ordinary (issued)	176,200	—	—	176,200 (0.02%)

The Company/ Name of its associated corporation	Name of Director	Class of shares held	Number of shares held			Family/ Other interests	Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal interests	Corporate interests			
	Mr. Ng Siu Chan	Ordinary (issued)	—	—	80,474	80,474 (0.007%)	
	Mr. Kenneth Wong Po Man	Ordinary (issued)	6,200	—	—	6,200 (0.001%)	
2. Century City	Mr. LO	Ordinary (issued)	63,603,396	1,769,164,691 <i>(Note a)</i>	380,683	1,833,148,770 (56.72%)	
	Mr. Jimmy Lo Chun To	Ordinary (issued)	251,735	—	—	251,735 (0.008%)	
	Miss Lo Po Man	Ordinary (issued)	112,298	—	—	112,298 (0.003%)	
	Mr. Ng Siu Chan	Ordinary (issued)	—	—	3,521,973	3,521,973 (0.11%)	
	Mr. Kenneth Wong Po Man	Ordinary (issued)	200	—	—	200 (0.000%)	
3. Regal Hotels	Mr. LO	Ordinary (issued)	24,200	494,835,261 <i>(Note c)</i>	260,700	495,120,161 (50.38%)	
	Miss Lo Po Man	Ordinary (issued)	300,000	—	269,169 <i>(Note d)</i>	569,169 (0.06%)	
	Mr. Kenneth Wong Po Man	Ordinary (issued)	200	—	—	200 (0.000%)	
4. Regal REIT	Mr. LO	Units (issued)	—	2,433,549,739 <i>(Note e)</i>	—	2,433,549,739 (74.71%)	
5. 8D International (BVI) Limited	Mr. LO	Ordinary (issued)	—	1,000 <i>(Note f)</i>	—	1,000 (100%)	

Notes:

- (a) The interests in 1,769,164,691 issued Century City Shares were held through companies wholly-owned by Mr. LO and a company, namely Master City Limited, 99.9% owned by Mr. LO.
- (b) The interests in 693,234,547 issued Shares were held through companies wholly-owned by Century City, in which Mr. LO held approximately 56.71% shareholding interests.

The interests in 16,271,685 issued Shares were held through corporations controlled by Mr. LO as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. LO	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

The interests in 30,464,571 issued Shares were held through corporations controlled by Mr. LO as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. LO	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00

- (c) The interests in 421,400 issued Regal Hotels Shares were held through companies wholly owned by Century City, in which Mr. LO held approximately 56.71% shareholding interests, and the interests in the other 494,413,861 issued Regal Hotels Shares were held through companies wholly owned by the Company, in which Century City held approximately 60.57% shareholding interests.
- (d) The interests in 269,169 issued Regal Hotels Shares were held by Miss Lo Po Man as the beneficiary of a trust.
- (e) The interests in 2,428,262,739 issued Regal REIT Units were held through wholly owned subsidiaries of Regal Hotels, and the interests in the other 5,287,000 issued Regal REIT Units were held through wholly owned subsidiaries of Century City. The Company, in which Century City held approximately 60.57% shareholding interests, held approximately 50.30% shareholding interests in Regal Hotels. Mr. LO held approximately 56.71% shareholding interests in Century City.
- (f) 400 shares were held through companies controlled by Century City, in which Mr. LO held approximately 56.71% shareholding interests, and 600 shares were held through a company controlled by Mr. LO.

Save as disclosed above, so far is known to the Directors, as at the Latest Practicable Date, none of the Directors or chief executive of the Company held any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

Details of directorships of the Directors in each of the following substantial shareholders of the Company which has an interest in the Shares and underlying Shares as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

- (1) Mr. LO, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai, Mr. Ng Siu Chan and Mr. Wong Chi Keung are Century City Directors.

- (2) Mr. LO, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai are directors of Century City BVI Holdings Limited, Almighty International Limited and Cleverview Investments Limited.

3. OTHER INTERESTS OF DIRECTORS

Save as disclosed in this circular and as at the Latest Practicable Date,

(a) **Interests in service contracts**

none of the Directors had entered, or is proposed to enter, into a service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation). The aggregate of the remuneration payable to and benefits in kind receivable by the Directors would not be varied in consequence of the transactions contemplated under RH Share Repurchase (Post-Consolidation) and the Regal REIT Offer;

(b) **Interests in assets**

none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2011, being the date of the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group; and

(c) **Interests in contracts or arrangements**

none of the Directors was materially interested in any contract or arrangement entered into with any member of the Enlarged Group, which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group taken as a whole.

4. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed above, none of the Directors or their associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Enlarged Group.

5. LITIGATION

So far as the Directors are aware, there was no litigation, claims of material importance pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

6. EXPERT & CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants

Ernst & Young had given and had not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, as the case may be, and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Ernst & Young did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Ernst & Young did not have, nor had had, any direct or indirect interest in any assets which have since 31 December 2011 (being the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

None of the members of the Enlarged Group has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the Latest Practicable Date that are or may be material.

8. MISCELLANEOUS

- (a) The registered office of the Company is at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.
- (c) The secretary of the Company is Ms. Eliza Lam Sau Fun, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the above head office and principal place of business of the Company in Hong Kong for a period of 14 days from the date of this circular up to 22 June 2012 during normal business hours:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the written consent of Ernst & Young referred to in paragraph headed “Expert and consent” in this Appendix V;
- (c) the annual reports of the Company for the two financial years ended 31 December 2011; and
- (d) the annual reports of Regal Hotels for the two financial years ended 31 December 2011;
- (e) the annual reports of Regal REIT for the two financial years ended 31 December 2011;
- (f) the letter from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular; and
- (g) this circular.