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## **FAR EAST CONSORTIUM INTERNATIONAL LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

*Website: <http://www.fecil.com.hk>*

*(Stock code: 35)*

### **VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF OF HONG KONG HOTEL REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE AND RESUMPTION OF TRADING**

**Financial adviser to Far East Consortium International Limited**



**SOMERLEY LIMITED**

**Independent Financial Adviser to  
the Independent Board Committee and the Shareholders**



**KingswayGroup**

Kingsway Capital Limited

The Directors are pleased to put forward a proposal in relation to the Spin-off for the Shareholders' consideration. The proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15. Further, an application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the Listing Approval.

The internal reorganisation of the Group will be completed such that all assets to be acquired by HK Hotel REIT for purposes of the Global Offering, including the Hotel Companies, the Hotels and the Finance Company, will be held under REIT Holdco immediately prior to Completion.

Ownership of the Hotels will be acquired by HK Hotel REIT from the Group by way of acquisition of REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement. Through REIT Holdco, HK Hotel REIT will have full direct ownership of the Finance Company and all Hotel Companies and, in turn, the Hotels. The REIT Holdco Sale and Purchase Agreement will provide that the REIT Manager and the Trustee (as trustee of HK Hotel REIT) shall procure that the Existing Borrowings are repaid to the Group in full. Completion of the REIT Holdco Sale and Purchase Agreement (including repayment of the Existing Borrowings) is expected to take place on the Listing Date. The aggregate consideration for the acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement will be determined based on the net tangible assets of the REIT Holdco Group as at the date of Completion, of which the book value of the Hotels and their related prepaid lease payments and the furniture, fixture and equipment will be replaced by the Agreed Value. The Agreed Value will not be less than HK\$4,000 million.

Immediately following the completion of the Spin-off, it is expected that the Company will hold an interest of 50.0% to 75.0% (assuming that the Over-allotment Option is not exercised) or 42.5% to 71.3% (assuming that the Over-allotment Option is exercised in full) in HK Hotel REIT.

Based on the minimum Agreed Value of HK\$4,000 million and assuming that the Company will subscribe and retain a maximum of 75.0% interest in HK Hotel REIT and that HK Hotel REIT will immediately upon the completion of the Spin-off have an initial indebtedness of HK\$1,900 million (subject to finalisation before the completion of the Spin-off), the subscription monies will amount to HK\$1,575 million. The subscription monies will be paid upon Completion by cash.

The Spin-off will comprise the Global Offering and the Separate Listing. The Global Offering will comprise an offer for subscription of Units by way of public offer in Hong Kong and international placement to professional, institutional and other investors. As part of the Global Offering, there will be a Preferential Offering to the Qualifying Shareholders.

The Spin-off constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM. Approval from the Shareholders for the Spin-off is also required under PN15. As far as the Directors are aware, none of the Shareholder has a material interest in the Spin-off which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Spin-off and other related matters at the EGM.

A circular including, among other things, (i) information on the Spin-off; (ii) the accountants' report on the Group; (iii) unaudited proforma financial information on the Remaining Group; (iv) the recommendation of the Independent Board Committee and the advice of Kingsway Capital regarding the Spin-off; (v) the valuation report on the Hotels; and (vi) a notice of the EGM, will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

**The Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there is no assurance that the Spin-off will proceed. Accordingly, Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares and the convertible bonds (stock codes: 2508 and 2576) were suspended with effect from 10:01 a.m. on 14 January 2008 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares and the convertible bonds (stock codes: 2508 and 2576) on the Stock Exchange with effect from 9:30 a.m. on 16 January 2008.

The Directors are pleased to put forward a proposal in relation to the Spin-off for the Shareholders' consideration. The proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15. Further, an application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the Listing Approval.

## **REORGANISATION**

### **Establishment of HK Hotel REIT**

The REIT Manager, a wholly owned subsidiary of the Company, and the Trustee will enter into the Trust Deed for the purpose of constituting and establishing HK Hotel REIT.

To the best of the knowledge, information and belief of the Board and having made all reasonable enquires, the Trustee is a third party independent of the Company and its connected persons, and its principal business activities are the provision of trustee and administrative services.

### **Internal reorganisation**

#### *(i) Incorporation of REIT Holdco*

On 23 January 2007, REIT Holdco was incorporated in the Cayman Islands and held, during the reorganisation process, indirectly by the Company to serve as the holding company for the Finance Company and all the Hotel Companies through which the Hotels are to be held.

#### *(ii) Reorganisation of the Group*

Prior to Completion, various steps will be taken to reorganise the ownership structure of the Hotels and corporate entities within the Group to be acquired by HK Hotel REIT through acquisition of REIT Holdco Shares for purposes of the Global Offering, which will involve mainly the following:

- (a) the Group will conduct internal transfers of or incorporate relevant Hotel Companies (as the case may be), such that all the Hotel Companies will be wholly-owned by REIT Holdco directly;

- (b) the Group will transfer certain Hotels to be held under their respective Hotel Company, such that each Hotel will be wholly-owned by its respective Hotel Company or, in the case of Central Park Hotel, its respective Hotel Companies; and
- (c) through intra-group transfers or liquidation (as the case may be) of certain subsidiaries of the Group during the aforesaid reorganisation process, such that only the Finance Company and the Hotel Companies will remain under the direct ownership of REIT Holdco.

The aforesaid internal reorganisation of the Group will be completed such that all assets to be acquired by HK Hotel REIT for purposes of the Global Offering, including the Hotel Companies, the Hotels and the Finance Company, will be held under REIT Holdco immediately prior to Completion. Through the Hotel Companies, immediately prior to Completion, the material assets and liabilities of REIT Holdco are expected to include the Hotels and their related prepaid lease payments and furniture, fixture and equipment, taxation payable of the Hotel Companies (the “Taxation Payable”) (which amounted to approximately HK\$20 million as at 30 September 2007), net deferred tax liabilities of the Hotel Companies (the “Deferred Tax”) (which amounted to approximately HK\$67 million as at 30 September 2007), the Existing Borrowings (which amounted to approximately HK\$703 million as at 30 September 2007) and the mortgage loans in respect of two of the Hotels (the “Loan”). Immediately upon Completion, the face value of the Loan is expected to amount to approximately HK\$248 million. Other assets and liabilities which will not be acquired by HK Hotel REIT, including, among other things, inventories; debtors, deposits and prepayments; bank balances and cash; and creditors, deposits received and accruals, will be retained in the Remaining Group.

*(iii) Acquisition of REIT Holdco by HK Hotel REIT*

Ownership of the Hotels will be acquired by HK Hotel REIT from the Group by way of acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement. Through REIT Holdco, HK Hotel REIT will have full direct ownership of the Finance Company and all Hotel Companies and, in turn, the Hotels. The REIT Holdco Sale and Purchase Agreement will provide that the REIT Manager and the Trustee (as trustee of HK Hotel REIT) shall procure that the Existing Borrowings are repaid to the Group in full. Completion of the REIT Holdco Sale and Purchase Agreement (including repayment of the Existing Borrowings) is expected to take place on the Listing Date.

Completion of the acquisition of the REIT Holdco Shares and the repayment of the Existing Borrowings will be subject to the satisfaction of a number of conditions including, but not limited to:—

- (a) the Company having obtained the necessary approval of its Shareholders at a general meeting allowing for the execution and implementation of the REIT Holdco Sale and Purchase Agreement and the documents and transactions contemplated thereunder in accordance with the Listing Rules;

- (b) all approvals having been obtained from the Stock Exchange, including without limitation, the Listing Approval;
- (c) all approvals having been obtained from the SFC, including without limitation, the Authorisation and the approval of the Offering Circular and the application forms relating hereto;
- (d) the Underwriting Agreements having become unconditional (including as a result of the waiver of any conditions thereunder) and not having been terminated in each case in accordance with their respective terms and any applicable rules and law;
- (e) the Facility being available for drawdown at Completion;
- (f) there being no material adverse change to or affecting the Hotels or the conduct of the hotel business thereof and no material breach of the warranties under the REIT Holdco Sale and Purchase Agreement;
- (g) all relevant third party consents or approvals as are necessary for the purpose of transferring any of the REIT Holdco Shares and/or repayment of the Existing Borrowings in accordance with the terms of the REIT Holdco Sale and Purchase Agreement having been obtained; and
- (h) the delivery of the Proforma Completion Accounts to the REIT Manager pursuant to the REIT Holdco Sale and Purchase Agreement.

In the event that any of the conditions has not been fulfilled (or otherwise waived) on or before the Listing Date or a date to be agreed between the parties to the REIT Holdco Sale and Purchase Agreement (which date will be specified in the Offering Circular) (whichever is earlier), the REIT Holdco Sale and Purchase Agreement will cease and terminate and be of no further effect.

The aggregate consideration for the acquisition of the REIT Holdco Shares pursuant to the REIT Holdco Sale and Purchase Agreement will be determined based on the net tangible assets of the REIT Holdco Group as at the date of Completion, of which the book value of the Hotels and their related prepaid lease payments and the furniture, fixture and equipment will be replaced by the sum of the Agreed Acquisition Values and the Adjustment Sum (i.e. the Agreed Value). The purpose of including the Adjustment Sum is to reflect the actual consideration payable to the Vendor based on the level of the Offer Price achieved in the Global Offering. The Agreed Value will not be less than HK\$4,000 million. For illustration purpose only, based on the minimum Agreed Value of HK\$4,000 million, the Existing Borrowings of approximately HK\$703 million as at 30 September 2007, the Taxation Payable of approximately HK\$20 million as at 30 September 2007 and the expected face value of the Loan of approximately HK\$248 million as at the date of the Completion, the aggregate consideration for the REIT Holdco Shares will be approximately HK\$3,029 million (the “Illustrative Consideration”). As mentioned above, the REIT Manager and the Trustee (as trustee of HK Hotel REIT) will also be required to procure that the Existing Borrowings are repaid to the Group in full upon Completion.

The Company will use its best endeavour to achieve an Agreed Value of over HK\$4,000 million. The minimum Agreed Value of HK\$4,000 million is determined after reference to the Appraised Value of HK\$4,953 million of the Hotels and the market outlook of hospitality industry in Hong Kong. The Appraised Value was prepared by the Independent Property Valuer by adopting direct comparison method and income approach (details of which will be set out in the valuation report to be included in a circular to be despatched to the Shareholders. According to such valuation report, no profit forecast elements have been used under the income approach).

*(iv) Deed of Tax Covenant*

The Deed of Tax Covenant will be entered into between the Vendor and the Company in favour of the Trustee (on behalf of HK Hotel REIT) and REIT Holdco, on Completion, covenanting to pay to REIT Holdco and the Trustee (on behalf of HK Hotel REIT) in respect of certain liability to taxation falling on REIT Holdco, the Hotel Companies and/or the Finance Company including, amongst others: –

- (a) any liability to taxation including the relevant interest and penalty, if any, (other than those provided in (b) and (c) below) resulting from or by reference to any income, profits, or gains earned, accrued or received or any transaction, event, matter or thing occurred or effected on or before Completion, including, any liability to taxation (including the relevant interest and penalty if any) resulting from or by reference to the amount of stamp duty or other dutiable levies in respect of or incidental to any transfer or assignment or exchange undertaken on or before Completion;
- (b) any liability to taxation including the relevant interest and penalty, if any, in respect of clawback of commercial building allowances or capital allowances granted up to Completion, resulting from any sale of the relevant Hotel or any part thereof; and
- (c) any liability to taxation including the relevant interest and penalty (if any) (other than that provided in (b) above) in respect of profits resulting from any sale of any Hotel or any part thereof by the relevant Hotel Company in future provided that for the purpose of calculating such tax liability, the profit resulting from such sale shall be calculated as if the sale proceeds were equal to whichever is the lower of (i) that part of the Agreed Value which is attributable to the relevant Hotel determined in accordance with the REIT Holdco Sale and Purchase Agreement; and (ii) the actual sale proceeds resulting from such sale of the relevant Hotel.

In this regard, the Vendor may direct the conduct of any taxation proceeding subject, amongst others, to an indemnity for costs from the Vendor and other provisions. The limitation period for claims under paragraphs (a) and (c) above will be seven years from the date of Completion. The limitation period for claims under paragraph (b) above will be seven years after the occurrence of the event giving rise to such taxation liability. Right of claim pursuant to such Deed of Tax Covenant will not be prejudiced by any taxation action or proceeding in respect of the relevant tax liability which is the subject matter of the claim not being finally resolved before expiry of the applicable limitation period.

The Vendor and the Company will be under no liability under the Deed of Tax Covenant to the extent that:–

- (a) (i) specific provision or reserve or allowance has been made for the taxation or claim in the audited consolidated financial statements of the REIT Holdco Group for the period ended on the date of Completion (other than those related to deferred tax liabilities, if any), provided that if any such provision or reserve is finally established to be an over-provision or an excessive reserve, the liability of the Vendor and the Company in respect of such taxation or claim shall be reduced by an amount not exceeding such excess; or (ii) payment or discharge for the taxation or claim has been made before Completion;
- (b) the taxation or claims arises in consequence of a change in law, or arises or is increased by an increase in rates, after Completion with retrospective effect or a change in accounting policy or practice of the REIT Holdco Group except in order to comply with GAAPs or applicable legal, regulatory, financial reporting or other requirements made after Completion with retrospective effect;
- (c) the taxation or claim is the subject matter of a claim covered by and already satisfied by the Vendor or the Company under the REIT Holdco Sale and Purchase Agreement; or
- (d) the liability would not have arisen but for a voluntary act, omission or transaction after the date of Completion on the part of the REIT Holdco Group, which could reasonably have been avoided or carried out and which was not in the ordinary course of business, otherwise than (1) under a legally binding commitment created on or before the date of Completion; (2) in order to comply with any law, regulation or rule or any GAAPs applicable to a Hotel Company; or (3) at the request of or with the consent of the Vendor or the Company provided that this limitation of liability shall not apply to the liability of the Vendor and the Company provided in (b) and (c) of the first paragraph of “Deed of Tax Covenant” above.

(v) *Deed of Indemnity*

The Deed of Indemnity will be entered into, on Completion, by the Company in favour of the Trustee (as trustee of HK Hotel REIT), REIT Holdco and The Hotel of Lan Kwai Fong Limited, being the registered owner of the Lan Kwai Fong Hotel, whereby the Company shall undertake to, amongst others, (a) at its own costs and expenses, observe, perform, discharge and comply with certain obligations under the terms and conditions of the government grant document in relation to Lan Kwai Fong Hotel and provide such necessary information, materials and indemnities to the Hong Kong Government in connection therewith; and (b) indemnify The Hotel of Lan Kwai Fong Limited, REIT Holdco and the Trustee (as trustee of HK Hotel REIT) on demand from and against all liability and all actions, proceedings, costs, claims, expenses, charges, demands, loss and damage as a result of or in connection with observance, performance or discharge of or any non-compliance or non-observance of such matters.

*(vi) Subscription of Units by the Group*

The Company and the REIT Manager will enter into the Subscription Agreement, pursuant to which the Company will, or will procure its subsidiary(ies) to subscribe the Units at the Offer Price.

Immediately following the completion of the Spin-off, it is expected that the Company will hold an interest of 50.0% to 75.0% (assuming that the Over-allotment Option is not exercised) or 42.5% to 71.3% (assuming that the Over-allotment Option is exercised in full) in HK Hotel REIT. The Company intends to hold the Units to be subscribed by the Group as long term investments. The subscription monies will be financed entirely out of the proceeds to be received pursuant to the REIT Holdco Sale and Purchase Agreement. The final amount of the subscription monies varies according to the Offer Price and the number of Units to be subscribed by the Group. For illustration purpose only, based on the minimum Agreed Value of HK\$4,000 million and assuming that the Group will subscribe and retain a maximum of 75.0% interest in HK Hotel REIT and that HK Hotel REIT will, immediately upon the completion of the Spin-off, have an initial indebtedness of HK\$1,900 million (subject to finalisation before the completion of the Spin-off), the subscription monies will amount to HK\$1,575 million. The subscription monies will be paid upon Completion by cash. The additional Units to be issued by HK Hotel REIT to pay for the listing expenses and arrangement fees of the Facility are not included in this illustration.

#### **THE SPIN-OFF OF HK HOTEL REIT**

The Spin-off will comprise the Global Offering and the Separate Listing. The Global Offering will comprise an offer for subscription of Units by way of public offer in Hong Kong and international placement to professional, institutional and other investors. As part of the Global Offering, there will be a Preferential Offering to the Qualifying Shareholders.

#### **The Separate Listing of HK Hotel REIT**

The proposal in respect of the Spin-off has been submitted to and approved by the Stock Exchange under PN15. An application will be made to the SFC for the Authorisation and an application will be made to the Stock Exchange for the Listing Approval.

Subject to the granting of the Authorisation and the Listing Approval, and the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Shares will continue to be listed on the Stock Exchange after the implementation of the Spin-off.



## **Preferential Offering**

In accordance with the assured entitlement requirements under PN15, the Directors have given due regard to the interest of the Shareholders and will arrange for the REIT Manager to provide the Qualifying Shareholders with Assured Entitlement to a certain number of Reserved Units by way of the Preferential Offering, if the REIT Manager decides to proceed with the Spin-off.

It is currently proposed that approximately 5% of the Units available under the Global Offering will be allocated as the Reserved Units. Qualifying Shareholders will be entitled to subscribe for the Reserved Units based on the number of Shares held by such Qualifying Shareholder at the Record Date. Details of the mechanism of allocating the entitlement of the Reserved Units will be announced by way of an announcement after such mechanism is determined and in accordance with the Listing Rules.

Any Units to be issued pursuant to the Preferential Offering shall be fully paid, ranking *pari passu* in all respects with other Units to be issued pursuant to the Global Offering.

**Shareholders should note that the entitlement of Reserved Units may represent Units not in a whole multiple of a full board lot of Units, and dealings in odd lot Units may be below their prevailing market price. Assured Entitlements of Qualifying Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Shareholders should further note that the actual total number of the Units available for subscription under the Preferential Offering will vary depending on the actual number of issued Shares at the Record Date.**

Any Qualifying Shareholder who holds the Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holder. Any beneficial owner of the Shares whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Assured Entitlement. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

Overseas Shareholders will be notified by mail regarding their respective entitlements of the subscription of Units under the Preferential Offering.

## **Lock-up arrangement**

It is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions.

## **Conditions precedent**

Completion of the Spin-off is conditional on, among other things, the following:

- (a) Shareholders passing an ordinary resolution at a general meeting to approve the Spin-off and other related matters;

- (b) the Listing Committee of the Stock Exchange granting the Listing Approval;
- (c) the SFC granting the Authorisation;
- (d) the obligations of the underwriters under the Underwriting Agreements becoming and remaining unconditional and the Underwriting Agreements not being terminated in accordance with their respective terms or otherwise, on or before the dates and times to be specified therein (details of the Underwriting Agreements will be set out in the Offering Circular);
- (e) the Offer Price being duly determined;
- (f) the Subscription Agreement becoming and remaining unconditional in accordance with its terms; and
- (g) the REIT Holdco Sales and Purchase Agreement becoming and remaining unconditional in accordance with its terms,

unless and to the extent any relevant condition is validly waived.

**If the foregoing and any other applicable conditions are not fulfilled or waived (as the case may be) prior to the dates and times to be specified in the Offering Circular, the Global Offering will lapse and a notice will be published by the Company and/or HK Hotel REIT as soon as practicable following such lapse.**

**The Spin-off is subject to the foregoing and other applicable conditions and is dependent on a number of factors (including, but not limited to, the entering into definitive Underwriting Agreements and other legal documentation in respect of the Global Offering as well as market conditions at the relevant time). Shareholders should note in particular that no Underwriting Agreement was signed as at the date of this announcement. Such Underwriting Agreements, if signed, will be subject to, among other things, customary conditions precedent. Accordingly, the Spin-off may or may not proceed.**

## **INFORMATION ON HK HOTEL REIT**

### **Background**

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income producing real estate assets and uses the income to provide stable returns to its unitholders. Purchasing a unit in a REIT allows investors to share the benefits and risks of owning the real estate assets held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code.

HK Hotel REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. The REIT Manager believes that the formation of HK Hotel REIT follows a global trend to separate hotel ownership from hotel operation, allowing hotel managers and franchisors to focus on hotel

operation and brand extension, and hotel REITs to focus on asset ownership and growth opportunities. HK Hotel REIT will focus on hotel ownership and seek hotel manager(s) and franchisor(s) to manage its hotel properties.

HK Hotel REIT's primary objectives are to provide regular and stable distributions to Unitholders and with the potential to achieve long-term capital growth in distribution and NAV per Unit. The REIT Manager intends to achieve such objectives by way of (i) internal growth through asset enhancement opportunities and operational improvements; (ii) external growth through potential acquisitions that meet the REIT Manager's investment criteria; and (iii) financing through appropriate debt and equity financing policies.

Immediately upon the completion of the Spin-off, HK Hotel REIT will own seven hotels, namely, Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel, all of which will initially be leased to the Lessee and be managed by the Hotel Manager. Set out below is a table showing details of each Hotel which will be owned by HK Hotel REIT on the Listing Date:

Hotel	Location	Commencement of operations <sup>(1)</sup>	Gross floor area <i>sq. ft.</i>	Number of guest rooms	For the year ended 31 March 2007			Appraised Value <i>HK\$ million</i>
					Occupancy rate <i>%</i>	Average room rates <i>HK\$</i>	RevPAR <i>HK\$</i>	
<b>High Tariff B</b>								
Cosmopolitan Hotel	Wan Chai	December 2004	172,469	454	89	828	735	1,873
Cosmo Hotel	Wan Chai	October 2005	61,140	142	88	769	678	547
Lan Kwai Fong Hotel	Central	March 2006	60,773	162	71	1,098	780	939
<b>Medium Tariff</b>								
Central Park Hotel	Central	April 2005	51,183	142	83	661	548	412
Dorsett Far East Hotel	Tsuen Wan	October 2006	46,386	240	90	396	354	352
Dorsett Olympic Hotel	Tai Kok Tsui	May 2005	34,552	141	98	458	449	265
Dorsett Seaview Hotel	Yau Ma Tei	January 2001 <sup>(2)</sup>	59,884	268	99	469	462	565
Total/average/overall			486,387	1,549	89	680	605	4,953

Notes:

- (1) Subject to note 2, commencement of operations refers to the date when the Hotel opened for business.
- (2) Dorsett Seaview Hotel was acquired by the Group in January 2001, while it has been in operation since 1994.
- (3) Dorsett Far East Hotel is included in a building, which consists a hotel portion and a non-hotel portion. Only Dorsett Far East Hotel, being the hotel portion of the building, will be acquired by HK Hotel REIT, while the non-hotel portion will be retained by the Remaining Group. Dorsett Far East Hotel represents more than 50% of the entire building in terms

of gross floor area. One of the reasons for the Company to exclude the non-hotel portion of the building from HK Hotel REIT is that the valuation of the non-hotel portion, if include in HK Hotel REIT, will represent a significant portion of the overall valuation of HK Hotel REIT, accordingly the exclusion of the non-hotel portion enables potential investors and financiers of HK Hotel REIT to evaluate HK Hotel REIT as a pure hotel REIT.

In addition to the Hotels, the Group also owns the following three Retained Hotels in Hong Kong and has entered into agreements to acquire the two Retained Hotels in the PRC, namely

- (i) Cosmo Kowloon Hotel in Tai Kok Tsui, Hong Kong, which is being developed as a High Tariff B hotel with approximately 280 rooms, located a block away from the existing Dorsett Olympic Hotel. Scheduled completion is late 2008;
- (ii) Dorsett Hong Kong Hotel in Kennedy Town, Hong Kong, which is intended to be developed as a High Tariff B hotel with approximately 220 rooms. Scheduled completion is mid-2009;
- (iii) Dorsett Kwun Tong Hotel in Kwun Tong, Hong Kong, which is intended to be developed as a Medium Tariff hotel with approximately 390 rooms. The site at 84 Hung To Road, Kwun Tong was acquired by the Group in September 2006. Completion of the project is expected to be in 2010.
- (iv) a property in Cheng Du, the PRC, which is intended to be developed as a four-star hotel with approximately 420 rooms. The site is located in Nos. 124 to 177, Yu Long West Street, Cheng Du, Sichuan Province, the PRC. It is the Group's plan to complete the project in late 2008; and
- (v) a hotel in Wu Han, the PRC, in respect of which the Group intends to carry out refurbishment work and upon completion of the refurbishment, the hotel will be a four-star hotel with approximately 350 rooms. The site is located in No. 118, Jiang Han Street, Jiang An District, Wu Han, Hu Bei Province, the PRC. It is the Group's plan to complete the project in 2008.

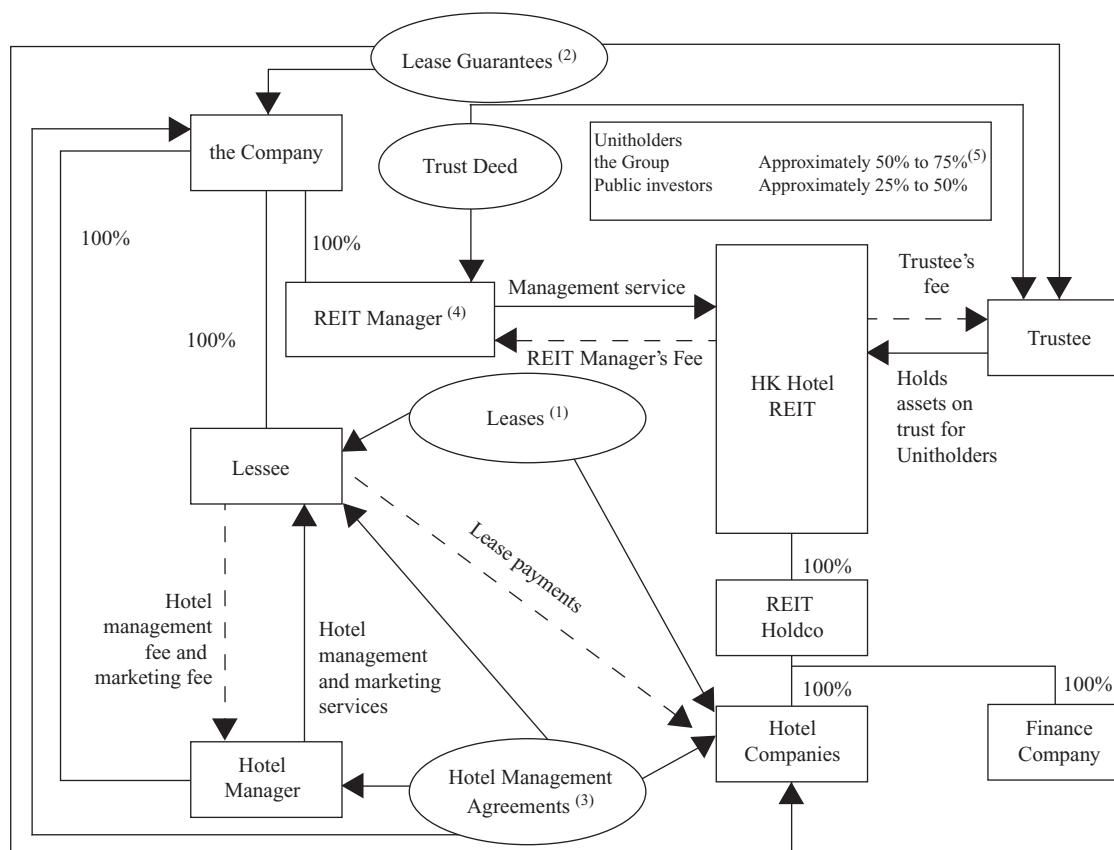
Under note (2) to Code 7.1 of the REIT Code, a REIT shall not acquire uncompleted units in a building which is unoccupied and non-income producing or in the course of substantial development, redevelopment or refurbishment, if the aggregate contract value of such real estate exceeds 10% of the total net asset value of the REIT at the time of acquisition. Accordingly, HK Hotel REIT will not own any of the Retained Hotels as at the Listing Date. However, as detailed below, the Call Options will be granted to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) to acquire each of the Retained Hotels.

Set out below are the unaudited combined turnover, profit/(loss) before taxation and profit/(loss) attributable to the equity holders of the holding companies of the Hotels for the three-year ended 31 March 2007 and six-month ended 30 September 2007 based on Hong Kong Financial Reporting Standards:

	<b>For the six-month ended 30 September 2007</b>		<b>For the year ended 31 March</b>	
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Revenue	180	297	169	15
(Loss)/profit before taxation	37	91	30	(9)
(Loss)/profit attributable to the equity holders	26	87	21	(31)

Unaudited combined net assets of the holding companies of the Hotels as at 30 September 2007 amounted to approximately HK\$349 million. Unaudited combined total carrying value of the Hotels and their related prepaid lease payments and furniture, fixture and equipment (which will be acquired by HK Hotel REIT) as at 30 September 2007 amounted to approximately HK\$1,609 million, whereas the Appraised Value of the Hotels as at 30 November 2007 amounted to HK\$4,953 million.

Set out below is a simplified proposed structure of HK Hotel REIT and its relationships, amongst others, with the Company, the REIT Manager, the Lessee, the Hotel Manager and the Trustee upon the Separate Listing:



**Legend**

- Equity interest
- > Contractual relationship under the Trust Deed, the Leases, the Leases Guarantees and the Hotel Management Agreements (as the case may be) and services to be provided pursuant thereto
- - -> Payments pursuant to contractual relationship under the Trust Deed, the Leases and the Hotel Management Agreements

- Notes:
- (1) The Lessee will enter into separate Leases with each of the Lessors. The Lessee will pay the Fixed Rentals and the Variable Rentals to the Lessors.
  - (2) The Company will enter into separate Lease Guarantees with the Trustee (on behalf of HK Hotel REIT) and each of the Lessors pursuant to which the Company will guarantee the Lessee's contractual obligations (including but not limited to the payment of the Fixed Rentals and the Variable Rentals) under the Leases.

- (3) The Hotel Manager will provide hotel management and marketing services to the Lessee pursuant to the Hotel Management Agreements. The Hotel Manager, in return, will receive management fees and marketing fees from the Lessee.
- (4) The REIT Manager will provide management services to HK Hotel REIT. In return, the REIT Manager will receive fees for such services from HK Hotel REIT.
- (5) Assuming that the Over-allotment Option is not exercised.

### **The REIT Manager**

The REIT Manager, Hong Kong Hotel Asset Management Limited, is a wholly-owned subsidiary of the Company and has applied to the SFC for a license to conduct the regulated activity of asset management, as required by the REIT Code.

Pursuant to the Trust Deed, the REIT Manager will have a general power of management over the assets of HK Hotel REIT. The REIT Manager's main responsibility is to manage the assets of HK Hotel REIT for the benefit of the Unitholders and the REIT Manager will not involve in the management of any other REIT. The REIT Manager will set the strategic direction and risk management policies of HK Hotel REIT on the acquisition, divestment or enhancement of the assets of HK Hotel REIT in accordance with its investment strategy (details of which will be disclosed in the Offering Circular).

The REIT Manager will be entitled to the following fees from HK Hotel REIT:

- (i) Base Fee: which is intended to be up to 0.3% per annum of the Property Value;
- (ii) Variable Fee: which is intended to be 2.5% per annum of the Net Property Income (before deduction therefrom of the Variable Fee);
- (iii) Acquisition Fee: which is intended to be up to 1.0% of the acquisition price of real estate acquired (other than the acquisition described in paragraph (iii) of the section headed "Reorganisation – Internal reorganisation" above); and
- (iv) Divestment Fee: which is intended to be up to 0.5% of the sale price of real estate divested.

### **Delineation of business between the Remaining Group and HK Hotel REIT**

The Group is principally engaged in property development and investment, hotel operations and treasury management.

After the Spin-off, there will be a clear delineation of business between the Remaining Group and HK Hotel REIT. Although the Retained Hotels may continue to be owned by the Remaining Group if the Retained Hotels are not to be acquired by HK Hotel REIT pursuant to the Option Deed, the Remaining Group will focus on property development and investment, treasury management, hotel operations, hotel development, hotel redevelopment and (outside Hong Kong and the PRC only) hotel owning business, while HK Hotel REIT will focus on the hotel owning business in Hong Kong and the PRC.

There may be circumstances where HK Hotel REIT competes directly with the Company and/or its subsidiaries or associates for acquisition of hotels as well as for hotel operations within the Hong Kong and the PRC markets as the Company, its subsidiaries and associates are engaged in and/or may engage in, among other things, investment in, and the development and management of, properties in the hospitality industry in Hong Kong, the PRC and elsewhere.

In addition, there may be potential conflict of interests between the Company and HK Hotel REIT in respect of the performance of estate management services in relation to the Hotels or other properties that may be acquired by HK Hotel REIT, as the REIT Manager, the Lessee and the Hotel Manager are each a subsidiary of the Company and two members of the board of directors of the REIT Manager are directors of the Company's affiliated companies (except for the REIT Manager).

The REIT Manager will institute procedures to deal with conflict of interests issues, such as:

- (i) the REIT Manager will be a dedicated manager to HK Hotel REIT and will not manage any other REIT or be involved in any other aspects of the hospitality industry;
- (ii) the majority of the board of directors of the REIT Manager is not related to the Company and the independent non-executive directors of the REIT Manager will act independently for the interests of HK Hotel REIT. Furthermore, the management structure of the REIT Manager will include audit committee, disclosures committee, finance and investment committee, and remuneration and nomination committee to promote a high level of corporate governance and address any potential conflict of interests with the Company. In addition, the REIT Manager will adopt a compliance manual which sets out detailed compliance procedures in connection with its operations and potential conflict of interests;
- (iii) the REIT Manager will have a team of full-time senior management and employees that operates independently of the Company; and
- (iv) all connected party transactions between the Group and HK Hotel REIT will be managed in accordance with the compliance manual of HK Hotel REIT, the REIT Code and the procedures to be set out in the Offering Circular.

To prevent any conflict of interests or any competition, the Company will also enter into the Non-compete Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) under which the Group may acquire existing hotels for upgrading and redevelopment or other types of premises for



conversion into hotels provided that the Completed Hotels (as defined below), if located in Hong Kong or the PRC, will be subject to a right of first refusal in favour of the REIT Manager and the Trustee (both on behalf of HK Hotel REIT). In addition, Call Options will be granted to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) in respect of each of the five Retained Hotels.

The Remaining Group does not intend to engage in hotel ownership business in Hong Kong or the PRC. However, there are certain circumstances which may lead to ownership of hotel assets by the Remaining Group such as immediately after the completion of the development or re-development work of hotel properties located in Hong Kong or the PRC. The Directors intend to, after the completion of the Spin-off, dispose of the Retained Hotels and the Completed Hotels (as defined below) to HK Hotel REIT or any other parties within an appropriate timeframe at reasonable prices and terms. The Directors envisage that only in extreme circumstances where such developed or redeveloped hotel properties cannot be disposed of at reasonable prices and terms or cannot be disposed of because of legal or regulatory restrictions, the Remaining Group will retain ownership of those developed or redeveloped hotel properties and operate them through separate hotel management teams.

Notwithstanding the foregoing, as one of its principal business activities, the Remaining Group may manage and provide marketing services to any hotel not owned by the HK Hotel REIT Group (including the Retained Hotels if the Call Options are not exercised) provided that the teams and systems for the management and marketing of hotels owned by the HK Hotel REIT Group are separate from those for the management and marketing of hotels not owned by the HK Hotel REIT Group, which shall be demonstrated to the reasonable satisfaction of the REIT Manager.

### **Distribution policy of HK Hotel REIT**

The REIT Manager's proposed policy is to distribute to Unitholders 100% (subject to the requirements of the Trust Deed and the REIT Code or the SFC) of the Total Distributable Income (as defined below) for each financial year. Pursuant to the Trust Deed, HK Hotel REIT will be required to distribute at least 90% (or such other percentage specified by the REIT Code from time to time) of the Total Distributable Income for each financial year to Unitholder. It is possible that the Total Distributable Income accruing to Unitholders may exceed total cash available for distribution for HK Hotel REIT as a result of funding items such as capital expenditure. Accordingly, distributions may need to be funded out of sources other than net operating profit, including borrowings made in accordance with the REIT Code.

**“Total Distributable Income”** means the consolidated audited net profit after tax of HK Hotel REIT and each Special Purpose Vehicle for the relevant financial year adjusted to eliminate the effects of certain Adjustments (as defined below) which have been recorded in the income statement for the relevant financial year. After eliminating these Adjustments, Total Distributable Income may be different from the net profit recorded for the relevant financial year.

“**Adjustments**” means significant adjustments which are charged or credited to the income statement for the relevant financial year or the relevant distribution period, as the case may be, including:

- (i) unrealised property revaluation gains, including reversals of impairment provisions;
- (ii) impairment loss of goodwill/recognition of negative goodwill;
- (iii) differences between cash and accounting finance costs;
- (iv) realised gains on disposal of properties;
- (v) deferred tax charges/credits in respect of property valuation movements, fair value changes on financial instruments and commercial building allowances/capital allowances claimed;
- (vi) the portion of the remuneration of the REIT Manager provided for under the Trust Deed that shall be paid in the form of Units;
- (vii) costs of any new issue of Units that are expensed through the income statement but are funded by proceeds from the issuance of such Units;
- (viii) the effect of any reversal under Hong Kong GAAPs in the consolidated income statement for the relevant financial year of any material non-cash expense or loss charged to the income statement of any entity controlled by HK Hotel REIT (or by the Trustee or the REIT Manager on behalf of HK Hotel REIT) and included in the consolidation, to the extent the relevant non-cash expense or loss impaired remittance to HK Hotel REIT of cash accrual or accruing to such entity in respect of that financial year; and
- (ix) other material non-cash gains.

In addition, the REIT Manager will also have the discretion to distribute any additional amounts (including capital). In determining whether to distribute any additional amounts (including capital), the REIT Manager will consider a range of factors including but not limited to HK Hotel REIT’s funding requirements, HK Hotel REIT’s financial position, compliance with relevant laws, regulations and covenants (including existing limitations on borrowings as prescribed in the REIT Code), other capital management considerations, the overall stability of distributions and prevailing industry practice. In particular, the REIT Manager will consider exercising such discretion to distribute any amounts equivalent to any property revaluation losses having regards to the foregoing. However, no amount of revaluation surplus on real estate credited to income, or gains on disposal of real estate, whether directly or indirectly through the disposal of any Special Purpose Vehicle, shall form part of any distribution to Unitholders unless the REIT Manager shall have obtained the Trustee’s prior consent.

## Material agreements and other documents to be entered into by HK Hotel REIT

### (i) *the Leases*

For each Hotel, a Lease will be entered into between the relevant Lessor and the Lessee on the Listing Date. The term of the Lease for each Hotel will be 15 years commencing on and inclusive of the Listing Date and for each Lease a cash deposit of an amount equivalent to six months' Fixed Rental shall be paid by the Lessee to the relevant Lessor upon the signing of the Lease.

The rent for each Hotel will comprise the Fixed Rental and the Variable Rental. The Fixed Rentals for all Hotels will be HK\$280 million for the financial year 2009 and as from the financial year 2010, be adjusted upwards or downwards for inflation or deflation on the commencement date of each relevant financial year of the term of each Lease based on the composite consumer price index for the year immediately preceding the relevant year of adjustment stated in the annual report on the consumer price index published by the Consensus and Statistics Department. The Fixed Rentals for the period from the Listing Date to 31 March 2008 will be determined based on the appropriate proportion of the Fixed Rentals for the financial year ending 2009 adjusted on a time basis.

Under the current proposal, the Fixed Rental for each individual Hotel for the financial year 2009 will be the following fixed amount per annum (subject to finalisation) and will be payable quarterly in advance on the first day of January, April, July and October throughout the term of the Leases:

	<b>Fixed Rental per annum (HK\$ million)</b>
<b>High Tariff B</b>	
Cosmopolitan Hotel . . . . .	114.6
Cosmo Hotel . . . . .	31.3
Lan Kwai Fong Hotel . . . . .	53.4
<b>Medium Tariff</b>	
Central Park Hotel . . . . .	23.6
Dorsett Far East Hotel . . . . .	13.9
Dorsett Olympic Hotel . . . . .	15.0
Dorsett Seaview Hotel . . . . .	28.2
	<hr/>
	280.0
	<hr/> <hr/>

The Fixed Rental per annum for each individual Hotel is subject to finalisation and the final amount may or may not be the same as the amount stated in the table above. However, it is expected that the aggregate amount of Fixed Rentals per annum for all Hotels will be HK\$280 million.

The Variable Rental in respect of any relevant financial year shall be paid annually in arrears by the Lessee to the Lessor within 90 days immediately following the end of the relevant financial year. The Variable Rental, which shall be calculated on a Hotel-by-Hotel basis in respect of each relevant financial year for the term of each Lease, shall be:

- (i) where GOP Margin is less than or equal to 50%, the amount of the Variable Rental payable shall be the Net Hotel Profit for the relevant financial year, if any. For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (i) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year;

OR

- (ii) where GOP Margin is more than 50%, the sum of the following (1) and (2) provided that in the case where the amount of the following (1) is a negative figure, then such amount shall be taken as zero for the calculation of the following (2):

- (1) the amount by which 50% of the Adjusted Gross Revenues for the relevant financial year exceeds the Lessee's Costs for the corresponding relevant financial year, if any.

$(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}$

- (2) 50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in the above paragraph (ii)(1), if any.

$50\% \times \{\text{Net Hotel Profit} - [(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}]\}$

For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (ii) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year.

Set out below are examples showing the calculation mechanism of the Variable Rental. Shareholders and prospective investors of the Company should be aware that the examples are not intended to be exhaustive and are for illustration purpose only and no representation is made that the amount of Variable Rental could be achieved at the levels as shown in the examples or at any other level or at all:

**(i) Scenario one**

In case GOP Margin is more than 50% and Net Hotel Profit is larger than zero (A GOP Margin of 60% is used for illustration purpose).

	<u>Ref</u>	<u>HK\$'million</u>
Adjusted Gross Revenues . . . . .		100
GOP . . . . .		60
Fixed Rental . . . . .		40
Lessee's Costs (excluding Fixed Rental) . . . . .		5
Net Hotel Profit . . . . .		15
The amount by which 50% of the Adjusted Gross Revenues exceeds the Lessee's Costs, if any . .	A	$(100 \times 50\%) - 40 - 5 = 5,$ A = 5
50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in A above, if any . . . . .	B	$50\% \times (15 - 5) = 5,$ B = 5
Variable Rental . . . . .		A + B = 5 + 5 = 10

**(ii) Scenario two**

In case GOP Margin is more than 50% and Net Hotel Profit is negative (A GOP Margin of 60% is used for illustration purpose).

	<u>Ref</u>	<u>HK\$'million</u>
Adjusted Gross Revenues . . . . .		100
GOP . . . . .		60
Fixed Rental . . . . .		40
Lessee's Costs (excluding Fixed Rental) . . . . .		25
Net Hotel Profit . . . . .		(5)
The amount by which 50% of the Adjusted Gross Revenues exceeds the Lessee's Costs, if any . . . . .	A	$(100 \times 50\%) - 40 - 25 =$ $(15),$ $A = 0$
50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in A above, if any . . . . .	B	$50\% \times ((5) - 0) = (2.5),$ $B = (2.5)$
Variable Rental . . . . .		$A + B = 0 + (2.5) = (2.5),$ Variable Rental = 0

**(iii) Scenario three**

In case GOP Margin is less than or equals to 50% (A GOP Margin of 50% is used for illustration purpose).

	<u>HK\$ million</u>
Adjusted Gross Revenues . . . . .	100
GOP . . . . .	50
Fixed Rental . . . . .	40
Lessee's Costs (excluding Fixed Rental) . . . . .	5
Net Hotel Profit . . . . .	5
Variable Rental . . . . .	Variable Rental equals to Net Hotel Profit, Variable Rental = 5

The Lessee will (or will procure the Hotel Manager to), at the cost of the Lessee, be responsible for the upkeep, maintenance and repair of all the non-structural parts, fixtures and fittings of the Hotel. The Lessee will (or will procure the Hotel Manager to) maintain the Main Structure of the Hotel throughout the term of the Leases at the cost of the Lessor.

Unless with the prior written consent of the Lessor and subject to any conditions which the Lessor may in its absolute discretion impose in granting such consent, the Lessee shall not assign, transfer, mortgage, charge, underlet, sub-lease, licence or hold upon trust for another, share or otherwise part with possession of the Hotel or any part thereof save and except for the agreements for occupation of the hotel rooms in the normal course of the business of the Hotel either by way of underleasing, sub-letting, lending, sharing or other means whereby any person or persons not a party to the Lease obtains the use or possession of the Hotel or any part thereof for all or any part of the term of the Leases and irrespective of whether any rental or other consideration is given for such use or possession.

The stamp duty and registration fee payable on the Leases or their respective counterparts shall be paid by the Lessee absolutely.

*(ii) the Lease Guarantees*

In order to protect HK Hotel REIT from potential non-receipt of the Fixed Rentals and the Variable Rentals, separate Lease Guarantees will be entered into by the Company as the guarantor in favour of the respective Lessors and the Trustee (as trustee of HK Hotel REIT) on the Listing Date. Pursuant to the terms of the Lease Guarantees, the Company shall guarantee the performance and observance by the Lessee of all its contractual obligations under the Leases, including but not limited to the obligation to pay rent to the Lessors.

*(iii) the Hotel Management Agreements*

In respect of each hotel of HK Hotel REIT, a hotel manager will be appointed to manage the day-to-day operations and marketing of such hotel. For the Hotels, Dorsett Hotels & Resorts (H.K.) Limited will be appointed as the hotel manager. In order to ensure continuity in operations for the Hotels with minimal disruption, the Hotel Manager will continue to employ the existing hotel management team to manage the Hotels following the Separate Listing. Pursuant to the Hotel Management Agreements, the Hotel Manager will, as the sole and exclusive operator and manager of the Hotels, provide hotel management and marketing services for the Hotels.

Set out below is the summary of fees expected to be chargeable by the Hotel Manager pursuant to each Hotel Management Agreement:

*(a) Hotel management services*

1. a basic management fee equal to 2.0% of the Adjusted Gross Revenues of the relevant Hotel for each month payable monthly in arrears; and

2. an incentive management fee equal to 4.0% of the GOP of the relevant Hotel for each month payable monthly in arrears.

*(b) Marketing services*

For marketing services which will be provided by the Hotel Manager, the relevant Lessee will pay the Hotel Manager a marketing fee equal to 1% of GOP of the relevant Hotel for each month payable monthly in arrears.

*(iv) Deed of Trade Mark Licence*

Pursuant to the Deed of Trade Mark Licence, Dorsett Hotels & Resorts International Limited, a wholly-owned subsidiary of the Company, will grant, free of any royalty or other payments, to the REIT Manager, the respective Lessors, REIT Holdco and the Finance Company a non-exclusive and non-transferable right and licence to use the relevant Trademarks for the purpose of describing the ownership of the relevant Hotel and/or use in connection with the business of the relevant Hotel.

In addition, Dorsett Hotels & Resorts International Limited will not object to the use by the REIT Manager or any Lessor or REIT Holdco or the Finance Company in any jurisdiction of (a) the Trademarks for the purpose of describing the ownership of each relevant Hotel and/or in connection with the business of each relevant Hotel; (b) the Trademarks as part of its corporate, business and domain name(s); and (c) any intellectual property right that Dorsett Hotels & Resorts International Limited may have in relation to any other marks, logos or styles used in connection with the Hotels.

Dorsett Hotels & Resorts International Limited will retain the right to grant licences to other persons to use such trade marks or service marks. If Dorsett Hotels & Resorts International Limited obtains any trade mark registration for any other mark, logo or style (other than the Trademarks) in connection with the business of the Hotels after the date of the Deed of Trade Mark Licence, Dorsett Hotels & Resorts International Limited will be required to promptly enter into a deed in substantially the same form as the Deed of Trade Mark Licence for the purpose of granting a licence to the REIT Manager, the Lessors, REIT Holdco and the Finance Company in respect of the newly registered trade mark.

Each licence is expected to commence on the Listing Date and is expected to continue in full force until termination of (a) in respect of the licence granted to each Lessor, the relevant Hotel Management Agreement, (b) in respect of the licence granted to the REIT Manager, REIT Holdco and the Finance Company of the Trademarks other than the “Dorsett” mark, the relevant Hotel Management Agreement, and (c) in respect of the licence granted to the REIT Manager, REIT Holdco and the Finance Company of the “Dorsett” mark (including the relevant device), the Hotel Management Agreements in respect of Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel. Notwithstanding the early termination of the licence granted to the REIT Manager, REIT Holdco and the Finance Company, Dorsett Hotels & Resorts International Limited will not



object to (a) the REIT Manager's use of the trade marks or service marks as part of the corporate, business or domain name(s) of HK Hotel REIT or (b) use by REIT Holdco and the Finance Company of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager shall determine to change such name(s).

(v) *Non-compete Deed*

The Company will enter into the Non-compete Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT).

The Non-compete Deed will remain in effect until the earlier of:

- (a) the date on which the Units cease to be listed on the Stock Exchange; and
- (b) the date on which the Group ceases to beneficially own and/or control 10% or more of the outstanding Units,

provided that in the event the Group ceases to beneficially own and/or control 10% or more of the outstanding Units, the Company will continue to grant the right of first refusal (as detailed below) for 12 months from the date of cessation.

The Company will undertake to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) that it will not, and that it will procure and ensure that none of the members of the Group will, directly or indirectly participate in, hold any right or interest in or otherwise be involved in hotel projects involving the ownership of hotel operations and properties in Hong Kong or the PRC other than subject to the provisions of the Non-compete Deed.

Pursuant to the Non-compete Deed, the Company will, on behalf on the Group, grant Call Options to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) in respect of each of the Retained Hotels upon the terms of the Option Deed.

Under the Non-compete Deed, the Group may acquire existing hotels for upgrading and redevelopment or other types of premises for conversion into hotels provided that the completed hotels, if located in Hong Kong or the PRC (the "**Completed Hotels**"), shall be subject to a right of first refusal on the following terms:

- (a) If any member of the Group wishes to sell any majority ownership and control (or such level as HK Hotel REIT is permitted to acquire from time to time) interest in any Completed Hotel (the "**FEC Existing Interest**") pursuant to an offer or genuine indication of an offer (i) from a third party prospective purchaser or (ii) by any members of the Group to a third party prospective purchaser, it shall notify the REIT Manager (on behalf of HK Hotel REIT) in writing within seven Business Days after receiving or giving such offer, and offer or procure an offer to the REIT Manager (on behalf of HK Hotel REIT) on the same or better terms than those proposed

to the Company, and subject to such confidentiality restrictions or requirements as may be applicable or reasonably necessary, provide to the REIT Manager (on behalf of HK Hotel REIT) all information and documents in respect of the FEC Existing Interest and the offer as may be reasonably required by the REIT Manager (on behalf of HK Hotel REIT) to evaluate such offer.

- (b) If the REIT Manager (on behalf of HK Hotel REIT) notifies the Company in writing that it will not accept the offer, or fails to provide any written acceptance within two months after receiving all the relevant information, the Group will, in the following 120 Business Days (the “**FEC Existing Interest Offer Period**”), be free to dispose of the FEC Existing Interest to any purchaser on the same terms as (or on terms no more favorable to the purchaser than) those offered by the Group to the REIT Manager (on behalf of HK Hotel REIT).
- (c) Notwithstanding the foregoing,
  - 1. the Group cannot dispose of the FEC Existing Interest to any purchaser on terms more favorable than those offered to the REIT Manager (on behalf of HK Hotel REIT), unless a first right to acquire such an interest has been offered to HK Hotel REIT in accordance with the procedures in (a) and (b) above; and
  - 2. the terms of any new offer made by a potential purchaser upon the expiry of the FEC Existing Interest Offer Period must be first offered to HK Hotel REIT in accordance with the procedures in (a) and (b) above.
- (d) FEC shall use its reasonable endeavors to obtain any consent required if the relevant FEC Existing Interest is held by FEC or its subsidiaries through or subject to any partnership, joint venture or other shareholding or contractual arrangements.

Any board meeting of the REIT Manager to be convened for the purpose of considering whether to exercise the right of first refusal on behalf of HK Hotel REIT will, unless all independent non-executive directors of the REIT Manager have an interest in the transaction, have at least one independent non-executive director of the REIT Manager who does not have an interest in the transaction present and all directors of the REIT Manager (including the independent non-executive directors of the REIT Manager) who do not have an interest in the transaction will have a right to attend and vote at such meeting. In accordance with the constitutive documents of the REIT Manager, the decision as to whether to exercise each of the right of first refusal on behalf of HK Hotel REIT shall be decided by a majority of votes of the directors of the REIT Manager present at the relevant duly convened and properly constituted board meeting.

The Group may manage and provide marketing services to any hotels not owned by the HK Hotel REIT Group provided that the teams and systems for the management and marketing of hotels owned by the HK Hotel REIT Group are separate from those for the management and marketing of hotels not owned by the HK Hotel REIT Group, which shall be demonstrated to the reasonable satisfaction of the REIT Manager.

(vi) *Option Deed*

The Company will enter into the Option Deed with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) pursuant to which the Company (on behalf of the Group) will grant to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) the Call Options to require the Group to sell to the HK Hotel REIT Group each of the Retained Hotels (or the shares in and shareholders loans to the company(ies) holding the relevant Retained Hotel (the “**Option Shares and Loans**”)) upon the terms of the Option Deed.

The Option Deed will remain in effect until the earlier of:

- (a) the date on which the Units cease to be listed on the Stock Exchange; and
- (b) the date on which the Company ceases to beneficially own and/or control 10% or more of the outstanding Units.

The Call Option in respect of each Retained Hotel and the Option Shares and Loans will be exercisable by the REIT Manager or the Trustee (both on behalf of HK Hotel REIT) at any time within two years from the date on which the Company notifies the REIT Manager and the Trustee of whichever is the later of the issuance of the occupation permit and the grant of the hotel licence under the Hotel and Guesthouse Accommodation Ordinance (Cap. 349 of the Laws of Hong Kong) for the relevant Retained Hotel located in Hong Kong (and for those Retained Hotels located in the PRC, of the issuance of equivalent or similar permits and licences under PRC laws), after which time the Call Option in respect of that Retained Hotel will lapse. Pursuant to the Option Deed, the Company will undertake with the REIT Manager and the Trustee (both on behalf of HK Hotel REIT)) that it will notify the REIT Manager (on behalf of HK Hotel REIT) in writing of (i) the issuance of the occupation permit, and (ii) the grant of a hotel licence, in respect of a relevant Retained Hotel, as soon as practicable after it becomes aware of such issuance or grant (as the case may be) (and in any event within seven Business days after such event).

The consideration payable by HK Hotel REIT (a) for each of the Retained Hotels, shall be the average of the values determined by two independent valuers, one appointed by the Company and the other appointed by the Trustee (on behalf of HK Hotel REIT); and (b) (where applicable) for the Option Shares and Loans in respect thereof shall be the net asset value of the entire issued share capital of the relevant company(ies) (taking into account the average value of the relevant Retained Hotel determined by the two independent valuers) together with (if applicable) the face value of the relevant shareholders loans (if any) to the relevant company(ies).

Completion of sale and purchase of the relevant Retained Hotel or (where applicable) the Option Shares and Loans in respect thereof under the Call Options will be conditional upon the compliance of the relevant requirements of the Listing Rules and the REIT Code, including, among other things, the Shareholders (other than those who are required to abstain from voting) passing at a general meeting of the Company of ordinary resolution(s) approving the relevant sale and purchase if so

required under the Listing Rules and the Unitholders (other than those prohibited from voting under the REIT Code) passing at a general meeting of the Unitholders of ordinary resolution(s), approving the relevant sale and purchase if so required under the REIT Code.

## **REASONS FOR AND BENEFITS OF THE SPIN-OFF**

The Directors consider that the Spin-off has the following benefits:

- (i) Shareholders will benefit from the enhancement in the net asset value of the Group as a result of the Spin-off. The Company will recognise a substantial gain from the Separate Listing.
- (ii) The separation of hotel development/redevelopment and management from hotel ownership is a business model that is common in international hospitality industry, and is, as such, more familiar to international investors. The Spin-off will also bring the Company in line with global best practices.
- (iii) For the Hong Kong and PRC operations of the Group, the proposed structure essentially separates the business of real estate development (including hotel development/redevelopment and management) from the business of hotel ownership and leasing. Such segregation enables investors and financiers to appraise the strategies, functional exposure, risks and returns of the two businesses separately and to make their investment decisions accordingly. Investors will have the choice to invest in either one or both of the business models.
- (iv) HK Hotel REIT, as a separate listed entity, will have its own separate management structure focusing on hotel properties investments so as to ensure it capitalises on the opportunities in this area.
- (v) The Separate Listing will provide separate fund raising platform for HK Hotel REIT thereby enabling it to raise capital required to finance its future expansion. The Directors believe that HK Hotel REIT is poised for significant growth and it would be both effective and prudent for HK Hotel REIT to support this growth independently through the Separate Listing.
- (vi) The Company intends to hold not less than 50.0% of the Units (assuming that the Over-allotment Option is not exercised), accordingly the Company will continue to benefit from the stable Fixed Rentals to be earned by HK Hotel REIT (and thus enable HK Hotel REIT to make stable distributions) and any upside potential in hotel properties held by HK Hotel REIT through the sharing of the Variable Rentals with HK Hotel REIT which would be based on the achievement of certain GOP Margin benchmarks.
- (vii) The Group will receive REIT Manager's Fee, hotel management fee and marketing fee from HK Hotel REIT.

The Directors (other than the independent non-executive Directors whose views are subject to the advice from the Independent Financial Adviser) are of the view that the terms of the Spin-off are fair and reasonable as far as the Shareholders are concerned and the Spin-off is in the interests of the Company and the Shareholders as a whole.

## USE OF PROCEEDS

Set out below is, for illustration purpose only, the expected net cash inflow from the Spin-off (based on the Illustrative Consideration):

Illustrative Consideration	HK\$3,029 million
Less:	
Expected transaction costs to be incurred for the Spin-off	HK\$8 million
<b>Expected net proceeds from the Spin-off</b>	<b>HK\$3,021 million</b>
Add:	
Repayment of the Existing Borrowings by HK Hotel REIT (based on the amount as at 30 September 2007)	HK\$703 million
<b>Expected net cash inflow from the Spin-off</b>	<b><u>HK\$3,724 million</u></b>

Assuming that the Group will subscribe and retain a maximum of 75.0% interest in HK Hotel REIT and that HK Hotel REIT will immediately upon the completion of the Spin-off have an initial indebtedness of HK\$1,900 million (which is subject to finalisation before the Spin-off), the Company will apply approximately HK\$1,575 million for subscription of Units, approximately HK\$574 million for the repayment of the mortgage loans of certain Hotels, approximately HK\$700 million for potential property projects in the PRC, approximately HK\$700 million for potential hotel projects in Hong Kong, the PRC and other South East Asia countries, and the balance for general working capital.

## FINANCIAL EFFECTS OF THE SPIN-OFF ON THE GROUP

Pursuant to the Trust Deed, the REIT Manager will have the power to govern the financial and operating policies of HK Hotel REIT. Despite the fact that the REIT Manager is a wholly-owned subsidiary of the Company, the Company will not have unilateral power to retain or remove the REIT Manager. Accordingly, the Company is considered not to have unilateral power to govern the financing and operating policies of HK Hotel REIT and therefore the financial statements of HK Hotel REIT should not be consolidated into those of the Company. However, the Remaining Group is considered to have significant influence over HK Hotel REIT, and therefore will account for its investment in HK Hotel REIT using the equity method in accordance with Hong Kong Accounting Standard 28.

The Remaining Group is expected to recognise a gain of approximately HK\$1,217 million as a result of the Spin-off. As will be more particularly set out in the circular to be despatched to the Shareholders, the expected gain of approximately HK\$1,217 million is calculated based on a set of assumptions and is for illustration purpose only, the actual gain to be recognised by the Remaining Group as a result of the Spin-off will depend on, among other things, the Offer Price and the number of Units to be subscribed the Group.

## **FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP**

After the Spin-Off, although the Retained Hotels may continue to be owned by the Remaining Group if the Retained Hotels are not acquired by HK Hotel REIT pursuant to the Option Deed, the Remaining Group will focus on property development and investment, treasury management, hotel operations, hotel development, hotel redevelopment and (outside Hong Kong and the PRC only) hotel owning business.

The Directors are of the view that the demand for four-star hotels will increase substantially as there is an exponential growth of the middle-class domestic leisure and business travelers. Accordingly, the Remaining Group is determined to develop its four-star hotel chain in the PRC. On the basis that the land and labour costs are relatively low in the PRC, the Directors are of the view that the Remaining Group will be able to control the development costs and enjoy high profit margins in the long run.

Property sales at California Garden, Shanghai, which targets at the middle- and upper middle-class markets were strong despite monetary-based tightening measures and newly introduced macro economic control policies in the PRC. With over 6,000 residential units in the pipeline, the Directors are of the view that California Garden will continue to be the Remaining Group's major profit contributor for the next four to five years. Further, the three residential and commercial projects in Guangzhou are under development and on course for completion.

The Remaining Group has also decided to actively expand the hotel portfolio in Malaysia through acquisitions.

## **LISTING RULES IMPLICATIONS**

The Spin-off constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM. Approval from the Shareholders for the Spin-off is also required under PN15. As far as the Directors are aware, none of the Shareholder has a material interest in the Spin-off which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Spin-off and other related matters at the EGM.

HK Hotel REIT may or may not be a connected person (as defined in the Listing Rules) of the Company subsequent to the Spin-off. Accordingly, the Directors confirm that if HK Hotel REIT becomes a connected person of the Company for whatever reasons subsequent to the Spin-off, the Company undertakes that it will comply with relevant requirements under the Listing Rules, in particular Chapter 14A of the Listing Rules, from time to time.

## EXPECTED TIMETABLE

2008

Last day for dealing in Shares cum-entitlement to the Preferential Offering. . . . .	Monday, 28 January
First day for dealing in Shares ex-entitlement to the Preferential Offering. . . . .	Tuesday, 29 January
Latest time for logging transfer of Shares cum-entitlement to the Preferential Offering. . . . .	4:30 p.m. on Wednesday, 30 January
Register of members of the Company closes . . . . .	Thursday, 31 January to Monday, 4 February
Latest time for return of proxy forms in respect of the EGM. . . . .	10:30 a.m. on Saturday, 2 February
Record Date for determining the entitlement to the Preferential Offering. . . . .	Monday, 4 February
EGM . . . . .	10:30 a.m. on Monday, 4 February
Register of members of the Company re-opens. . . . .	Tuesday, 5 February

*All times refer to Hong Kong local time.*

*Please be noted that the above timetable is subject to change. If there are changes to the above timetable, the Company will publish an announcement as soon as practicable.*

## **CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY**

Based on the expected timetable, the register of members of the Company will be closed from Thursday, 31 January 2008 to Monday, 4 February 2008 (both days inclusive) for the purpose of determining the Assured Entitlement and entitlement to vote at the EGM. No transfer of the Shares may be registered during such book close period. In order to qualify for the Assured Entitlement and to vote at the EGM, all forms for transfers of Shares duly accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on Wednesday, 30 January 2008, and all documents for exercise of any conversion rights attaching to the outstanding convertible bonds and/or exercise of share options under the share option scheme of the Company duly accompanied by the relevant convertible bond certificates and/or exercise notices must be lodged with the Company by no later than 4:00 p.m. on Wednesday, 30 January 2008.

The last day of dealing in the Shares cum-Assured Entitlement is expected to be on Monday, 28 January 2008 and the Shares will then be traded ex-Assured Entitlement from Tuesday, 29 January 2008. However, if the Global Offering and the Separate Listing are postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purpose of determining the Assured Entitlement and entitlement to vote at the EGM and further announcement(s) will be made to inform the Shareholders and other investors in due course.

**Shareholders should note that the implementation of the Preferential Offering is conditional upon the satisfaction of the conditions of the Spin-off. If any of such conditions is not fulfilled by such time set out therein, the Preferential Offering will not be made and, in such case, no Qualifying Shareholders may subscribe for any Reserved Units thereunder.**

## **GENERAL**

The EGM will be held on 4 February 2008 at 10:30 a.m. for Shareholders to consider and, if thought fit, approve the Spin-off. Formal notice of the EGM will be included in the circular to be despatched to the Shareholders.

The Independent Board Committee comprising all of the three independent non-executive Directors has been established to advise the Shareholders regarding the Spin-off. Kingsway Capital has been appointed to advise the Independent Board Committee and the Shareholders in the same regard.



A circular including, among other things, (i) information on the Spin-off; (ii) the accountants' report on the Group; (iii) unaudited pro forma financial information on the Remaining Group; (iv) the recommendation of the Independent Board Committee and the advice of Kingsway Capital regarding the Spin-off; (v) the valuation report on the Hotels; and (vi) a notice of the EGM, will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

**The Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there is no assurance that the Spin-off will proceed. Accordingly, Shareholders and/or potential investors of the Company should exercise caution when dealing in the securities of the Company.**

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares and the convertible bonds (stock codes: 2508 and 2576) were suspended with effect from 10:01 a.m. on 14 January 2008 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares and the convertible bonds (stock codes: 2508 and 2576) on the Stock Exchange with effect from 9:30 a.m. on 16 January 2008.

## **DEFINITIONS**

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

“Acquisition Fee”	acquisition fee payable to the REIT Manager not exceeding the rate of 1.0% of the acquisition price for any real estate purchased directly or indirectly by HK Hotel REIT (pro-rated if applicable to the proportion of HK Hotel REIT's interest in the real estate acquired) or such other rates as may be fixed or determined pursuant to the Trust Deed
“Adjusted Gross Revenues”	Gross Revenues less the following revenues actually received by the relevant Hotel and included in Gross Revenues:

- (a) any credits, rebates or refunds made to customers, guests or patrons in the ordinary course of business of the relevant Hotel;
- (b) any sums and credits received by the Lessee for lost or damaged merchandise not covered by paragraphs (f) and (g) below;
- (c) any indirect taxes borne by the guests or patrons of the relevant Hotel and collected by the relevant Hotel on behalf of any government or taxation authorities, including for example any sales tax, value added tax, excise tax, gross receipt tax, admission tax, entertainment tax, tourist tax or like charges, if applicable, but only to the extent that such taxes are actually paid or accounted for by the Lessee to such government or taxation authorities;
- (d) any proceeds from the sale or other disposition of the Lessee's Trade Fixtures, Fittings and Equipment or other capital assets;
- (e) any interest received with respect to the capital replacement fund;
- (f) any condemnation awards;
- (g) any fire and extended coverage insurance proceeds;
- (h) any proceeds of financing or refinancing of the relevant Hotel;
- (i) any interest on the operating bank accounts of the relevant Hotel;  
and
- (j) any gain or loss of the Lessee resulting from foreign exchange activities

“Adjustment Sum”	<p>the aggregate amount (which may be positive, zero or negative) equivalent of Units, being all the Units to be issued and outstanding on the Listing Date, multiplied by the Offer Price: -</p> <p>(a) minus the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular) multiplied by the number of Units to be issued and outstanding on the Listing Date; and</p> <p>(b) (i) (where the Adjustment Sum before taking this item (b) into account is positive) minus the sum of the additional amount of fees, commissions and expenses (including, without limitation, any and all underwriting commission and additional incentive fee) payable by HK Hotel REIT or the REIT Manager as a result of the Offer Price being determined at a level above the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular), or (ii) (where the Adjustment Sum before taking this item (b) into account is negative) plus the total reduction in the amount of fees, commission and expenses payable by HK Hotel REIT or the REIT Manager as a result of the Offer Price being finally determined at a level below the minimum offer price per Unit payable under the Hong Kong Public Offering (details of which will be included in the Offering Circular)</p>
“Agreed Acquisition Value”	<p>in respect of each Hotel, the acquisition value of such Hotel and the related prepaid lease payments and furniture, fixture and equipment, as agreed between the Vendor, the Trustee (as trustee of HK Hotel REIT) and the REIT Manager pursuant to the REIT Holdco Sale and Purchase Agreement and “Agreed Acquisition Values” means the aggregate Agreed Acquisition Value</p>
“Agreed Value”	<p>the sum of Agreed Acquisition Values and the Adjustment Sum</p>
“Appraised Value”	<p>the value of a Hotel and the related prepaid lease payments and furniture, fixture and equipment, as at 30 November 2007, as appraised by the Independent Property Valuer and “Appraised Values” means the aggregate Appraised Value</p>
“Assured Entitlement”	<p>the entitlement of Qualifying Shareholders to apply for Reserved Units under the Preferential Offering</p>
“Authorisation”	<p>the authorisation of HK Hotel REIT by the SFC under section 104 of the SFO</p>

“average room rates”	room revenue of (a) hotel(s) (including related service charges) during a period divided by the number of occupied rooms of such hotel(s) during the corresponding period
“Base Fee”	base fee payable to the REIT Manager not exceeding 0.3% per annum of the Property Value at the relevant time or such other rate as may be fixed or determined pursuant to the Trust Deed
“Board”	the board of Directors
“Business Day”	a day (excluding Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays and 9:00 a.m. and 12:00 noon on Saturdays) on which licensed banks are open for general business in Hong Kong
“Call Option(s)”	the call option(s) to be granted by the Company (on behalf of the Group) to the REIT Manager and the Trustee (both on behalf of HK Hotel REIT) under the Option Deed to require the Remaining Group to sell to the HK Hotel REIT Group each of the Retained Hotels (or the shares in and shareholders loans to the company(ies) holding the relevant Retained Hotel(s)) upon the terms of the Option Deed
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“Completion”	the completion of the sale and purchase of REIT Holdco by the Trustee (on behalf of HK Hotel REIT) pursuant to REIT Holdco Sale and Purchase Agreement
“Deed of Indemnity”	the deed of undertaking and indemnity to be entered into by the Company in favour of the Trustee (as trustee of HK Hotel REIT), REIT Holdco and The Hotel of Lan Kwai Fong Limited
“Deed of Tax Covenant”	the deed of tax covenant to be entered into by the Vendor and the Company in favour of the Trustee (as trustee of HK Hotel REIT) and REIT Holdco

“Deed of Trade Mark Licence”	the deed to be entered into among Dorsett Hotels & Resorts International Limited, the REIT Manager, the Lessors, REIT Holdco and the Finance Company relating to trademark and service mark licences to be granted to the REIT Manager, each respective Lessor, REIT Holdco and the Finance Company
“Directors”	directors of the Company
“Divestment Fee”	divestment fee payable to the REIT Manager not exceeding the rate of 0.5% of the sale price of any real estate directly or indirectly sold or divested by HK Hotel REIT (pro-rated if applicable to the proportion of HK Hotel REIT’s interest in the real estate sold) or such other rates as may be fixed or determined pursuant to the Trust Deed
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Spin-off and other related matters
“Existing Borrowings”	the aggregate amount of indebtedness (whether principal, interest or otherwise) owing and outstanding by the REIT Holdco Group to the Group (other than the REIT Holdco Group) immediately prior to Completion
“Facility”	the proposed secured credit facility for an aggregate amount of HK\$2,000 million (subject to finalisation before the completion of the Spin-off) to be extended to the Finance Company, comprising a term loan facility and a revolving credit facility
“FEC” or “Company”	Far East Consortium International Limited, a company incorporated in the Cayman Islands with limited liabilities, the shares of which are listed on the Main Board of the Stock Exchange
“Finance Company”	Hong Kong Hotel REIT Finance Company Limited, a company incorporated in Hong Kong
“Fixed Rental”	the fixed rental payable by the Lessee to the relevant Lessor in respect of each Lease and “Fixed Rentals” means the aggregate of the fixed rental payable by the Lessee to the Lessors in respect of all Leases
“GAAPs”	generally accepted accounting principles
“General Rules of CCASS”	the general rules of CCASS, as may be amended from time to time
“Global Offering”	the Hong Kong Public Offering and the International Offering (including the Preferential Offering)

“Gross Operating Profit” or “GOP”	the amount, if any, by which the Adjusted Gross Revenues for any relevant period exceeds the total of the Operating Costs for the corresponding period
“Gross Operating Profit Margin” or “GOP Margin”	the percentage calculated by dividing GOP by Adjusted Gross Revenues
“Gross Revenue”	<p>as used in the Hotel Management Agreements and the Leases, means all revenues, receipts and income of any nature derived directly or indirectly from the relevant Hotel or from the use or operation thereof, including, but not limited to, total room sales, food and beverages sales, revenue from laundry and dry cleaning services, telephone, internet, other telecommunications services, facsimile services, rental (including turnover rent where applicable) or other payments from licensees, sub-lessees and concessionaires payable to the Lessee pursuant to the terms and conditions of the Permitted Underlease and concessionaire agreements, as the case may be (but not their gross receipts) and the proceeds of business interruption, public liability, automobile liability, automobile physical damage, workmen’s compensation, employer’s liability, fidelity (employee dishonesty), moneys and securities and other similar operational insurance and without prejudice to the generality of the above shall include:</p> <p>(a) all amounts received or receivable from orders which originate or are received or accepted at or from the Hotel notwithstanding that delivery or performance is made at or from any place other than the relevant Hotel;</p> <p>(b) all service charges levied or imposed by the Lessee on services delivered to or goods sold or otherwise disposed of to and paid by customers, guests or patrons provided that in calculating the amount of the Gross Revenues no deduction shall be made for bad or doubtful debts.</p>
“Group”	the Company and its subsidiaries
“High Tariff B”	the classification for those hotels with a composite score between 2.00 and 2.99, according to the Hong Kong Tourism Board classification system, where the score is based on facilities, location, staff to room ratio, achieved room rate and business mix of a hotel with each aspect weighted differently and the group of hotels under this classification is the group of the second best quality hotels in Hong Kong

“HK Hotel REIT”	Hong Kong Hotel Real Estate Investment Trust, a collective investment scheme which will be constituted as a unit trust and is subject to authorisation by the SFC under section 104 of the SFO and other applicable conditions from time to time
“HK Hotel REIT Group”	HK Hotel REIT and companies to be owned and controlled by HK Hotel REIT in accordance with the REIT Code
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Financial Reporting Standards”	Hong Kong Financial Reporting Standards promulgated by Hong Kong Institute of Certified Public Accountants, as amended, supplemented or otherwise modified for the time being
“Hong Kong Public Offering”	the offer of the Units to the public in Hong Kong on and subject to the terms and conditions to be further described in the Offering Circular and the application forms
“Hotel Companies”	the respective direct owners of the Hotels on Completion (being (i) The Hotel of Lan Kwai Fong Limited, in relation to Lan Kwai Fong Hotel; (ii) Caragis Limited and Vicsley Limited, in relation to Central Park Hotel; (iii) Cosmopolitan Hotel Limited, in relation to Cosmopolitan Hotel; (iv) Grand Expert Limited, in relation to Cosmo Hotel; (v) Charter Joy Limited, in relation to Dorsett Seaview Hotel; (vi) Double Advance Group Limited, in relation to Dorsett Olympic Hotel; (vii) Complete Delight Limited, in relation Dorsett Far East Hotel) and “Hotel Company” means any one of The Hotel of Lan Kwai Fong Limited, Caragis Limited, Vicsley Limited, Cosmopolitan Hotel Limited, Grand Expert Limited, Charter Joy Limited, Double Advance Group Limited and Complete Delight Limited, each being an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Hotel Management Agreement(s)”	the agreement(s) to be entered into among the Lessee, the Hotel Manager, the respective Lessor(s) and the Company relating to the provision of certain hotel management and marketing services in respect of the Hotel(s)
“Hotel Manager”	Dorsett Hotels & Resorts (H.K.) Limited, an indirect wholly-owned subsidiary of FEC
“Hotels”	Cosmopolitan Hotel, Cosmo Hotel, Lan Kwai Fong Hotel, Central Park Hotel, Dorsett Far East Hotel, Dorsett Olympic Hotel and Dorsett Seaview Hotel and “Hotel” means any one of them

“Income”	all rents (including Fixed Rental and Variable Rental), interest, dividends, distributions, licence fees, service charges, turnover rentals, advertising revenue and such other receipts (including taxation rebates) considered by the REIT Manager after consulting the auditors to be in the nature of income in accordance with the Hong Kong GAAPs
“Independent Board Committee”	the independent board committee of the Company, comprising of all of the independent non-executive Directors, namely Mr. Jian Yin Jiang, Mr. Kwok Wai Chan and Mr. Peter Man Kong Wong, established to advise the Shareholders regarding the terms and conditions of the Spin-off
“Independent Financial Adviser” or “Kingsway Capital”	Kingsway Capital Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Spin-off
“Independent Property Valuer”	CB Richard Ellis Limited
“International Offering”	the proposed offer of Units to institutional, professional and other investors
“Lease(s)”	the respective lease(s) to be entered into between the respective Lessor(s) and the Lessee in relation to leasing of the respective Hotel(s)
“Lease Guarantee(s)”	the lease guarantee(s) to be granted by the Company as guarantor in favour of the respective Lessor(s) and the Trustee (as trustee of HK Hotel REIT) in respect of the respective Lease(s)
“Lessee”	Ondella International Limited, being the proposed sole lessee of the Hotels and is a wholly-owned subsidiary of the Company
“Lessee’s Costs”	include: <ul style="list-style-type: none"> <li>(a) the Hotel Manager’s fees under the relevant Hotel Management Agreement;</li> <li>(b) depreciation of the Lessee’s Trade Fixtures, Fittings and Equipment;</li> </ul>



- (c) all taxes and assessments (including, for the avoidance of doubt, any goods and services tax but excluding income and/or withholding taxes on the Hotel Manager's fees, such taxes being treated as Operating Costs);
- (d) expenditures for capital replacements;
- (e) audit fees;
- (f) reasonably incurred legal, other professional and other fees not relating to the operation of the relevant Hotel;
- (g) reasonably incurred insurance premiums for insurance coverage, other than for business interruption, public liability, automobile liability, automobile physical damage, workmen's compensation, employer's liability, fidelity (employee dishonesty), moneys and securities and other similar insurance which covers the operational aspects of the relevant Hotel and is agreed between the parties to form part of the Operating Costs in the Hotel Management Agreement;
- (h) the Fixed Rental and any other payments (excluding the Variable Rental) payable by the Lessee pursuant to the terms of the relevant Lease; and
- (i) any financing costs of the Lessee relating to the operation of the relevant Hotel

"Lessee's Trade Fixtures,  
Fittings and Equipment"

all those Lessor's Fittings which are being renewed, upgraded, improved or replaced and any new fixtures, fittings and chattels being installed, erected or affixed by the Lessee in, on or at the relevant Hotel from time to time during the term of the relevant Lease

"Lessor(s)"

the Hotel Company(ies)

"Lessor's Fitting"

all the loose and fixed furniture, fixtures, fittings furnishings, chattels, appliances and equipment already installed, erected, affixed and placed at the commencement of the term of the relevant Lease in, on or at the relevant Hotel to maintain the relevant Hotel at the Prescribed Standards and at the operating capacity of the Hotel and which shall from time to time be maintained by the Lessee such "Lessors Fitting" to include but are not limited to doors, light fittings, suspended ceiling, marble and hardwood floor, wall coverings, paintings, papering and all decorations, office machinery, equipment and amenities, kitchen equipment, cleaning equipment, workshop machinery, telecommunication equipment, computer equipment and vehicles

“Listing Approval”	the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Units on the Main Board of the Stock Exchange
“Listing Date”	the date on which the Units are first listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Structure”	structural beams, structural columns, structural floor slabs, load bearing walls, roof which includes main roof, top roof and flat roof, back staircases linking each floor of the Hotel
“Medium Tariff”	the classification of those hotels with a composite score between 1.00 and 1.99, according to the Hong Kong Tourism Board classification system, where the score is based on facilities, location, staff to room ratio, achieved room rate and business mix of a hotel with each aspect weighted differently and the group of hotels under this classification is the group of the third best quality hotels in Hong Kong
“NAV”	net asset value, which is calculated as total assets minus total liabilities
“Net Hotel Profit”	Gross Operating Profit less Lessee’s Costs
“Net Property Income”	at any time Income less Property Expenses
“Non-compete Deed”	the non-compete deed to be entered into among the Company, the REIT Manager and the Trustee (on behalf of HK Hotel REIT)
“number of room nights available”	the number of guest rooms available for letting of (a) hotel(s)
“occupancy rate”	number of occupied rooms of (a) hotel(s) during a period divided by the number of room nights available of such hotel(s) during the corresponding period
“Offer Price”	the final Hong Kong dollar price per Unit (exclusion of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) at which the Units are to be issued and allotted pursuant to the Global Offering, to be further described in the Offering Circular
“Offering Circular”	the offering circular to be issued by the REIT Manager in relation to the Global Offering

“Operating Costs”

the entire cost and expense of the operation of the relevant Hotel which, for the avoidance of doubt, include:

- (a) all expenses disbursed by the Hotel Manager on behalf of the Lessee in operating and managing the relevant Hotel in accordance with the terms of the relevant Hotel Management Agreement;
- (b) the cost of Operating Equipment and Operating Supplies, utility and energy costs, operating licences and permits, grounds and landscaping maintenance costs;
- (c) in relation to the employees of the relevant Hotel, wages, salaries, employee fringe benefits, compensation, advertising and promotional expenses and the cost of personnel training programmes and all ancillary costs in respect of such hotel employees;
- (d) certain travel and living expenses incurred by employees of the Hotel Manager or its affiliated companies;
- (e) all expenditures made for maintenance and repairs to keep the relevant Hotel (other than the Main Structure) in good condition and repair; and
- (f) insurance premiums for business interruption, public liability, automobile liability, automobile physical damage, workmen’s compensation, employer’s liability, fidelity (employee dishonesty), moneys and securities and other similar insurance which covers the operational aspects of the relevant Hotel and is agreed between the parties to form part of the Operating Costs in the Hotel Management Agreement,

but do not include the Lessee’s Costs

“Operating Equipment”

as used in the Lease and the Hotel Management Agreement, means all non-capital items such as china, glassware, linen, silverware, miscellaneous serving equipment, towels, uniforms, tools, utensils, equipment and accessories and adequate spare parts for use in connection with the operation of the relevant Hotel and the term “Operating Equipment” shall include all replacements of the aforesaid by the Lessee during the term of the Lease or the Hotel Management Agreement (as applicable)

“Operating Supplies”	consumable items used in, or held in storage for use in the operation of the relevant Hotel including food, beverages, fuel, soap, cleaning materials, matches, stationery, toilet paper, kitchen supplies, paper products, menus and other similar items and the term “Operating Supplies” shall include all replacements of the aforesaid by the Lessee during the term of the Lease or the Hotel Management Agreement (as applicable)
“Option Deed”	the option deed to be entered into among the Company, the REIT Manager (on behalf of HK Hotel REIT) and the Trustee (on behalf of HK Hotel REIT), in relation to the Call Options
“Over-allotment Option”	the option to be granted by the Company to joint global coordinators pursuant to the international underwriting agreement to require the Company (or its subsidiaries as it directs) to make available up to a certain number of Units to be offered to investors as part of the International Offering solely to cover the over-allotment of the Units, if any
“Overseas Shareholders”	Shareholders whose addresses on the register of members of the Company are, at the close of business on the Record Date, in a place outside Hong Kong and whom the Directors, after making enquiries regarding the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider his/her/its exclusion from the definition of “Qualifying Shareholder” is necessary or expedient
“Permitted Underlease”	underleases (which word shall include sub-tenancy agreements or licence agreements or other similar agreements) in relation to any part of the Hotel permitted to be entered into under the Lease(s)
“PN15”	Practice Note 15 to the Listing Rules
“PRC”	the People’s Republic of China and for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Preferential Offering”	the proposed preferential offer to Qualifying Shareholders on and subject to the terms and conditions to be further described in the Offering Circular and the blue application form
“Prescribed Standards”	the standard commensurate with the High Tariff B or Medium Tariff category (as the case may be) or such other standard as from time to time agreed in writing by all the parties to the relevant Hotel Management Agreement

“Proforma Completion Accounts”	the proforma consolidated balance sheet of the REIT Holdco Group as at the date of the Completion prepared adopting the same accounting policies, practice and principles generally applied in Hong Kong and consistent with those applied to the REIT Holdco Group in previous years
“Property Expenses”	include direct property related expenses, including, without limitation, property insurance expenses borne by HK Hotel REIT (including, but without limitation, taxes related to real estate (including stamp duty), registration fee and business tax), expenses related to upkeep and maintenance of the main structures of the Hotels, and bad debt expenses in relation to Income
“Property Value”	the value of HK Hotel REIT’s attributable interests in all real estate properties directly held by the Trustee or indirectly held by the Trustee through one or more Special Purpose Vehicle(s)
“Qualifying Shareholders”	Shareholders, whose names appeared on the register of members of the Company as holding Shares as of the close of business on the Record Date, other than Overseas Shareholders
“Record Date”	4 February 2008 (or such other date as the Board may determine), being the record date for ascertaining the Assured Entitlement and entitlement to vote at the EGM
“Registrar”	Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, the share registrar of the Company
“REIT(s)”	real estate investment trust(s)
“REIT Code”	the Code on Real Estate Investment Trusts issued by the SFC, as the same may be modified, amended, revised or replaced from time to time, or supplemented either by published guidelines, policies, practice statements, Frequently Asked Questions Relating to Real Estate Investment Trusts or other guidance issued by the SFC or, in any particular case, by specific written guidance issued by the SFC in response to a specific request by the REIT Manager and the Trustee

“REIT Holdco”	Hong Kong Hotel REIT Holdings Limited, a company incorporated in the Cayman Islands as held by the Vendor on the date of this announcement and to be directly wholly-owned by HK Hotel REIT upon Completion. Upon Completion, REIT Holdco will own the entire interests in the Hotels through the Hotel Companies
“REIT Holdco Group”	REIT Holdco and its subsidiaries, from time to time
“REIT Holdco Sale and Purchase Agreement”	the agreement to be entered into among, amongst others, the Vendor, the Company (as guarantor) and the Trustee (on behalf of HK Hotel REIT) for the sale and purchase of the REIT Holdco Shares
“REIT Holdco Shares”	the shares of nominal value of US\$1.00 each comprising the entire issued share capital of REIT Holdco
“REIT Manager”	Hong Kong Hotel Asset Management Limited, the proposed manager of HK Hotel REIT and a wholly-owned subsidiary of FEC
“REIT Manager’s Fee”	collectively, the Base Fee, the Variable Fee, the Acquisition Fee and the Divestment Fee
“Remaining Group”	the Group after the Spin-off
“Reserved Units”	the Units offered pursuant to the Preferential Offering and which are to be allocated out of the Units to be offered under the International Offering
“Retained Hotels”	Dorsett Hong Kong Hotel, Cosmo Kowloon Hotel, Dorsett Kwun Tong Hotel, which are located in Kennedy Town, Tai Kok Tsui and Kwun Tong, Hong Kong respectively, and two other hotels, which are located at nos. 124 to 177, Yu Long West Street, Cheng Du, Sichuan Province, the PRC and no. 118, Jiang Han Street, Jiang An District, Wu Han, Hu Bei Province, the PRC respectively
“RevPAR”	room revenue of (a) hotel(s) (including related service charges) during a period divided by the number of room nights available of such hotel(s) during the corresponding period
“Separate Listing”	the proposed separate listing of the Units on the Main Board of the Stock Exchange
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being

“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Special Purpose Vehicle(s)”	as used in the Trust Deed, means an entity whose primary purpose is to hold or own real estate or arrange financing for HK Hotel REIT
“Spin-off”	the proposed spin-off of HK Hotel REIT comprising the Global Offering and the Separate Listing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited or any successor hereto
“Subscription Agreement”	the subscription agreement to be entered into between the Company and the REIT Manager pursuant to which the Company will or will procure its subsidiaries to subscribe Units at the Offer Price
“Trademarks”	certain trade marks or service marks owned by Dorsett Hotels & Resorts International Limited and registered or under application for registration as at the date of the Deed of Trademark Licence
“Trust Deed”	the trust deed to be entered into between the REIT Manager and the Trustee constituting HK Hotel REIT
“Trustee”	HSBC Institutional Trust Services (Asia) Limited, the proposed trustee of HK Hotel REIT
“Underwriting Agreements”	the underwriting agreements to be entered into among the REIT Manager, the Company, the joint global coordinators and the underwriters in relation to the Global Offering
“Unit(s)”	the unit(s) of HK Hotel REIT
“Unitholder(s)”	holder(s) of the Unit(s)
“USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“Variable Fee”	variable fee payable to the REIT Manager of 2.5% per annum of Net Property Income (before deduction therefrom of the Variable Fee) or such other rate as may be fixed or determined pursuant to the Trust Deed
“Variable Rental”	in respect of each Lease, the variable rent payable by the Lessee to the relevant Lessor calculated in the following manner:

- (i) where GOP Margin is less than or equal to 50%, the amount of the Variable Rental payable shall be the Net Hotel Profit for the relevant financial year, if any. For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (i) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year;

OR

- (ii) where GOP Margin is more than 50%:

the sum of the following (1) and (2) provided that in the case where the amount of the following (1) is a negative figure, then such amount shall be taken as zero for the calculation of the following (2):

- (1) the amount by which 50% of the Adjusted Gross Revenues for the relevant financial year exceeds the Lessee's Costs for the corresponding relevant financial year, if any.

$(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}$

- (2) 50% of the additional amount by which the Net Hotel Profit exceeding the amount as calculated in the above paragraph (ii)(1), if any.

$50\% \times \{ \text{Net Hotel Profit} - [(50\% \times \text{Adjusted Gross Revenues}) - \text{Lessee's Costs}] \}$

For the avoidance of doubt, in the case where the amount of Variable Rental calculated in this paragraph (ii) is a negative figure, then no Variable Rental shall be payable by the Lessee to the Lessor for that relevant financial year

and "Variable Rentals" means the aggregate of the Variable Rental payable by the Lessee to the Lessors in respect of all Leases

"Vendor"

Ample Bonus Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company



“sq.ft.”	square feet
“sq.m.”	square meter(s)
“%”	per cent

Yours faithfully,  
For and on behalf of the Board of  
**Far East Consortium International Limited**  
**David Chiu**  
*Deputy Chairman and  
Chief Executive Officer*

Hong Kong, 15 January 2008

*As at the date of this announcement, the Board comprises four executive directors namely Mr. Deacon Te Ken Chiu, Tan Sri Dato' David Chiu, Mr. Dennis Chiu and Mr. Craig Grenfell Williams; two non-executive directors namely Madam Ching Lan Ju Chiu and Mr. Daniel Tat Jung Chiu; and three independent non-executive directors namely Mr. Jian Yin Jiang, Mr. Kwok Wai Chan and Mr. Peter Man Kong Wong.*