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REGAL REAL ESTATE INVESTMENT TRUST

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

Managed by



ANNOUNCEMENT

- (1) MAJOR ACQUISITION AND CONNECTED TRANSACTIONS
IN RELATION TO THE SHARE PURCHASE AGREEMENT
AND THE OPTION AGREEMENT TO ACQUIRE THE NEW HOTELS**
- (2) CONTINUING CONNECTED TRANSACTIONS**
- (3) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF
REGISTER OF UNITHOLDERS**

**Independent Financial Adviser to the
Independent Board Committee, the Independent Unitholders and the Trustee**



Meanings of defined terms may be found in the section headed “Definitions” on pages 81 to 100 of this announcement.

On 28 June 2013, the Trustee and P&R entered into the following agreements in relation to the acquisitions of the Sheung Wan Hotel and the North Point Hotel (collectively, the “**New Hotels**”):

- (a) Share Purchase Agreement, pursuant to which P&R agreed to sell to the Trustee (or its nominee) the SW Target Company Shares, and assign to the Trustee (or its nominee) the SW Shareholder Loan for the SW Hotel Purchase Price (being HK\$1,580 million), plus the Current Assets Adjustment, subject to the terms and conditions set out therein; and
- (b) Option Agreement, pursuant to which P&R granted a call option to the Trustee, entitling the Trustee (or its nominee) to, in the Manager’s sole discretion, acquire the NP Target Company Shares, and be assigned the NP Shareholder Loan for up to the Maximum Final Exercise Price (being HK\$1,825 million), plus the Current Assets Adjustment, subject to the terms and conditions set out therein.

THE NEW HOTELS

The Sheung Wan Hotel is situated at Nos. 132-140 Bonham Strand, Sheung Wan, Hong Kong. Sheung Wan is adjacent to Central, the traditional Central Business District in Hong Kong, and the Sheung Wan Hotel is mostly surrounded by office developments with some small-scale residential buildings. Pursuant to the Share Purchase Agreement, the Sheung Wan Hotel is to be developed in accordance with the SW Specifications Summary, the key items of which are summarised below:

Number of Guestrooms and Suites: 248 guestrooms comprising 223 standard rooms, 18 one-bedroom suites and 7 two-bedroom suites

Number of Storeys: 34 storeys

Gross Floor Area: Approximately 7,197 sqm

Covered Floor Area: Approximately 9,617 sqm

Facilities: A lobby lounge and a business centre

The Sheung Wan Hotel is expected to be completed in the fourth quarter of 2013 and will be branded as a “iclub by Regal (富薈酒店)” hotel.

The North Point Hotel is situated at Nos. 14-20 Merlin Street, North Point, Hong Kong. The North Point Hotel is surrounded by residential, office and commercial developments and hotels. Pursuant to the Option Agreement, the North Point Hotel is to be developed in accordance with the NP Specifications Summary, the key items of which are summarised below:

Number of Guestrooms: 338 guestrooms

Number of Storeys: 32 storeys

Gross Floor Area: Approximately 6,849 sqm

Covered Floor Area: Approximately 9,393 sqm

Facilities: A lobby lounge and a business centre

The North Point Hotel is expected to be completed in the second quarter of 2014 and will be branded as a “iclub by Regal (富薈酒店)” hotel.

CONSIDERATION

The consideration payable by the Trustee for acquiring the Sheung Wan Hotel and the North Point Hotel is as follows:

- (a) the SW Hotel Purchase Price (being HK\$1,580 million), plus the Current Assets Adjustment, payable under the Share Purchase Agreement in respect of the Sheung Wan Hotel; and
- (b) the Initial Exercise Price of HK\$1,650 million, subject to an initial adjustment (up to the Maximum Final Exercise Price (being HK\$1,825 million)) based on an updated valuation of the North Point Hotel as appraised by the Independent Property Valuer as of the last month end date before the grant of the occupation permit for the North Point Hotel, plus the Current Assets Adjustment, payable under the Option Agreement in respect of the North Point Hotel.

Within two Business Days following the satisfaction of certain conditions pursuant to the Share Purchase Agreement, the Trustee shall pay to P&R the Deposit of HK\$948 million. At completion of the SW Transaction, the Deposit and any interest accrued and unpaid in respect of the same will be applied against part of the SW Hotel Purchase Price. Within two Business Days following the satisfaction of the conditions to the grant of the North Point Hotel Option pursuant to the Option Agreement, the Trustee shall pay to P&R an Option Fee of HK\$10 million and the Refundable Cash Collateral of HK\$990 million. At completion of the NP

Transaction, the Option Fee shall be applied against part of the Final Exercise Price and the refunded Refundable Cash Collateral and any interest accrued and unpaid in respect of the same will be used to finance part of the Final Exercise Price.

The total sum of the SW Hotel Purchase Price plus the Current Assets Adjustment reflects the consideration payable in respect of the acquisition of the SW Target Company Shares and the assignment of the SW Shareholder Loan, and (apart from the Deposit) will be payable at completion of the SW Transaction. The Deposit will be payable in the manner described above. The total sum of the Final Exercise Price plus the Current Assets Adjustment reflects the consideration payable in respect of the acquisition of the NP Target Company Shares and the assignment of the NP Shareholder Loan, and (apart from the Refundable Cash Collateral) will be payable at completion of the NP Transaction if the North Point Hotel Option is exercised. The Refundable Cash Collateral will be payable in the manner described above.

FINANCING OF THE SW TRANSACTION AND THE NP TRANSACTION

It is expected that the Deposit and the Refundable Cash Collateral will be financed by the proceeds of issuances of the March 2013 Notes and the May 2013 Notes; and the Option Fee will be financed by Regal REIT's internal resources. It is also expected that the remainder of the SW Hotel Purchase Price (i.e. excluding the Deposit), the Final Exercise Price, the Current Assets Adjustments, as well as the Manager Acquisition Fees, Trustee Additional Fees and Additional Costs for both the SW Transaction and the NP Transaction will be financed by: (i) proceeds of Notes issued pursuant to the Regal REIT MTN Programme; (ii) existing and/or new bank facilities secured against the Sheung Wan Hotel, the North Point Hotel and/or other assets held by Regal REIT; (iii) the Option Fee applied against part of the Final Exercise Price; (iv) the Refundable Cash Collateral refunded to Regal REIT at completion of the NP Transaction; and/or (v) Regal REIT's internal resources.

The proportions of (i), (ii) and (v) will only be finally determined at the time of completion of the SW Transaction and the NP Transaction, respectively, depending on debt and capital market conditions at the time payments in respect of those transactions are made.

In the event of any shortfall in funding required for completion of the SW Transaction or the NP Transaction, Regal REIT may also draw down on the Vendor Facility to fund the shortfall.

REASONS FOR, AND BENEFITS OF, THE SW TRANSACTION AND THE NP TRANSACTION

The Board (including all the Independent Non-executive Directors) believes that the SW Transaction and the NP Transaction will bring the following benefits to Unitholders:

- Operating the New Hotels under the “iclub by Regal (富薈酒店)” brand will enhance the brand name of “iclub by Regal (富薈酒店)”;
- Regal REIT’s number of guestrooms would increase by 14.9% (from 3,929 guestrooms and suites as at 31 December 2012 to approximately 4,515 guestrooms and suites) and the gross floor area of Regal REIT’s property portfolio would increase by 6.5% (from approximately 216,412 sqm as at 31 December 2012 to approximately 230,458 sqm);
- The Option Agreement exercise price adjustment mechanism ensures that the North Point Hotel will be acquired at or below market valuation (as assessed by the Independent Property Valuer);
- The New Lease Agreements will enable Regal REIT to mitigate its exposure to initial start-up risk associated with the operation of the New Hotels, and ensure that Regal REIT receives a base level of income during the terms of the New Lease Agreements.

Further details are set out in the section headed “Reasons for, and Benefits of, the SW Transaction and the NP Transaction”.

CONTINUING CONNECTED TRANSACTIONS

Upon and after completion of the SW Transaction and (assuming the North Point Hotel Option has been exercised) the NP Transaction, members of the Regal REIT Group will enter into various continuing connected party transactions with members of the Regal Connected Persons Group in relation to the New Lease Agreements, the New Lease Guarantees and the New Hotel Management Agreements in respect of the Sheung Wan Hotel and the North Point Hotel.

Accordingly, the Manager has applied to the SFC for the New CCT Waiver Application from strict compliance with the disclosure and unitholders’ approvals requirements under Chapter 8 of the REIT Code in respect of the Additional Continuing Connected Transactions.

IMPLICATIONS OF THE SW TRANSACTION AND THE NP TRANSACTION UNDER THE REIT CODE AND THE TRUST DEED

As set out in the section headed “Implications of the SW Transaction and the NP Transaction under the REIT Code and the Trust Deed — Share Purchase Agreement, Option Agreement, Deeds of Tax Indemnity, Interior Fit-Out Agency Deeds and Facility Letter”, each of the following constitutes a connected transaction of Regal REIT under paragraph 8.5 of the REIT Code:

- (a) the execution of the Share Purchase Agreement and the consummation of the transactions contemplated thereunder;
- (b) the execution of the Deed of Tax Indemnity in respect of the Sheung Wan Hotel and the consummation of the transactions thereunder;
- (c) the execution of the Interior Fit-Out Agency Deed in respect of the Sheung Wan Hotel and the consummation of the transactions thereunder;
- (d) the execution of the Option Agreement and the consummation of the transactions contemplated thereunder;
- (e) the execution of the Deed of Tax Indemnity in respect of the North Point Hotel and the consummation of the transactions thereunder;
- (f) the execution of the Interior Fit-Out Agency Deed in respect of the North Point Hotel and the consummation of the transactions thereunder; and
- (g) the execution of the Facility Letter and the consummation of the transactions contemplated thereunder and other transactions contemplated under, associated with/or related to the Vendor Facility.

As the maximum aggregate value of the above transactions (including the sum of the Maximum Adjusted SW Hotel Purchase Price, the Maximum Adjusted Final Exercise Price and the full amount of the Vendor Facility) exceeds 5.0% of the latest net asset value of Regal REIT (as disclosed in its latest published audited accounts, and adjusted for any subsequent transaction since their publication), pursuant to paragraph 8.11 of the REIT Code and clause 15.1 of the Trust Deed, the connected transactions in paragraphs (a) to (g) above require Independent Unitholders’ approval by way of Ordinary Resolutions at the EGM.

In addition, as the Maximum Total Consideration represents 44.71% of the total market capitalisation of Regal REIT, based on the average closing price of the Units traded on the Stock Exchange for the last five Business Days immediately preceding the Latest Practicable Date, the SW Transaction and the NP Transaction together constitute a major transaction for Regal REIT pursuant to the REIT Code.

The Regal REIT Circular containing among other things: (1) a letter from the Board to the Unitholders containing details of, among other things, the Transaction Matters Requiring Approval and the Additional Continuing Connected Transactions; (2) a letter from the Independent Board Committee to the Independent Unitholders in relation to the Transaction Matters Requiring Approval as to whether they are fair and reasonable; (3) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee on the Transaction Matters Requiring Approval as to whether they are fair and reasonable; (4) the Independent Property Valuer's valuation reports in respect of the Sheung Wan Hotel and the North Point Hotel; and (5) the notice of the EGM, has been issued on the date hereof and will be sent to the Unitholders as soon as practicable.

The Register of Unitholders will be closed from 16 July 2013 to 18 July 2013, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfers of Units will be effected.

Unitholders and potential investors in the Units should note that the Option Agreement does not oblige the Trustee to exercise the North Point Hotel Option, and therefore the NP Transaction may or may not proceed. Unitholders and potential investors in the Units are advised to exercise caution when dealing in the Units.

Reference is made to the announcements issued by the Manager dated 11 January 2013, 28 February 2013 and 30 April 2013 (collectively, the “**MOU Announcements**”). The MOU Announcements set out the key terms of a non-binding memorandum of understanding (the “**MOU**”) in connection with:

- (1) the proposed grant of a call option by P&R to the Trustee, entitling Regal REIT (or its trustee or nominee) to, in its sole discretion, acquire 100% of the issued share capital of and shareholder loans to the SW Target Company that, indirectly through its wholly-owned subsidiary, will own the Sheung Wan Hotel upon completion of its development; and

- (2) the proposed grant of a call option by P&R to the Trustee, entitling Regal REIT (or its trustee or nominee) to, in its sole discretion, acquire 100% of the issued share capital of and shareholder loans to the NP Target Company that, indirectly through its wholly-owned subsidiary, will own the North Point Hotel upon completion of its development (the “**North Point Hotel Option**”).

1. THE SW TRANSACTION AND THE NP TRANSACTION

1.1 Overview

On 28 June 2013, the following legally binding and definitive agreements were entered into:-

- (1) Share Purchase Agreement, pursuant to which P&R agreed to sell to the Trustee (or its nominee) the SW Target Company Shares, and assign to the Trustee (or its nominee) the SW Shareholder Loan for the SW Hotel Purchase Price (being HK\$1,580 million), plus the Current Assets Adjustment, subject to the terms and conditions set out therein; and
- (2) Option Agreement, pursuant to which P&R granted a call option to the Trustee, entitling the Trustee (or its nominee) to, in the Manager’s sole discretion, acquire the NP Target Company Shares, and be assigned the NP Shareholder Loan for up to the Maximum Final Exercise Price (being HK\$1,825 million), plus the Current Assets Adjustment, subject to the terms and conditions set out therein.

P&R is principally engaged in development of properties for sale and/or rental through its subsidiaries and currently holds all the shares in the SW Target Company and the NP Target Company. It is a joint venture company incorporated in the British Virgin Islands with limited liability, held by Paliburg and Regal Hotels in equal shares, both of which are directly and indirectly controlled by Century City. Paliburg, Regal Hotels and Century City are all Hong Kong listed companies. For further information as to P&R’s holding structure, please refer to the section headed “The SW Transaction and the NP Transaction — Current Holding Structure of the New Hotels”.

The SW Target Company and the NP Target Company are companies incorporated in the British Virgin Islands solely for the purpose of holding the entire issued share capital of the SW Property Company (being the registered owner of the Sheung Wan Hotel) and the NP Property Company (being the registered owner of the North Point Hotel), respectively.

The Sheung Wan Hotel and the North Point Hotel are currently under development and are expected to be completed (as evidenced by the issuance of an occupation permit) in the fourth quarter of 2013 and in the second quarter of 2014, respectively. While it was previously contemplated in the MOU Announcements that P&R would grant a call option in respect of the Sheung Wan Hotel, given the Sheung Wan Hotel is expected to be completed soon, P&R and the Trustee have agreed to enter into the Share Purchase Agreement, instead of an option agreement. The Share Purchase Agreement provides the specifications (as agreed by the Manager and P&R) to which the Sheung Wan Hotel is to be developed, and the Option Agreement provides the specifications (as agreed by the Manager and P&R) to which the North Point Hotel is to be developed.

1.2 Information on the New Hotels

1.2.1 *Sheung Wan Hotel*

1.2.1.1 *Description*

The “**Sheung Wan Hotel**” is situated at Nos. 132-140 Bonham Strand, Sheung Wan, Hong Kong. Sheung Wan is adjacent to Central, the traditional Central Business District in Hong Kong, and the Sheung Wan Hotel is mostly surrounded by office developments with some small-scale residential buildings. Pursuant to the Share Purchase Agreement, the Sheung Wan Hotel is to be developed in accordance with the SW Specifications Summary, the key items of which are summarised below:

Number of Guestrooms and Suites	248 guestrooms comprising 223 standard rooms, 18 one-bedroom suites and 7 two-bedroom suites
Number of Storeys	34 storeys
Gross Floor Area	Approximately 7,197 sqm
Covered Floor Area	Approximately 9,617 sqm
Facilities	A lobby lounge and a business centre

The Sheung Wan Hotel is expected to be completed in the fourth quarter of 2013 and will be branded as a “iclub by Regal (富薈酒店)” hotel.

1.2.1.2 *Location*

The Sheung Wan Hotel is located in Sheung Wan, offering convenient access to core business districts as well as major shopping and tourist areas. The Sheung Wan Hotel is within walking distance from the tram station on Des Voeux Road West and the Sheung Wan MTR Station. It is also accessible by taxis, buses and minibuses. Also within walking distance from the Sheung Wan Hotel is the Hong Kong-Macau Ferry terminal, which provides ferry and helicopter services to Macau, as well as ferry services to a number of cities in southern China including Zhongshan, Zhuhai and Panyu in Guangzhou, and Shekou in Shenzhen. Tsim Sha Tsui and Kowloon MTR Stations are both 15-minute drives from the Sheung Wan Hotel via the Western Harbour Crossing.

The Sheung Wan Hotel is close to a number of high-quality Grade A office buildings located in Sheung Wan including The Center, 181 Queen's Road Central and Cosco Tower. It is also close to a number of tourist attractions, including Bonham Strand West (known for its specialty stores, quality dried foods and Chinese medicines), Des Voeux Road West (famous for its specialty stores selling varieties of exotic dried seafood) and Western Market (one of the oldest heritage buildings in Hong Kong, renovated in 1991 with themed shops).

1.2.1.3 *Competition*

In 2012, the following new hotels were completed in Sheung Wan: (i) Butterfly On Hollywood (offering 142 rooms); (ii) IBIS Hong Kong Central & Sheung Wan (offering 550 rooms); and (iii) Holiday Inn Express Hong Kong Soho (offering 299 rooms). These hotels are operated by hotel chain operators and have similar target travellers to the Sheung Wan Hotel.

1.2.1.4 *Property Valuation*

As at 25 June 2013, the Sheung Wan Hotel was valued by the Independent Property Valuer at HK\$1,580 million. Such amount is equal to the SW Hotel Purchase Price and has taken into account the rent payable under the New Lease Agreement in respect of the Sheung Wan Hotel. For the assumptions of the Independent Property Valuer in determining this valuation, please refer to Appendix 4 headed "Independent Property Valuer's Valuation Reports" to the Regal REIT Circular.

1.2.1.5 *Lease Agreement, Lease Guarantee and Hotel Management Agreement*

Concurrently with completion of the SW Transaction, Regal REIT (through the SW Property Company) will enter into the New Lease Agreement with the Lessee in respect of the entire Sheung Wan Hotel. The lease will commence from the date of its execution and terminate on the 31 December immediately following the fifth anniversary of the date of such New Lease Agreement, unless extended for a further five years at the sole discretion of the SW Property Company. The annual rent payable to the SW Property Company in respect of the first, second and third years of the lease term shall be 5.00%, 5.25% and 5.50% respectively of the SW Hotel Purchase Price. The rent payable to the SW Property Company in respect of each remaining Lease Year shall be determined based on a market rental review performed by an independent professional property valuer jointly appointed by the Lessee and the SW Property Company.

Regal Hotels will, at the same time as entering into the New Lease Agreement in respect of the Sheung Wan Hotel, enter into a lease guarantee pursuant to which Regal Hotels will guarantee: (a) the Lessee's obligations to pay all amounts owing under such New Lease Agreement; and (b) the due observance and performance of such New Lease Agreement by the Lessee.

A hotel management agreement will also be entered into between the relevant Lessor, Lessee, Regal Hotels and the Hotel Manager concurrently with the execution of such lease agreement.

For further details, please refer to the sections headed "Key Documentation — New Lease Agreements and New Lease Guarantees" and "Key Documentation — New Hotel Management Agreements" respectively.

1.2.1.6 *Occupation Permit, Hotel Licence and Other Licences*

The occupation permit for the Sheung Wan Hotel is expected to be granted by the Building Authority in the fourth quarter of 2013. On this basis, the operation of the Sheung Wan Hotel is anticipated to commence in or around the first quarter of 2014 as the Hotel Manager must first apply for a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences to enable the Lessee and the Hotel Manager to operate a hotel business at the Sheung Wan Hotel, with such applications only able to be submitted after the occupation permit is granted.

Regal REIT will receive income pursuant to the New Lease Agreement in respect of the Sheung Wan Hotel from the date of such agreement, being also the date of completion of the SW Transaction, irrespective of whether the Sheung Wan Hotel has commenced operations.

1.2.1.7 *SW Interior Fit-Out Programme*

The construction of the Sheung Wan Hotel will include works to be completed under the SW Interior Fit-Out Programme. Such works will primarily be: (a) finishing works on interior flooring, walls and ceilings of the guestrooms, lobbies or corridors, hotel office and other areas of the Sheung Wan Hotel; and (b) procurement and installation in each guestroom of the related furniture, fixtures and equipment (including but not limited to minibar fridge, cabinets and television), in each case, in accordance with the specifications agreed under the Share Purchase Agreement. The estimated costs for the interior fit-out works (including installation of furniture, fixtures and equipment such as minibar fridge, cabinets and television) are HK\$75.2 million.

The occupation permit for the Sheung Wan Hotel may be granted, and completion of the SW Transaction may occur, prior to completion of the SW Interior Fit-Out Programme. However, as the SW Hotel Purchase Price is based on the SW Appraised Value, which in turn assumes completion of the SW Interior Fit-Out Programme, P&R has undertaken under the Share Purchase Agreement to complete the SW Interior Fit-Out Programme by the Interior Fit-Out Long Stop Date at its own cost and expense. To facilitate the carrying out of any works under the SW Interior Fit-Out Programme not yet completed as at completion of the SW Transaction, the Interior Fit-Out Agent (a wholly-owned subsidiary of P&R) and the Guarantors will, at completion of the SW Transaction, enter into an Interior Fit-Out Agency Deed whereby the SW Property Company appoints the Interior Fit-Out Agent to manage and settle the Interior Fit-Out Contracts on its behalf. For further details, please refer to the sections headed “Key Documentation — Share Purchase Agreement — SW Interior Fit-Out Programme” and “Key Documentation — Interior Fit-Out Agency Deeds” respectively.

1.2.1.8 *Government Grants*

The Sheung Wan Hotel, as with the other hotels currently owned by Regal REIT (other than the Regal Airport Hotel, which is leased by the Airport Authority Hong Kong to Regal REIT pursuant to a sublease), will be held pursuant to Government Grants. The Government Grants in respect of certain portions of the land on which the Sheung Wan Hotel is located will expire after 999 years from 7 February 1852 and from 26 March 1868 respectively.

1.2.2 *North Point Hotel*

1.2.2.1 *Description*

The “**North Point Hotel**” is situated at Nos. 14-20 Merlin Street, North Point, Hong Kong. The North Point Hotel is surrounded by residential, office and commercial developments and hotels. Pursuant to the Option Agreement, the North Point Hotel is to be developed in accordance with the NP Specifications Summary, the key items of which are summarised below:

Number of Guestrooms	338 guestrooms
Number of Storeys	32 storeys
Gross Floor Area	Approximately 6,849 sqm
Covered Floor Area	Approximately 9,393 sqm
Facilities	A lobby lounge and a business centre

The North Point Hotel is expected to be completed in the second quarter of 2014 and will be branded as a “iclub by Regal (富薈酒店)” hotel.

1.2.2.2 *Location*

The North Point Hotel is located in North Point, one of the key decentralised business districts and a well-established residential area on Hong Kong Island. North Point benefits from extensive transport links such as the Eastern Corridor, providing convenient access to other districts on the Hong Kong Island. The North Point Hotel is within walking distance from the Fortress Hill MTR Station and Tin Hau MTR Station. It is also accessible by taxis, buses and trams.

The North Point Hotel is close to several office buildings located nearby Fortress Hill and Tin Hau, including 169 Electric Road, AIA Tower, Fortress Tower and Citicorp Centre. It is also close to various recreational facilities such as the Victoria Park, the Hong Kong Stadium and the Happy Valley Race Course which are easily accessible via MTR and buses.

The Fortress Hill MTR Station is two stops away from the Causeway Bay MTR Station, one stop away from the Tin Hau MTR Station, and two stops away from the Quarry Bay MTR Station. Causeway Bay is a world-class retail destination, with key shopping developments such as Times Square, Lee Gardens, Hysan Place and SOGO Department Store. Quarry Bay is a decentralised business district where Island East, a significant office development, is situated.

1.2.2.3 *Competition*

Twenty One Whitfield, a boutique hotel offering 54 rooms, was the only new hotel in North Point completed in 2012. Due to its smaller size and different market positioning — offering long-stay packages to business travellers from the neighbouring office cluster — compared with the North Point Hotel, it is not expected to pose any significant competition.

1.2.2.4 *Property Valuation*

As at 25 June 2013, the North Point Hotel was valued by the Independent Property Valuer, at HK\$1,650 million. Such amount is equal to the Initial Exercise Price and has taken into account the rent payable under the New Lease Agreement in respect of the North Point Hotel. For the assumptions of the Independent Property Valuer in determining the NP Initial Appraised Value of the North Point Hotel, please refer to Appendix 4 headed “Independent Property Valuer’s Valuation Reports” to the Regal REIT Circular.

1.2.2.5 *Lease Agreement, Lease Guarantee and Hotel Management Agreement*

Concurrently with completion of the NP Transaction, Regal REIT through the NP Property Company will enter into the New Lease Agreement with the Lessee in respect of the entire North Point Hotel. The lease will commence from the date of its execution and terminate on the 31 December immediately following the fifth anniversary of the date of such New Lease Agreement unless extended for a further five years at the sole discretion of the NP Property Company. The annual rent payable to the NP Property Company in respect of the first, second and third years of the lease term shall be 5.00%, 5.25% and 5.50% respectively of the Final Exercise Price. The rent payable to the NP Property Company in respect of each remaining Lease Year shall be determined based on a market rental review performed by an independent professional property valuer jointly appointed by the Lessee and the NP Property Company.

Regal Hotels will, at the same time as entering into the New Lease Agreement in respect of the North Point Hotel, enter into a lease guarantee pursuant to which Regal Hotels will guarantee: (a) the Lessee’s obligations to pay all amounts owing under such New Lease Agreement; and (b) the due observance and performance of such New Lease Agreement by the Lessee.

A hotel management agreement will also be entered into between the relevant Lessor, Lessee, Regal Hotels and the Hotel Manager concurrently with the execution of such lease agreement.

For further details, please refer to the sections headed “Key Documentation — New Lease Agreements and New Lease Guarantees” and “Key Documentation — New Hotel Management Agreements” respectively.

1.2.2.6 *Occupation Permit, Hotel Licence and Other Licences*

The occupation permit for the North Point Hotel is expected to be granted by the Building Authority in the second quarter of 2014. On this basis, the operation of the North Point Hotel is anticipated to commence in or around the third quarter of 2014 as the Hotel Manager must first apply for a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences to enable the Lessee and the Hotel Manager to operate a hotel business at the North Point Hotel, with such applications only able to be submitted after the occupation permit is granted.

Regal REIT will receive income pursuant to the New Lease Agreement in respect of the North Point Hotel from the date of such agreement, being also the date of completion of the NP Transaction, irrespective of whether the North Point Hotel has commenced operations.

1.2.2.7 *NP Interior Fit-Out Programme*

The construction of the North Point Hotel will include works to be completed under the NP Interior Fit-Out Programme. Such works will primarily be: (a) finishing works on interior flooring, walls and ceilings of the guestrooms, lobbies or corridors, hotel office and other areas of the North Point Hotel; and (b) procurement and installation in each guestroom of the related furniture, fixtures and equipment (including but not limited to minibar fridge, cabinets and television), in each case, in accordance with the specifications agreed under the Option Agreement. The estimated costs for the interior fit-out works (including installation of furniture, fixtures and equipment such as minibar fridge, cabinets and television) are HK\$99.3 million.

The occupation permit for the North Point Hotel may be granted, and completion of the NP Transaction may occur, prior to completion of the NP Interior Fit-Out Programme. However, as the Final Exercise Price is based on the NP Updated Appraised Value, which in turn assumes completion of the NP Interior Fit-Out Programme, P&R has undertaken under the Option Agreement to complete the NP Interior Fit-Out Programme by the Interior Fit-Out Long Stop Date at its own cost and expense. To facilitate the carrying out of any works under the NP Interior Fit-Out Programme not yet completed as at completion of the NP Transaction, the Interior Fit-Out Agent (a wholly-owned subsidiary of P&R) and the Guarantors will, at completion of the NP Transaction, enter into an Interior Fit-Out Agency Deed whereby the NP Property Company appoints the Interior Fit-Out Agent to manage and settle the Interior Fit-Out Contracts on its behalf. For further details, please refer to the sections headed “Key Documentation — Option Agreement — NP Interior Fit-Out Programme” and “Key Documentation — Interior Fit-Out Agency Deeds” respectively.

1.2.2.8 *Government Grants*

The North Point Hotel, as with other hotels currently owned by Regal REIT (other than the Regal Airport Hotel, which is leased by the Airport Authority Hong Kong to Regal REIT pursuant to a sublease), will be held pursuant to Government Grants. The Government Grants in respect of the land on which the North Point Hotel is located will expire after 75 years from 25 August 1994.

1.2.3 *iclub by Regal (富薈酒店)*

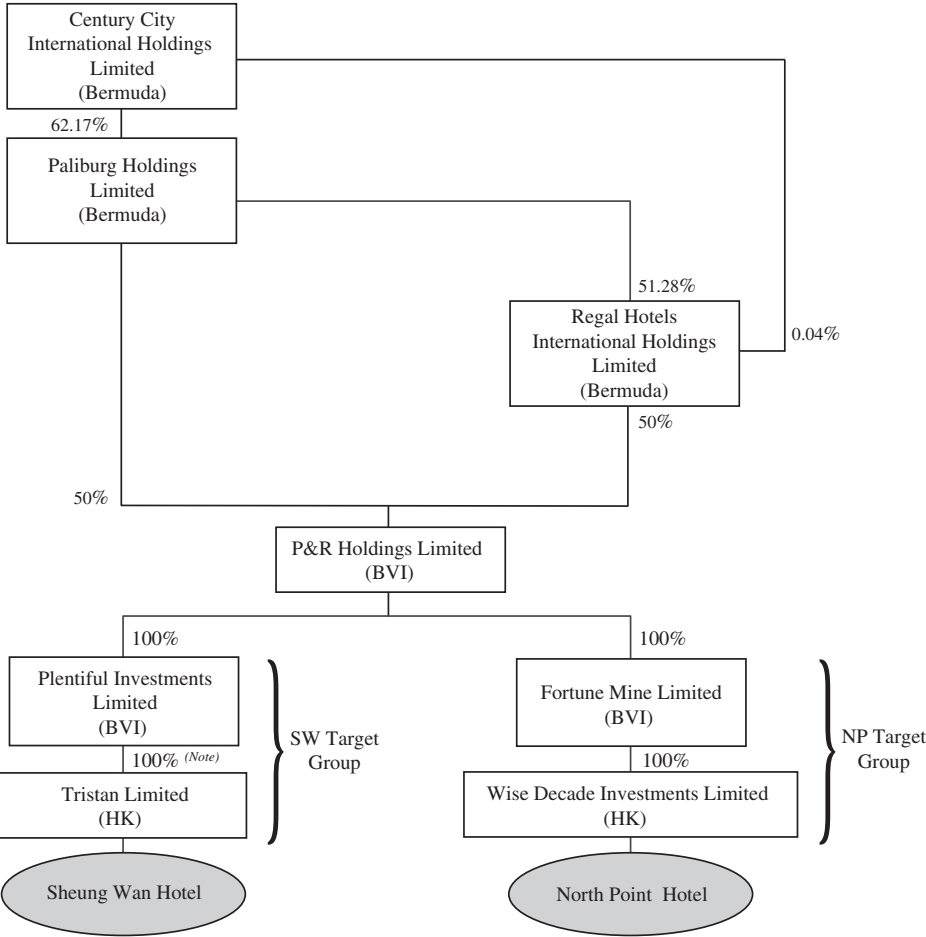
The “iclub by Regal (富薈酒店)” is a new brand introduced by the Regal Hotels Group, which in addition to the Sheung Wan Hotel and the North Point Hotel, will apply to the Wanchai Regal iClub Hotel (which is currently branded as a “Regal iClub” hotel).

The “iclub by Regal (富薈酒店)” is positioned to be an upscale select-service hotel brand (typically with around 100 to 350 hotel guestrooms) complementing the “Regal” brand’s full service offering. The hotels are planned to be predominantly located in the world’s gateway cities and close to the financial centres, regional business centres, convention and exhibition venues, shopping and entertainment hubs, or popular tourist spots with sights and attractions, and conveniently accessed by efficient transport infrastructure. The “iclub by Regal (富薈酒店)” branded hotels are designed according to international quality hotel standards and feature contemporary, chic, trendy, stylish and modern décor and design. The guestrooms are designed with plenty of glass to balance indoor lighting and natural daylight, furnished with comfortable furniture and bedding and equipped with tech-savvy facilities such as LCD TV, iPod speaker, free internet and free WiFi, which are customized for international multi-tasking executives and leisure travellers.

“iclub by Regal (富薈酒店)” offers discerning tech-savvy business and leisure travellers a relaxed life-style, with built-in express check-in and check-out system for time conscious travellers, selective refreshments and beverages served at a cozy lounge, and purposeful facilities such as “iclub Business Center” with intimate, friendly and tasteful ambience. “iclub by Regal (富薈酒店)” also offers international business and leisure travellers a smart, dynamic, efficient, functional, convenient and pleasant travelling experience that meets the needs of contemporary international business travellers, at the right price with good value for money lodging. The symbol “i” stands for “international”, “intelligent” and “information technology enabled”.

1.3 Current Holding Structure of the New Hotels

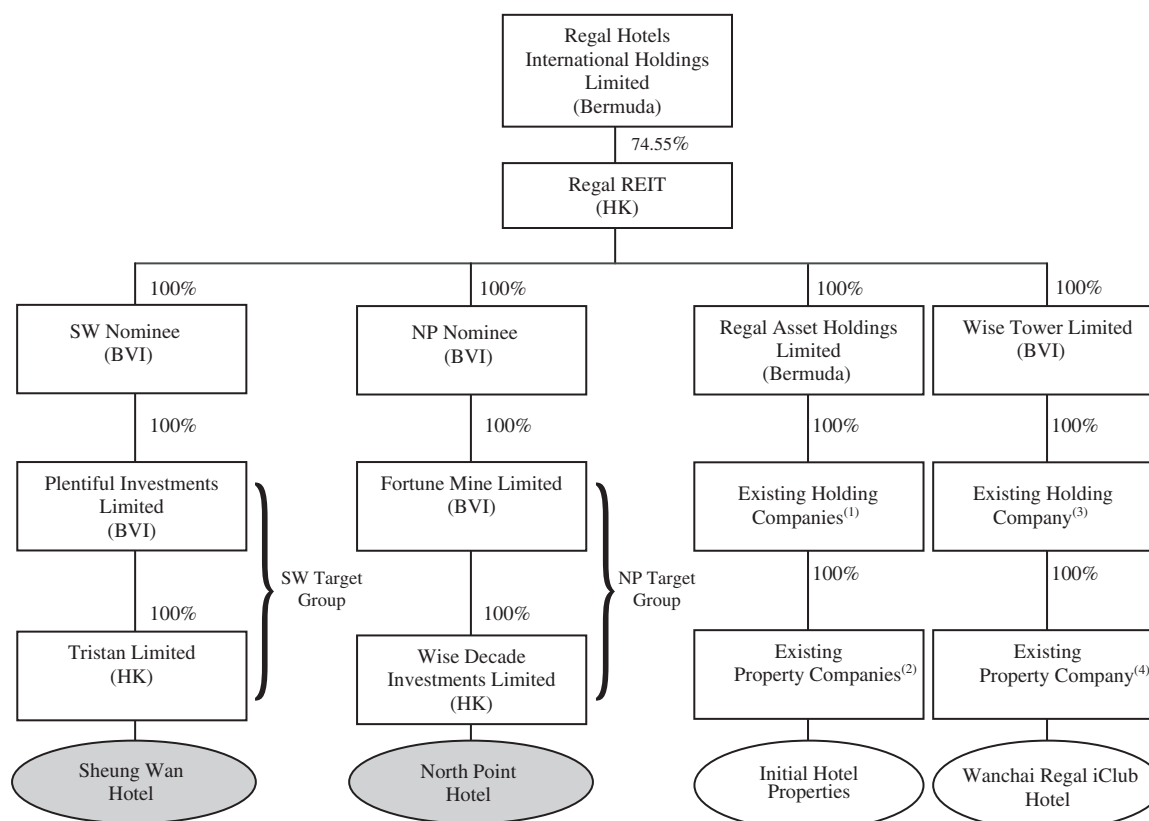
The current holding structure of the New Hotels is as follows:



Note: The issued share capital of Tristan Limited comprises two shares, one of which is held by Plentiful Investments Limited and the other share (the “Trust Share”) is held by P&R Holdings Limited on trust for Plentiful Investments Limited. Pursuant to the Share Purchase Agreement, P&R Holdings Limited will, prior to or at completion of the SW Transaction, transfer the Trust Share to Plentiful Investments Limited.

1.4 Expected Holding Structure of the New Hotels

Immediately after the completion of the SW Transaction and the NP Transaction, and assuming no other changes to the holding structure of Regal REIT prior to such time, the expected holding structure of the New Hotels is as follows:



Notes:

- (1) Regal REIT holds through Fieldstar Investments Limited, Yield Rich Limited, Fit Result Investments Limited, Chasehill Limited and Wide Lead Corporation, all legal and beneficial interests in Bauhinia Hotels Limited, Cityability Limited, Ricobem Limited, Gala Hotels Limited and Regal Riverside Hotel Limited, respectively.
- (2) (a) Cityability Limited, Ricobem Limited, Gala Hotels Limited and Regal Riverside Hotel Limited hold all legal and beneficial interests in Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel, respectively; and (b) Regal Airport Hotel is leased by the Airport Authority Hong Kong to Bauhinia Hotels Limited pursuant to a sublease expiring on 30 December 2028.
- (3) Regal REIT holds through Twentyfold Investments Limited all legal and beneficial interests in Sonnix Limited.
- (4) Sonnix Limited holds all legal and beneficial interests in Wanchai Regal iClub Hotel.

2. KEY DOCUMENTATION

2.1 Share Purchase Agreement

2.1.1 *Acquisition of SW Target Company Shares and Assignment of SW Shareholder Loan*

Pursuant to the Share Purchase Agreement, P&R has agreed to sell to the Trustee (or its nominee), as purchaser, the SW Target Company Shares, representing 100% of the issued share capital of the SW Target Company, and assign to the Trustee (or its nominee) the SW Shareholder Loan, subject to the terms and conditions set out therein. The obligations of P&R under the Share Purchase Agreement are guaranteed by each of the Guarantors on a several basis in equal proportions.

2.1.2 *Consideration*

The consideration payable by the Trustee to P&R pursuant to the Share Purchase Agreement is HK\$1,580 million (the “**SW Hotel Purchase Price**”), plus the Current Assets Adjustment. As at 31 December 2012, the current assets of the SW Target Group amounted to HK\$0.1 million. P&R will notify the Trustee of the Current Assets Adjustment shortly prior to completion of the SW Transaction, and provide evidence to the Trustee in respect of the same.

The total sum of the SW Hotel Purchase Price plus the Current Assets Adjustment reflects the consideration payable in respect of the acquisition of the SW Target Company Shares and the assignment of the SW Shareholder Loan, and (apart from the Deposit) will be payable at completion of the SW Transaction. The Deposit will be payable in the manner described below.

The SW Hotel Purchase Price, as well as the Current Assets Adjustment, have been arrived at on a willing buyer/seller in an arm’s length transaction basis, after taking into account the SW Appraised Value and completion of the SW Interior Fit-Out Programme.

The Manager does not contemplate any adjustments for current or non-current liabilities (as P&R and the Guarantors have warranted in the Share Purchase Agreement that the SW Target Group shall not, at completion of the SW Transaction, have any liabilities other than the SW Shareholder Loan that will also be acquired by the Trustee) or non-current assets (as there are currently no material non-current assets other than the Sheung Wan Hotel). Also, the Share Purchase Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of the SW Target Group during the period between signing of the Share Purchase Agreement and completion of the SW Transaction. For example, the Share Purchase Agreement contains covenants that, among

others, require the SW Target Group not to do nor agree (conditionally or unconditionally) to do the following except with the prior written consent of the Manager: (a) enter into any transaction or incur any liability except in the ordinary course of business; (b) dispose of any interest in the Sheung Wan Hotel; and (c) declare, pay or make any dividend or distribution or do or allow to be done anything which renders its financial position less favourable than at the date of the Share Purchase Agreement. These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of the SW Target Group arising from the acts or omissions of P&R.

2.1.3 *Deposit*

Within two Business Days following the satisfaction of the conditions described in paragraphs (a) and (b) of section 2.1.4 headed “Key Documentation — Share Purchase Agreement — Conditions Precedent” below, the Trustee shall pay the Deposit to P&R in cash.

The Deposit shall not be deposited into an escrow account and may be used by P&R without restriction, but P&R shall pay interest quarterly on the Deposit. Interest shall accrue from the date of payment up to the date the Deposit is refunded to the Trustee or applied towards part payment of the SW Hotel Purchase Price. The interest rate shall be calculated at the higher of the following:-

- (a) 4.25% per annum, which is the interest rate of the notes due 2017 issued by Regal Hotels pursuant to its medium term note programme; and
- (b) the weighted average effective interest cost to Regal REIT (taking into account the interest rate, issue price, placement fees and commissions) of the Notes used to finance the payment of the Deposit.

Currently, the Manager intends to finance the payment of the Deposit from the proceeds of the March 2013 Notes and the May 2013 Notes, which have a weighted average effective interest cost of 4.3047% per annum. In this case, the Deposit shall accrue interest at 4.3047% per annum.

The Deposit, together with any interest accrued and unpaid, shall be refundable in full upon the termination of the Share Purchase Agreement. As noted above, the Guarantors have guaranteed the obligations of P&R pursuant to the Share Purchase Agreement, and this would include the refund of such Deposit. At completion of the SW Transaction, the Deposit and any interest accrued and unpaid in respect of the same will be applied against part of the SW Hotel Purchase Price.

2.1.4 *Conditions Precedent*

Completion of the SW Transaction is conditional upon the satisfaction or waiver of the following conditions:

- (a) each of the Guarantors and Century City obtaining its shareholders' and/or independent shareholders' approval of the transactions contemplated by the SW Transaction Documents, as appropriate, in a form satisfactory to the Trustee and the Manager and in accordance with their respective articles of association or bye-laws and the Listing Rules (as the case may be);
- (b) Unitholders' approval for: (i) the transactions contemplated under the Share Purchase Agreement and other transactions contemplated under, associated with and/or related to the SW Transaction; (ii) the transactions contemplated under the Facility Letter and other transactions contemplated under, associated with and/or related to the Vendor Facility; and (iii) the New CCT Waiver Application, in accordance with the Trust Deed and REIT Code;
- (c) the Manager being satisfied with the results of: (i) its inspection and investigation as to the SW Target Group, including without limitation the financial, legal and contractual, taxation and trading position of the members of the SW Target Group and the title of the members of the SW Target Group to their respective assets (including, without limitation, the Sheung Wan Hotel); and (ii) its physical and technical inspection and investigation of the Sheung Wan Hotel as evidenced by the receipt of a building survey or other report in form and substance satisfactory to the Manager confirming that the building construction and finishes have been completed in compliance with the SW Specifications Summary;
- (d) the Manager approving the title to the Sheung Wan Hotel and being satisfied that the SW Property Company has good marketable legal and beneficial title to the Sheung Wan Hotel (in accordance with the provisions of section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong));
- (e) the occupation permit required under the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) for the Sheung Wan Hotel having been obtained;
- (f) all necessary consents or waivers being granted by third parties (including any governmental or official authorities) in connection with the transactions contemplated under the SW Transaction Documents and no statute, regulation or decision which would prohibit, restrict or materially delay the

sale and purchase of the SW Target Company Shares, the assignment of the SW Shareholder Loan and/or the operation of the business by any member of the SW Target Group after completion of the SW Transaction having been proposed, enacted or taken by any governmental or official authority;

- (g) the Trustee and the Manager being provided with such evidence as they may reasonably require confirming (to the satisfaction of the Manager and the Trustee) that all indebtedness under the existing bank loans of the SW Target Company and the SW Property Company shall be discharged, all shares in the capital of the SW Target Company and the SW Property Company shall be released from all encumbrances, and all other security created by the SW Target Company and the SW Property Company in connection with such existing bank loan (including, without limitation, the existing mortgage), shall be released on or before completion of the SW Transaction;
- (h) the warranties remaining true and accurate and not misleading in any material respect at completion of the SW Transaction;
- (i) each of P&R and the Guarantors having complied fully with certain customary pre-completion obligations and otherwise having performed in all material respects all of the covenants and agreements required to be performed by them under the SW Transaction Documents; and
- (j) no compulsory acquisition or resumption of the Sheung Wan Hotel and no notice of such intention received from any governmental authority.

The Manager has undertaken to use all reasonable endeavours to procure the satisfaction of the condition set out in paragraph (b) above and P&R and the Guarantors have each undertaken to use all reasonable endeavours to satisfy and/or procure the satisfaction of the conditions set out above (other than paragraphs (b) to (d)) as soon as reasonably practicable. The Trustee (acting on the recommendation and at the direction of the Manager) may in its sole discretion waive the conditions set out in paragraphs (h) and (i) above (subject to compliance with the REIT Code, the Listing Rules and any other applicable laws or regulation). If any of the conditions shall not have been satisfied or waived prior to the Long Stop Date, then the Trustee (acting on the recommendation and at the direction of the Manager), may, at its option without any penalty:

- (a) postpone the date by which the conditions must be satisfied or waived; or
- (b) terminate the Share Purchase Agreement (whereby the Deposit together with any interest accrued and unpaid shall be refunded to the Trustee).

2.1.5 Completion of the SW Transaction

Within five Business Days of the conditions precedent under the Share Purchase Agreement set out in the section headed “Key Documentation — Share Purchase Agreement — Conditions Precedent” above having been met to the satisfaction of the Trustee (or waived), the Trustee shall (acting on the recommendation and at the direction of the Manager) give a notice to P&R confirming that the Trustee is prepared to proceed with completion of the SW Transaction. Completion of the SW Transaction shall take place on such date as may be agreed in writing between the Trustee and P&R following the giving of such notice, and in any event within 10 Business Days of the giving of such notice.

At completion of the SW Transaction, among other things, the Deed of Tax Indemnity, the Interior Fit-Out Agency Deed, the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the Sheung Wan Hotel (the agreed form of each being attached to the Share Purchase Agreement) will be executed. Also, the Trustee intends to nominate the SW Nominee to be the transferee of the SW Target Company Shares and the assignee of the SW Shareholder Loan at completion.

2.1.6 Construction Undertakings

P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) shall procure the SW Property Company to cause its building contractors to promptly and diligently proceed with and complete the building construction works in a proper and workmanlike manner in accordance with the relevant building contract plans and specifications and all applicable laws and regulations. The building contract plans and specifications are to be consistent with the SW Specifications Summary, and no deviation from the SW Specifications Summary is to be made without the Manager’s prior written approval.

2.1.7 SW Interior Fit-Out Programme

Pursuant to the Share Purchase Agreement, P&R has undertaken that it will complete, and/or will procure the completion of, the SW Interior Fit-Out Programme, by no later than the Interior Fit-Out Long Stop Date, at its sole cost and expense. The estimated costs for such works are HK\$75.2 million. For details of the SW Interior Fit-Out Programme, please refer to the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — Sheung Wan Hotel — SW Interior Fit-Out Programme”.

Detailed specifications of the SW Interior Fit-Out Programme shall be submitted to the Manager for approval and the SW Interior Fit-Out Programme shall only be carried out in accordance with such detailed specifications so approved by the Manager. Any change of the agreed configurations or detailed specifications shall also be approved by the Manager in advance.

When a payment under the relevant Interior Fit-Out Contracts becomes payable, P&R shall provide the necessary funding to the SW Property Company or discharge and settle on behalf of the SW Property Company all payments payable by the SW Property Company under the relevant Interior Fit-Out Contracts. P&R shall also discharge all other commitments, responsibilities and obligations of the SW Property Company under the relevant Interior Fit-Out Contracts.

P&R shall further, by no later than the Interior Fit-Out Long Stop Date, hand over each relevant part of the premises subject to the SW Interior Fit-Out Programme to the SW Property Company and will also deliver to the SW Property Company all necessary fire permits, hotel licences, and relevant Government department consents, approvals and other licences, so that such part of the premises can be fit and lawful for letting to hotel guests and other occupants (as the case may be), and otherwise in a condition satisfactory to the Manager.

If any part of the SW Interior Fit-Out Programme has not been fully completed and handed over to the SW Property Company by the Interior Fit-Out Long Stop Date and accepted by the Manager, the Manager shall at its sole and absolute discretion, have the right to accept any completed part of the SW Interior Fit-Out Programme that it has not yet accepted, and take control of any uncompleted part of the SW Interior Fit-Out Programme, and P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) have undertaken to indemnify the Trustee and each member of the SW Target Group against any loss, damages, costs (including legal costs), expenses and other liabilities which the Trustee and/or each member of the SW Target Group may incur or suffer in connection with any failure of the SW Interior Fit-Out Programme to be fully completed and handed over to the SW Property Company in accordance with the provisions of the Share Purchase Agreement.

P&R has undertaken under the Share Purchase Agreement that, in relation to each part of the SW Interior Fit-Out Programme, it has obtained all necessary approvals up to the relevant stage of the construction work from the relevant departments of the Government and it will obtain such other approvals as may be necessary from time to time until completion of the SW Interior Fit-Out Programme.

2.1.8 *Representations, Warranties and Indemnity*

The Share Purchase Agreement contains customary representations and warranties given by P&R and the Guarantors, including those in respect of P&R, the SW Target Group and the Sheung Wan Hotel. The Share Purchase Agreement also contains other representations and warranties given by P&R and the Guarantors to the effect that:

- (a) the SW Target Group shall not, at completion of the SW Transaction, have any liabilities other than the SW Shareholder Loan that will also be acquired by the Trustee;
- (b) the members of the SW Target Group shall, at completion of the SW Transaction, have no other operations other than the ownership of the Sheung Wan Hotel; and
- (c) the Sheung Wan Hotel shall, at completion of the SW Transaction, comply with the SW Specifications Summary.

P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) have undertaken to indemnify Regal REIT, the Trustee, the Manager and the SW Target Group for any loss, damages, costs (including legal costs), expenses and other liabilities which Regal REIT, the Trustee, the Manager or the SW Target Group may suffer as a result of any breach of the warranties.

The Share Purchase Agreement also sets out limitations on the liability of P&R and the Guarantors in respect of any breach of warranties. The maximum aggregate liability of P&R and the Guarantors in respect of all claims for breach of warranties under the Share Purchase Agreement shall not exceed the SW Hotel Purchase Price plus the Current Assets Adjustment. The Share Purchase Agreement provides for a limitation period of three years from the completion of the SW Transaction for all claims (other than claims relating to tax-related warranties, in which case the limitation period is seven years). Such limitation period is the result of arm's length negotiations between the relevant parties and is consistent with that provided under the sale and purchase agreements in relation to the acquisition of the Initial Hotel Properties and the Wanchai Regal iClub Hotel. The Manager considers that the liability cap and limitation period are acceptable as they are in-line with normal commercial terms expected of similar transactions, and that Unitholders' interests are sufficiently protected notwithstanding these limitations.

2.2 Option Agreement

2.2.1 *Call Option in respect of NP Target Company Shares and NP Shareholder Loan*

Pursuant to the Option Agreement, P&R granted a call option to the Trustee, exercisable by the Trustee (acting on the instructions of the Manager) in its sole discretion. Upon exercise of the call option, P&R will sell to the Trustee (or its nominee) the NP Target Company Shares, representing 100% of the issued share capital of the NP Target Company, and assign to the Trustee (or its nominee) the NP Shareholder Loan, subject to the terms and conditions set out in the Option Agreement. The obligations of P&R under the Option Agreement are guaranteed by each of the Guarantors on a several basis in equal proportions.

For a summary of the terms of the Option Agreement that differ from the corresponding terms in the MOU, please refer to Appendix 7 to the Regal REIT Circular headed “Difference in Terms between the Option Agreement and the MOU”.

2.2.2 *Conditions Precedent to Grant of the North Point Hotel Option*

The grant of the North Point Hotel Option is conditional upon the satisfaction of the following conditions:

- (a) each of the Guarantors and Century City obtaining its shareholders’ and/or independent shareholders’ approval of the transactions contemplated by the NP Transaction Documents, as appropriate, in a form satisfactory to the Trustee and the Manager and in accordance with their respective articles of association or bye-laws and the Listing Rules (as the case may be); and
- (b) approval of Independent Unitholders of: (i) the transactions contemplated under the Option Agreement and other transactions contemplated under, associated with and/or related to the NP Transaction; (ii) the transactions contemplated under the Facility Letter and other transactions contemplated under, associated with and/or related to the Vendor Facility; and (iii) the New CCT Waiver Application, in accordance with the Trust Deed and REIT Code.

The Manager has undertaken to use all reasonable endeavours to procure the satisfaction of the condition set out in paragraph (b) above as soon as reasonably practicable and P&R and the Guarantors have each undertaken to use all reasonable endeavours to satisfy and/or procure the satisfaction of condition set out in paragraph (a) above as soon as reasonably practicable. If any of the

conditions shall not have been satisfied on or before 5:00 p.m. Hong Kong time on 30 September 2013 (or such later date as may be agreed by P&R and the Trustee (acting on the recommendation and at the direction of the Manager)), then the Option Agreement shall terminate.

2.2.3 Option Fee

Within two Business Days following the satisfaction of the conditions to the grant of the North Point Hotel Option described in the section headed “Key Documentation — Option Agreement — Conditions Precedent to Grant of the North Point Hotel Option” above, the Trustee shall pay to P&R in cash an option fee of HK\$10 million (the “**Option Fee**”). The Option Fee shall only be refundable if: (a) the occupation permit in respect of the North Point Hotel is not obtained by the Long Stop Date; (b) the Manager is not satisfied with its due diligence in respect of the North Point Hotel; (c) the condition to the exercise of the North Point Hotel Option has not been satisfied by the date specified in section 2.2.6 below (except where this is due to the fault of Regal REIT); (d) completion of the NP Transaction does not occur due to the fault of P&R; (e) the NP Updated Appraised Value is greater than the Maximum NP Updated Appraised Value or lower than the Minimum NP Updated Appraised Value and that the Manager or Trustee decides not to seek additional approval of the independent Unitholders for exercising the North Point Hotel Option on the basis of such NP Updated Appraised Value; or (f) the Option Agreement is terminated by the Trustee on the grounds that (i) P&R and the Guarantors have committed a material breach of warranties or any other term set out in the Option Agreement; or (ii) the NP Target Company or the NP Property Company has committed a material breach of the negative covenants set out in the Option Agreement. At completion of the NP Transaction, the Option Fee shall be applied against part of the Final Exercise Price.

2.2.4 Refundable Cash Collateral

Within two Business Days following the satisfaction of the conditions to the grant of the North Point Hotel Option described in the section headed “Key Documentation — Option Agreement — Conditions Precedent to Grant of the North Point Hotel Option” above, the Trustee shall pay to P&R in cash the Refundable Cash Collateral.

The Refundable Cash Collateral shall not be deposited into an escrow account and may be used by P&R without restriction, but P&R shall pay interest quarterly on the Refundable Cash Collateral. Interest shall accrue from the date

of payment up to the date the Refundable Cash Collateral is refunded to the Trustee. The interest rate shall be calculated at the higher of the following:

- (a) 4.25% per annum, which is the interest rate of the notes due 2017 issued by Regal Hotels pursuant to its medium term note programme; and
- (b) the weighted average effective interest cost to Regal REIT (taking into account the interest rate, issue price, placement fees and commissions) of the Notes used to finance the payment of the Refundable Cash Collateral.

Currently, the Manager intends to finance the payment of the Refundable Cash Collateral from the proceeds of the March 2013 Notes and the May 2013 Notes, which have a weighted average effective interest cost of 4.3047% per annum. In this case, the Refundable Cash Collateral shall accrue interest at 4.3047% per annum.

The Refundable Cash Collateral, together with any interest accrued and unpaid, shall be refundable in full upon the earlier of: (i) the expiry of the North Point Hotel Option; (ii) the termination of the Option Agreement; and (iii) completion of the NP Transaction. As noted above, the Guarantors have guaranteed the obligations of P&R pursuant to the Option Agreement, and this would include the refund of such Refundable Cash Collateral. At completion of the NP Transaction, the refunded Refundable Cash Collateral and any interest accrued and unpaid in respect of the same will be used to finance part of the Final Exercise Price.

2.2.5 Option Exercise Price

The initial exercise price payable by the Trustee to P&R pursuant to the Option Agreement is HK\$1,650 million (the “**Initial Exercise Price**”), subject to the following adjustments:

- (a) Initial adjustment: An initial adjustment based on an updated valuation of the North Point Hotel as appraised by the Independent Property Valuer as of the last month end date before the grant of the occupation permit for the North Point Hotel (the “**NP Updated Appraised Value**”). In particular:-
 - (i) if the NP Updated Appraised Value is lower than the NP Initial Appraised Value, the exercise price will be adjusted to the NP Updated Appraised Value; or

- (ii) if the NP Updated Appraised Value is higher than the NP Initial Appraised Value, the exercise price will be adjusted to the average of the NP Updated Appraised Value and the NP Initial Appraised Value.
- (b) Current Assets Adjustment: In addition to the aforesaid adjusted exercise price (the “**Final Exercise Price**”), the Trustee may be required to pay the Current Assets Adjustment. As at 31 December 2012, the current assets of the NP Target Group amounted to HK\$0.1 million. P&R will notify the Trustee of the Current Assets Adjustment shortly prior to completion of the NP Transaction, and provide evidence to the Trustee in respect of the same.

The total sum of the Final Exercise Price plus the Current Assets Adjustment reflects the consideration payable in respect of the acquisition of the NP Target Company Shares and the assignment of the NP Shareholder Loan, and (apart from the Refundable Cash Collateral) will be payable at completion of the NP Transaction if the North Point Hotel Option is exercised. The Refundable Cash Collateral will be payable in the manner described above.

The Initial Exercise Price, as well as the Current Assets Adjustment, have been arrived at on a willing buyer/seller in an arm’s length transaction basis, after taking into account the NP Initial Appraised Value and completion of the NP Interior Fit-Out Programme.

The Manager does not contemplate any adjustments for current or non-current liabilities (as P&R and the Guarantors have warranted in the Option Agreement that the NP Target Group shall not, at completion of the NP Transaction, have any liabilities other than the NP Shareholder Loan that will also be acquired by the Trustee) or non-current assets (as there are currently no material non-current assets other than the North Point Hotel). Also, the Option Agreement contains specific covenants in terms consistent with market practice that give a significant degree of negative control to the Trustee in relation to the operation of the NP Target Group during the period between signing of the Option Agreement and completion of the NP Transaction. For example, the Option Agreement contains covenants that, among others, require the NP Target Group not to do nor agree (conditionally or unconditionally) to do the following except with the prior written consent of the Manager: (a) enter into any transaction or incur any liability except in the ordinary course of business; (b) dispose of any interest in the North Point Hotel; and (c) declare, pay or make any dividend or distribution or do or allow to be done anything which renders its financial position less favourable than at the date of the Option Agreement. These contractual protections mitigate the risk to the Trustee of any possible adverse changes to the assets and liabilities of the NP Target Group arising from the acts or omissions of P&R.

2.2.6 Option Exercise Mechanics

The Trustee, acting on the instructions of the Manager, may choose to conditionally exercise the North Point Hotel Option by delivering an exercise notice to P&R during the option exercise period (that is, within 30 days after the occupation permit for the North Point Hotel has been obtained (as notified by P&R to the Trustee and the Manager)). Before instructing the Trustee and delivering the exercise notice, the Manager shall be satisfied with the results of its due diligence in respect of the North Point Hotel, including being satisfied that the acquisition of the North Point Hotel will comply with REIT Code requirements. The exercise notice will become unconditional (and the North Point Hotel Option will be exercised) once all relevant and applicable provisions of the REIT Code and the Listing Rules have been complied with, including any further unitholder or shareholder approvals required under such code and rules.

If the above condition has not been complied with within three months from the date of the exercise notice, or such later date as may be agreed between P&R and the Trustee (acting on the recommendation and at the direction of the Manager), then the North Point Hotel Option will lapse with effect from the aforementioned date and the NP Transaction will not complete.

For the avoidance of doubt, the approvals of the Independent Unitholders currently sought at the EGM by way of Ordinary Resolutions do not cover the situation where: (i) the NP Updated Appraised Value exceeds the Maximum NP Updated Appraised Value or falls below the Minimum NP Updated Appraised Value, and (ii) the parties to the Option Agreement mutually agree that the North Point Hotel Option shall not automatically expire under the provision set out in section 2.2.8(a) below. If the exercise price should exceed the Maximum Adjusted Final Exercise Price, the Manager shall seek additional approval of the independent Unitholders before exercising the North Point Hotel Option at such exercise price.

2.2.7 Completion of NP Transaction

Completion of the NP Transaction shall take place on such date as may be agreed in writing by the Trustee and P&R, and in any event within 10 Business Days of the day on which the exercise notice becomes unconditional.

At completion of the NP Transaction, among other things, the Deed of Tax Indemnity, the Interior Fit-Out Agency Deed, the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the North Point Hotel (the agreed form of each being attached to the Option Agreement) will be executed. Also, the Trustee intends to nominate the NP Nominee to be the transferee of the NP Target Company Shares and the assignee of the NP Shareholder Loan.

2.2.8 Expiry of the North Point Hotel Option

Unless otherwise agreed between P&R and the Trustee (acting on the instructions of the Manager), the North Point Hotel Option will automatically expire if:

- (a) the NP Updated Appraised Value is greater than the Maximum NP Updated Appraised Value or lower than the Minimum NP Updated Appraised Value;
- (b) the occupation permit for the North Point Hotel is not obtained by the Long Stop Date;
- (c) the exercise notice is not delivered during the option exercise period specified in section 2.2.6 above; or
- (d) any condition to the exercise of the North Point Hotel Option has not been satisfied by the date specified in section 2.2.6 above.

2.2.9 Construction Undertakings

P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) shall procure the NP Property Company to cause its building contractors to promptly and diligently proceed with and complete the building construction works in a proper and workmanlike manner in accordance with the relevant building contract plans and specifications and all applicable laws and regulations. The building contract plans and specifications are to be consistent with the NP Specifications Summary, and no deviation from the NP Specifications Summary is to be made without the Manager's prior written approval.

2.2.10 *NP Interior Fit-Out Programme*

Pursuant to the Option Agreement, P&R has undertaken that it will execute and complete, and/or will procure the completion of, the NP Interior Fit-Out Programme, by no later than the Interior Fit-Out Long Stop Date, at its sole cost and expense. The estimated costs for such works are HK\$99.3 million. For details of the NP Interior Fit-Out Programme, please refer to section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — North Point Hotel — NP Interior Fit-Out Programme”.

Detailed specifications of the NP Interior Fit-Out Programme shall be submitted to the Manager for approval and the NP Interior Fit-Out Programme shall only be carried out in accordance with such detailed specifications so approved by the Manager. Any change of the agreed configurations or detailed specifications shall also be approved by the Manager in advance.

P&R shall execute and complete the NP Interior Fit-Out Programme by the Interior Fit-Out Long Stop Date at its sole cost and expense. When a payment under the relevant Interior Fit-Out Contracts becomes payable, P&R shall provide the necessary funding to the NP Property Company or discharge and settle on behalf of the NP Property Company all payments payable by the NP Property Company under the relevant Interior Fit-Out Contracts. P&R shall also discharge all other commitments, responsibilities and obligations of the NP Property Company under the relevant Interior Fit-Out Contracts.

P&R shall further, by no later than the Interior Fit-Out Long Stop Date, hand over each relevant part of the premises subject to the NP Interior Fit-Out Programme to the NP Property Company and will also deliver to the NP Property Company all necessary fire permits, hotel licences, and relevant Government department consents, approvals and other licences, so that such part of the premises can be fit and lawful for letting to hotel guests and other occupants (as the case may be), and otherwise in a condition satisfactory to the Manager.

If any part of the NP Interior Fit-Out Programme has not been fully completed and handed over to the NP Property Company by the Interior Fit-Out Long Stop Date and accepted by the Manager, the Manager shall at its sole and absolute discretion, have the right to accept any completed part of the NP Interior Fit-Out Programme that it has not yet accepted, and take control of any uncompleted part of the NP Interior Fit-Out Programme, and P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) have undertaken to indemnify the Trustee and each member of the NP Target Group against any loss,

damages, costs, expenses and other liabilities which the Trustee and/or each member of Target Group may incur or suffer in connection with any failure of the NP Interior Fit-Out Programme to be fully completed and handed over to the NP Property Company in accordance with the provisions of the Option Agreement.

P&R has undertaken under the Option Agreement that, in relation to each part of the NP Interior Fit-Out Programme, it has obtained all necessary approvals up to the relevant stage of the construction work from the relevant departments of the Government and it will obtain such other approvals as may be necessary from time to time and until completion of the NP Interior Fit-Out Programme.

2.2.11 *Representations, Warranties and Indemnity*

The Option Agreement contains customary representations and warranties given by P&R and the Guarantors, including those in respect of P&R, the NP Target Group and the North Point Hotel. The Option Agreement also contains other representations and warranties given by P&R and the Guarantors to the effect that:

- (a) the NP Target Group shall not, at completion of the NP Transaction, have any liabilities other than the NP Shareholder Loan that will also be acquired by the Trustee;
- (b) the members of the NP Target Group shall, at completion of the NP Transaction, have no other operations other than the ownership of the North Point Hotel; and
- (c) the North Point Hotel shall, at completion of the NP Transaction, comply with the NP Specifications Summary.

P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) have undertaken to indemnify Regal REIT, the Trustee, the Manager and the NP Target Group for any loss, damages, costs (including legal costs), expenses and other liabilities which Regal REIT, the Trustee, the Manager or the NP Target Group may suffer as a result of any breach of the warranties.

The Option Agreement also sets out limitations on the liability of P&R and the Guarantors in respect of any breach of warranties. The maximum aggregate liability of P&R and the Guarantors in respect of all claims for breach of warranties under the Option Agreement shall not exceed the Final Exercise Price plus the Current Assets Adjustment. The Option Agreement provides for a limitation period of three years from the completion of the NP Transaction for all claims (other than claims relating to tax-related warranties, in which case the limitation period is seven years). Such limitation period is the result of arm's length negotiations between the relevant parties and is consistent with or more favourable than other transactions that Regal REIT has entered into in the past. The Manager considers that the liability cap and limitation period are acceptable as they are in-line with normal commercial terms expected of similar transactions, and that Unitholders' interests are sufficiently protected notwithstanding these limitations.

2.3 Deeds of Tax Indemnity

P&R and the Guarantors will at each of completion of the SW Transaction and completion of the NP Transaction, enter into the deed of tax indemnity (each a "**Deed of Tax Indemnity**" and collectively, the "**Deeds of Tax Indemnity**") in favour of (in respect of the Share Purchase Agreement) the Trustee and the SW Target Group and (in respect of the Option Agreement) the Trustee and the NP Target Group. Pursuant to the Deeds of Tax Indemnity, P&R and the Guarantors (on a several basis in equal proportions between the Guarantors) will covenant, undertake and agree with the respective beneficiaries that they will indemnify on demand the respective beneficiaries in respect of, among other things, any liability for taxation resulting from or by reference to any event occurring on or before completion of the SW Transaction or (as the case may be) completion of the NP Transaction or in respect of any income, profits or gains earned, accrued or received by any of the SW Target Group or the NP Target Group (as the case may be) on or before completion of the SW Transaction or the NP Transaction (as the case may be).

A claim can be made on or prior to the seventh anniversary of the Deed of Tax Indemnity.

2.4 Interior Fit-Out Agency Deeds

To facilitate the carrying out of any works under the Interior Fit-Out Programmes not completed as at completion of the SW Transaction or the NP Transaction (as the case may be), the Interior Fit-Out Agent (a wholly-owned subsidiary of P&R) and the Guarantors will at each of completion of the SW Transaction and completion of the NP Transaction enter into agency deeds (the “**Interior Fit-Out Agency Deeds**” and each an “**Interior Fit-Out Agency Deed**”) with the SW Property Company or NP Property Company (each a “**Property Company**”), whereby the relevant Property Company appoints the Interior Fit-Out Agent to manage and settle the Interior Fit-Out Contracts on its behalf. No additional amount is payable by the Property Companies under the Interior Fit-Out Agency Deeds as all costs and expenses relating to the Interior Fit-Out Programme shall be borne by P&R. Unless the relevant Property Company has given its prior written consent (which, in the case of (i) below, shall not be unreasonably withheld), the Interior Fit-Out Agent shall not have any power to commit that Property Company to:

- (i) assume any liability whatsoever, other than liability to pay contract sums which, in aggregate and combined with contract sums already paid or incurred in respect of the Interior Fit-Out Programme prior to the execution of the Interior Fit-Out Agency Deed, do not amount to more than the estimated cost of the relevant Interior Fit-Out Programme, together with cost overruns limited to 30% of such estimated cost, in respect of the Interior Fit-Out Contracts; or
- (ii) encumber any of its assets or discharge any other obligation.

The Interior Fit-Out Agent is required to coordinate and ensure the carrying out and completion of the Interior Fit-Out Programme in accordance with the terms of the Share Purchase Agreement or (as the case may be) Option Agreement. The Guarantors (on a several basis in equal proportions between the Guarantors) will guarantee the Interior Fit-Out Agent’s obligations under the Interior Fit-Out Agency Deeds and has undertaken to indemnify the relevant Property Company against all losses and damages sustained by it from any non-payment or default of any kind by the Interior Fit-Out Agent. The Interior Fit-Out Agent has undertaken to indemnify the relevant Property Company from and against all costs, losses and liabilities arising from the Interior Fit-Out Contracts, and has agreed to, among others, settle all payments on behalf of the relevant Property Company when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the Interior Fit-Out Contracts.

2.5 New Lease Agreements and New Lease Guarantees

2.5.1 *General*

The SW Property Company and the NP Property Company will become subsidiaries of Regal REIT upon completion of the SW Transaction and the NP Transaction, respectively. Each of the SW Property Company and NP Property Company will, at completion of the SW Transaction or completion of the NP Transaction (as the case may be), grant to the Lessee leases to the Sheung Wan Hotel and North Point Hotel pursuant to a lease agreement (each a “**New Lease Agreement**” and collectively, the “**New Lease Agreements**”) carrying the terms described below.

2.5.2 *Term*

The lease will be for a term commencing from the date of the relevant New Lease Agreement (which will be on the same date of completion of the SW Transaction or the NP Transaction, as the case may be) and ending on the 31 December immediately following the fifth anniversary of the date of the relevant New Lease Agreement. The lease term may be extended for a further five years at the Lessor’s sole discretion.

2.5.3 *Rent and Deposits*

The rent payable to the Lessor (excluding rates, government rent, utility charges and other sums payable by the Lessee under the New Lease Agreements) in respect of the relevant New Lease Agreement shall be:-

- (a) in respect of the first, second and third years of the lease term, 5.00%, 5.25% and 5.50% respectively of the SW Hotel Purchase Price or the Final Exercise Price, as applicable; and
- (b) in respect of the remainder of the original lease term and any extension thereof, such rent (comprising the Base Rent and the Variable Rent) as to be determined based on a market rental review for each Lease Year performed by an independent professional property valuer jointly appointed by the Lessee and Lessor.

The Lessee shall, during the lease term of each New Lease Agreement, maintain with the Lessor a security deposit (in cash or other form of acceptable collateral) equivalent to:

- (a) in respect of the first, second and third years of the lease term, three months' rental, rates and Government rent; and
- (b) in respect of the remainder of the original lease term and any extension thereof, such amount which shall be the higher of (i) the amount of which an independent professional property valuer jointly appointed by the Lessor and the Lessee determines to be the market rate of deposit upon market rental review; and (ii) three months' Base Rent, rates and Government rent,

in respect of the relevant New Hotel, to secure the due observance and performance by the Lessee of its obligations under the relevant New Lease Agreement. The Lessor shall (without prejudice to any other right or remedy) be entitled to deduct from such security deposit any payments or charges payable under the relevant New Lease Agreement and any costs, expenses, loss or damage sustained by the Lessor as a result of any breach by the Lessee of its obligations under the relevant New Lease Agreement.

The security deposit shall be refunded to the Lessee by the Lessor, without interest, within 14 days after the later of: (i) the expiration of the New Lease Agreement; or (ii) delivery of vacant possession of the relevant property to the Lessor in accordance with the relevant New Lease Agreement, and in each case, after settlement of any claims by the Lessor against the Lessee for any arrears in payments or charges payable by the Lessee of its obligations under the relevant New Lease Agreement.

2.5.4 Right and Obligation to Operate

The Lessee has the rights and obligations under each New Lease Agreement, after the issuance of the hotel licence in respect of the relevant New Hotel, to manage and operate the relevant New Hotel at the same or greater management and operating standards as what are prevailing in hotels of comparable size, location, level of technology and quality of service in Hong Kong, and shall provide the hotel services of a comparable standard. The Lessee has been granted under each New Lease Agreement a right to license to P&R the relevant New Hotel for the period commencing on the date of the relevant New Lease Agreement and ending on the date that the hotel licence in respect of the relevant New Hotel is granted (both days inclusive).

As permitted under each New Lease Agreement, the Manager understands from the Lessee that it intends to delegate the operation and management of the relevant New Hotel to the Hotel Manager pursuant to the relevant New Hotel Management Agreement. For further details in relation to the New Hotel Management Agreements, please refer to the section headed “Key Documentation — New Hotel Management Agreements” below.

During the term of the relevant New Lease Agreement, the Lessee shall at its own cost and expense, among other things, maintain and promptly renew the hotel licence and other licences to enable the Hotel Manager to operate the relevant New Hotel, comply with all the conditions imposed under the hotel licence and other licences, maintain the relevant New Hotel in good operating conditions and repair and maintain insurance in respect of the relevant New Hotel.

2.5.5 Routine Maintenance and Repair

The Lessee is primarily responsible, at its sole cost and expense, for the repair and maintenance of the interior and exterior of the relevant New Hotel subject to the New Lease Agreement, including without limitation, electrical and mechanical equipment, floor coverings, furniture, grounds and landscaping, plumbing, air-conditioning and ventilation, telephone equipment and life and safety/security system. In addition to the foregoing, the Lessee shall, at its sole cost and expense, maintain and repair all structural parts of the relevant New Hotel, including but not limited to, foundations, roof, external walls, external and internal structural walls, columns, beams and supports, external pipes, sewages, and drains.

2.5.6 Lease Guarantees

Regal Hotels will, at the same time as entering into the relevant New Lease Agreement, enter into a lease guarantee (each a “**New Lease Guarantee**” and collectively, the “**New Lease Guarantees**”) pursuant to which Regal Hotels will guarantee: (a) the Lessee’s obligations to pay to the relevant Lessor and the Trustee, on demand by the relevant Lessor or the Trustee (at the direction of the Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to the relevant Lessor under the relevant New Lease Agreement; and (b) the due observance and performance of all terms, conditions, covenants, agreements and obligations contained in the relevant New Lease Agreement, and on the part of the Lessee to be observed and performed.

2.5.7 Early Termination

The Lessor shall have the right to terminate the relevant New Lease Agreement at any time during the term of the relevant New Lease Agreement by giving six months’ prior written notice to the Lessee but without compensation interest or costs paid by the Lessor to the Lessee and the Lessee will not have any claim whatsoever against the Lessor for such early termination of the New Lease Agreement.

The Lessor shall also have the right to terminate the relevant New Lease Agreement in the event of, among other things, failure by the Lessee to make rental payments or breach by the Lessee of certain material undertakings under the relevant New Lease Agreement or relevant New Hotel Management Agreement.

The Manager intends, at the expiry of the relevant New Lease Agreement (at which time the relevant New Hotel will have been in operation for some length of time), to explore all commercially viable options then available in respect of the relevant New Hotel. Depending on the prevailing circumstances and market conditions at such time, this may include extending the lease term of the relevant New Lease Agreement, negotiating with interested parties for the lease of the relevant New Hotel and/or entering into a hotel management agreement with the Hotel Manager or another appropriate hotel operator, for the operation of such New Hotel.

2.6 New Hotel Management Agreements

2.6.1 *General*

The Lessee, the relevant Lessor, Regal Hotels and the Hotel Manager, will enter into a hotel management agreement (each a “**New Hotel Management Agreement**” and collectively, the “**New Hotel Management Agreements**”) concurrently with the signing of the relevant New Lease Agreement. The Hotel Manager will be engaged to act as the exclusive operator and manager of the relevant New Hotel to supervise, direct and control the management, operation and promotion of the business of the relevant New Hotel during the operating term of the relevant New Hotel Management Agreement.

The Lessor of the relevant New Hotel is a party to the relevant New Hotel Management Agreement since the term of each New Hotel Management Agreement may exceed the corresponding New Lease Agreement if the New Lease Agreement is terminated early or not renewed after the initial term.

During the term of each New Lease Agreement, the Lessee will assume the obligations of the “**Owner**” under the relevant New Hotel Management Agreement. For the purpose of this section, the “**Owner**” shall, during the term of the New Lease Agreements, mean the Lessee and thereafter (i.e. in the case of early termination of the New Lease Agreement) the “**Owner**” shall mean the Lessor unless a substitute lessee is found.

2.6.2 *Operating Term*

The term of the appointment of the Hotel Manager is 10 years, from the date of signing of the relevant New Hotel Management Agreement.

2.6.3 *Operation of the relevant New Hotel*

The Hotel Manager is required under the relevant New Hotel Management Agreement to operate the relevant New Hotel solely under the “iclub by Regal (富薈酒店)” hotel brand name and to act in good faith, to exercise due care and diligence and with full control and discretion, to operate, manage and promote the business of the relevant New Hotel, to provide all services lawfully or properly provided by a hotel of comparable standard as the relevant New Hotel and to act in the best interests of the Owner with a view to optimizing profit of the relevant New Hotel.

All hotel employees are to be employees of the Hotel Manager, and it has sole discretion and authority in the selection and employment of all hotel employees necessary for the proper operation of the relevant New Hotel. However, the Hotel Manager shall obtain the Owner's approval (which shall not be unreasonably withheld) prior to selecting and employing the general manager and the financial controller of the relevant New Hotel. All costs and expenses shall form part of the Hotel Operating Expenses.

The Hotel Manager is also required to maintain all licences (other than the hotel licence and some other licences set out in the section headed "Key Documentation — New Hotel Management Agreements — Lessor's Obligation to Maintain Hotel Licence and Other Licences" below) in respect of the operation and management of the relevant New Hotel.

The Hotel Manager is required to submit to the Owner an annual operating budget for the Owner's approval. If any part of the operating budget cannot be agreed by the Owner and the Hotel Manager, the items in dispute shall be referred to an independent expert possessing the relevant professional qualifications jointly appointed by the Owner and the Hotel Manager for resolution and such resolution shall be final and binding upon the Owner and the Hotel Manager. The Hotel Manager shall operate the relevant New Hotel in accordance with the approved operating budget and shall not deviate materially from the approved operating budget without the Owner's prior written consent.

2.6.4 *Hotel Management Fee*

The Hotel Manager is entitled to payment by the Owner of a hotel management fee comprising of:

- (a) a hotel management base fee which is equal to:
 - (i) for so long as the relevant New Lease Agreement is in subsistence, an amount equal to 1% of Gross Revenues; or
 - (ii) in any other cases during the term of the New Hotel Management Agreement, an amount equal to 2% of Gross Revenues; and

- (b) a hotel management incentive fee which is equal to:
- (i) for so long as the relevant New Lease Agreement is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) the Fixed Charges; or
 - (ii) in any other cases during the term of the New Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) the Fixed Charges.

For so long as the New Lease Agreement is in subsistence, the hotel management fee is to be paid annually in arrears from the Owner's own funds and is subordinated to all rent due under the relevant New Lease Agreement (i.e. the Owner will pay all rents due under the New Lease Agreement to the Lessor before the Owner pays the hotel management fee to the Hotel Manager). After the expiration or earlier termination of the relevant New Lease Agreement, the hotel management fee is to be paid monthly in arrears.

2.6.5 Marketing Fee and Reimbursable Marketing Expenses

The Hotel Manager is entitled to charge a marketing fee at no more than 1% of the Total Hotel Revenue for each Fiscal Year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved by the Owner in the operating budget. In addition to the above, the Hotel Manager is also entitled to produce promotions and participate in trade shows and other sales activities for the relevant New Hotel and all such costs (which are budgeted for and approved by the Owner) shall be reimbursed by the Owner to the Hotel Manager.

2.6.6 Routine Repairs and Maintenance

Routine repairs and maintenance are to be carried out by the Hotel Manager in accordance with an annual repairs and maintenance estimate to be approved by the Owner. The structural maintenance and repair of the relevant New Hotel shall be the responsibility of the Owner and the costs shall form part of the Hotel Operating Expenses for the relevant New Hotel.

2.6.7 Furniture, Fixtures and Equipment Reserve & Expenditure

The Lessee is required for the first three Lease Years of the respective New Lease Agreement (or until the date that the corresponding New Lease Agreement is terminated, if earlier) to fund the actual cost of any FF&E (the “**FF&E Expenditure**”).

Thereafter, the Lessor is obligated to maintain an FF&E Reserve (all funds in which shall belong to the Lessor) with an amount, equivalent to 2% of the Total Hotel Revenue for the preceding calendar month as set out in the Profit and Loss Statement, to be set aside monthly. Further, as part of its review for each Lease Year, the independent professional property valuer may determine a percentage of the Total Hotel Revenue, as part of or in addition to the aforesaid amount set aside, which the Lessee is obligated to contribute. After reviewing the applicable Audited Report and taking into account the contributions made by the Lessee, if any, the Lessor has the discretion to set aside any additional amount on account of the FF&E Reserve.

Within two months from the end of each Fiscal Year, the Hotel Manager shall submit to the Lessor and (during the term of the New Lease Agreement) the Lessee for approval, a proposed estimate of expenditure for the ensuing Fiscal Year for the necessary additions to and replacement of the relevant New Hotel’s FF&E (the “**FF&E Budget**”). The final decision as to whether or not to approve the FF&E Budget shall be made by the Lessor. Failure of the Lessor or the Lessee (as the case may be) to disapprove shall be deemed to constitute its approval.

For the first three Lease Years of the respective New Lease Agreement (or until the date that the corresponding New Lease Agreement is terminated, if earlier), the Hotel Manager may, in accordance with the approved FF&E Budget, pay for additions to and/or replacement of FF&E (with such costs to be reimbursed by the Lessee as per above).

Thereafter, the Hotel Manager may, in accordance with the approved FF&E Budget, withdraw money from the FF&E Reserve to pay for additions to and/or replacement of FF&E. Any amount remaining in the FF&E Reserve at the close of each Lease Year shall be carried forward and be retained in the FF&E Reserve for the subsequent Lease Year(s), but shall not be taken into account when calculating the contribution to the FF&E Reserve for the subsequent Lease Year(s).

2.6.8 *Capital Additions*

The Hotel Manager is required to submit a budget in respect of planned capital expenditure (save and except those investments falling within the definition of FF&E) (the “**Capital Additions**”) for the Lessor’s and/or (during the term of the New Lease Agreement) the Lessee’s approval. In the event the Lessor and/or the Lessee (as the case may be) disapproves or raises any objection to the proposed budget or any part thereof, the Lessor and the Lessee shall co-operate with each other in good faith to resolve the disputed or objectionable items. If the disputed or objectionable items cannot be resolved by mutual agreement, the final decision as to whether or not to approve the capital budget or any changes thereto shall be made by the Lessor.

Once approved, the Hotel Manager shall carry out Capital Additions in accordance with the approval of the Lessor and (during the term of the New Lease Agreement) the Lessee as to the design, construction standard, and other material aspects of the proposed capital alterations or additions. All costs relating to Capital Additions required to conform with legal requirements shall be borne by the Lessor. All other costs and expenses of Capital Additions shall be borne by the Lessor and the Lessee in the manner agreed between them and shall not be paid from the Hotel Operating Expenses or from the FF&E Reserve.

2.6.9 *Insurances*

Each Lessor is required to maintain property insurance on the relevant New Hotel including all FF&E and the Operating Equipment at not less than 100% of replacement costs. During the term of the New Lease Agreement, insurance premiums will be reimbursed to the Lessor by the Lessee and will be treated as Fixed Charges. The policy shall include the Lessee (during the term of the New Lease Agreement) and the Hotel Manager as additional insureds.

The Owner is required to maintain business interruption insurance covering loss of profit for the Owner for a minimum period of 12 months resulting from interruption or cessation of operation of the relevant New Hotel. The insurance premiums are treated as the Hotel Operating Expenses. The Lessor and the Hotel Manager will be included as additional insureds.

The Hotel Manager is required to maintain third party liability insurance and other insurances against items like theft or damage to guests' properties with a combined single limit for each occurrence of not less than HK\$100 million as well as workman compensation insurance, employers' liability insurance, insurances required by law and other insurances as the Hotel Manager shall deem necessary. The insurance premiums are treated as Hotel Operating Expenses. The Lessor and (during the term of the New Lease Agreement) the Lessee will be included as additional insureds.

If the Hotel Manager or the Owner hires an outside contractor for any repair or maintenance work for a New Hotel, the Hotel Manager or the Owner shall provide comprehensive general liability insurance insuring the contractor for the work being done. The Hotel Manager, the Lessor and (during the term of the New Lease Agreement) the Lessee will be included as additional insureds.

All insurance proceeds in respect of property damage shall be deposited into a bank account of the Lessor, operated by the joint signatories designated by the Lessor and the Hotel Manager. All monies withdrawn from such accounts shall be applied for repairs or replacement of the relevant New Hotel, together with replacing any FF&E and Operating Equipment.

The Owner assumes all risks in connection with the adequacy of all insurance policies and all loss and damages in excess of the insurance coverage. The Hotel Manager shall be released from all claims and liabilities arising out of any damages or destruction of the New Hotels save for loss or damages caused by default, wilful misconduct, fraud, or negligence of the Hotel Manager or its associated companies.

2.6.10 *Default and Termination*

Upon the occurrence of certain events, a non-defaulting party may terminate the relevant New Hotel Management Agreement by giving three months' written notice. Such events include: (i) failure of the Hotel Manager to operate the relevant New Hotel in accordance with the prescribed operating standards and the relevant Lessor elects to terminate the relevant New Lease Agreement on this ground; and (ii) failure to perform any other covenant which has a material adverse impact on the operation of the relevant New Hotel or the rights or duties of the parties under the relevant New Hotel Management Agreement and not cured within 30 days after a written notice giving particulars of the breach is received by the defaulting party.

Upon the occurrence of certain events, a non-defaulting party may terminate the relevant New Hotel Management Agreement immediately by serving a written notice of termination. Such events include: (i) failure by the Owner or the Hotel Manager to pay sums due for over 30 days; (ii) bankruptcy, insolvency, a petition for reorganization, appointment of a receiver or entering into of a judgment for bankruptcy against either the Owner or the Hotel Manager; (iii) any party to the relevant New Hotel Management Agreement ceasing to carry on business; and (iv) any change in the shareholding of the Hotel Manager which would result in the Hotel Manager ceasing to be a member of the Regal Hotels Group (unless as a result of reorganization of the Regal Hotels Group, a member of the Regal Hotels Group becomes listed on the Stock Exchange and the Hotel Manager becomes a member of a group controlled by such listed company and Regal Hotels retains not less than 30% of such listed company).

In addition, the Lessor is entitled to terminate the New Hotel Management Agreement if notice to terminate the relevant New Lease Agreement is served by the Lessor as a result of default by the Lessee thereunder, subject to liquidated damages being payable to the Hotel Manager in such circumstances. The amount of liquidated damages shall be the hotel management base fee and hotel management incentive fee payable for three Fiscal Years or the remainder of the operating term, whichever is shorter.

If the Hotel Manager fails to meet the Performance Test in any two consecutive Fiscal Years commencing from the first Fiscal Year, the Owner shall have the right to terminate the Hotel Management Agreement by giving at least three months' written notice.

In assessing whether the Performance Test is achieved in a Fiscal Year, the threshold of 80% of the approved Gross Operating Profit shall be reduced proportionately by reference to the number of day(s) on which certain events occurred, and these include epidemics, pandemics or other infectious diseases, force majeure and the Owner itself being in default of material obligations. The Hotel Manager however has one chance to cure the non-performance by paying to the Owner an amount equal to the difference between: (a) the actual Gross Operating Profit of each of the two Fiscal Years; and (b) 80% of the Gross Operating Profit in the approved operating budgets for each of the corresponding Fiscal Years before the expiry of the three months' notice period.

2.6.11 *Lessor's Obligation to Maintain Hotel Licence and Other Licences*

The Lessor is required to obtain, maintain and renew a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences to enable the Lessee or the Hotel Manager to operate a hotel business at the relevant New Hotel. However, the Lessor shall not be liable for any failure to obtain or renew such licences unless the failure is caused by the default of the Lessor. All costs and expenses in relation to obtaining, maintaining and renewing such licences shall be treated as Hotel Operating Expenses save and except any such costs and expenses which constitute Capital Additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them (save and except that any such costs and expenses required to conform with the legal requirements shall be borne by the Lessor). The Hotel Manager shall comply with all the conditions under the licence as may be imposed by the relevant licensing authority from time to time and shall keep the Lessor indemnified in respect of any breach of the conditions and associated liabilities caused by the default of the Hotel Manager.

3. FINANCING OF THE SW TRANSACTION AND THE NP TRANSACTION

3.1 Total Consideration

The total consideration consists of: (a) the SW Hotel Purchase Price; and (b) the Final Exercise Price. Assuming: (a) the Final Exercise Price is equal to the Initial Exercise Price, the total consideration (for the avoidance of doubt, does not include the Current Assets Adjustments) is HK\$3,230 million; and (b) the Final Exercise Price is equal to the Maximum Final Exercise Price, the total consideration is HK\$3,405 million. The Maximum Total Consideration which includes the maximum Current Assets Adjustments is HK\$3,408 million.

3.2 Financing of the SW Transaction and the NP Transaction

It is expected that the Deposit and the Refundable Cash Collateral will be financed by the proceeds of issuances of the March 2013 Notes and the May 2013 Notes; and the Option Fee will be financed by Regal REIT's internal resources.

It is also expected that the remainder of the SW Hotel Purchase Price (i.e. excluding the Deposit), the Final Exercise Price, the Current Assets Adjustments, as well as the Manager Acquisition Fees, Trustee Additional Fees and Additional Costs for both the SW Transaction and the NP Transaction will be financed by: (i) proceeds of Notes issued pursuant to the Regal REIT MTN Programme; (ii) existing and/or new bank facilities secured against the Sheung Wan Hotel, the North Point Hotel and/or other assets held by Regal REIT; (iii) the Option Fee applied against part of the Final Exercise Price; (iv) the Refundable Cash Collateral refunded to Regal REIT at completion of the NP Transaction; and/or (v) Regal REIT's internal resources.

The proportions of (i), (ii) and (v) will only be finally determined at the time of completion of the SW Transaction and the NP Transaction, respectively, depending on debt and capital market conditions at the time payments in respect of those transactions are made.

In the event of any shortfall in funding required for completion of the SW Transaction or the NP Transaction, Regal REIT may also draw down on the Vendor Facility to fund the shortfall.

3.3 Regal REIT MTN Programme

On 11 January 2013, R-REIT International Finance Limited (the “**MTN Issuer**”), a wholly-owned subsidiary of Regal REIT, established a US\$1 billion medium term note programme. The programme was listed on the Stock Exchange on 14 January 2013. Pursuant to the programme, the MTN Issuer may issue Notes by way of “debt issues to professional investors only” in accordance with Chapter 37 of the Listing Rules. Such investors will fall within the definition of “professional investors” under the SFO.

In March 2013, by way of private placements under the Regal REIT MTN Programme, the MTN Issuer issued an aggregate principal amount of HK\$775 million unlisted and unsecured notes (the “**March 2013 Notes**”) due 2018 with an interest rate of 4.125% per annum. In May 2013, by way of syndicated placements under the Regal REIT MTN Programme, the MTN Issuer issued an aggregate principal amount of U.S.\$150 million listed and unsecured notes (the “**May 2013 Notes**”) due 2018 with an interest rate of 4.10% per annum.

For further details relating to the Regal REIT MTN Programme, please refer to the announcements of Regal REIT dated 11 January 2013 and 22 May 2013 titled “Establishment and Proposed Listing of U.S.\$1 billion Medium Term Note Programme” and “Issue and Proposed Listing of Notes under the U.S.\$1 billion Medium Term Note Programme”, respectively.

3.4 Secured Bank Facilities

Regal REIT may rely upon existing and/or new bank facilities secured against the New Hotels or other assets held by Regal REIT, to fund part of the SW Hotel Purchase Price and/or the Final Exercise Price. Such facilities shall be at arms’ length, on normal commercial terms, fair and reasonable and in the interests of Unitholders. Regal REIT shall not draw down from such facilities if this would cause Regal REIT to breach the borrowing threshold (being 45%) permitted under paragraph 7.9 of the REIT Code.

As the bank facilities will be secured, they are expected to provide a relatively favourable finance cost compared to unsecured borrowings. The maximum loan-to-value ratio of any new bank facilities that Regal REIT may enter into is expected to be 40%.

3.5 Vendor Facility

On 28 June 2013, the Trustee (as borrower) entered into a Facility Letter in respect of the Vendor Facility with P&R Finance Limited (as lender), a wholly-owned subsidiary of P&R and a connected person of Regal REIT. In the event of any shortfall in the funding required for the completion of the SW Transaction and/or NP Transaction, Regal REIT may draw down on the Vendor Facility to fund the shortfall if the Manager considers that other financing options with terms and conditions to its satisfaction cannot be secured at the time of completion of the SW Transaction and the NP Transaction, respectively.

The Vendor Facility relates to a Hong Kong dollar two-year unsecured standby loan facility of up to an aggregate principal amount of HK\$1,457 million (which may be drawn down in two tranches), bearing an interest rate of 4.375% per annum, with such interest being payable quarterly. The Vendor Facility will mature and the outstanding principal amount will become repayable 24 months from the date on which the Trustee draws down on the Vendor Facility. There are no upfront costs relating to the Vendor Facility.

As the Vendor Facility provided under the Facility Letter is a connected party transaction for the reasons described in the section headed “Implications of the SW Transaction and the NP Transaction under the REIT Code and the Trust Deed — Share Purchase Agreement, Option Agreement, Deeds of Tax Indemnity, Interior Fit-Out Agency Deed and Facility Letter” to this announcement, drawdowns are conditional upon Unitholders approving the transactions contemplated under the Facility Letter and other transactions contemplated under, associated with and/or related to the Vendor Facility.

4. FEES AND CHARGES IN RELATION TO THE SW TRANSACTION AND THE NP TRANSACTION

4.1 Fees Payable to the Manager and the Trustee and the Additional Costs in relation to the SW Transaction and the NP Transaction

The expected acquisition fees payable to the Manager (the “**Manager Acquisition Fee**”) and the Trustee (the “**Trustee Additional Fee**”), as well as the additional costs (the “**Additional Costs**”) in relation to the SW Transaction and/or the NP Transaction, are set out below:

Assuming the Final Exercise Price is equal to the Initial Exercise Price:

	Manager Acquisition Fee⁽¹⁾	Trustee Additional Fee⁽²⁾	Additional Costs⁽³⁾
Completion of the SW Transaction	HK\$15,800,000	HK\$50,000	HK\$2,888,000
Completion of the NP Transaction	HK\$16,500,000	HK\$50,000	HK\$2,888,000
Total	HK\$32,300,000	HK\$100,000	HK\$5,776,000

Assuming the Final Exercise Price is equal to the Maximum Final Exercise Price:

	Manager Acquisition Fee⁽¹⁾	Trustee Additional Fee⁽²⁾	Additional Costs⁽³⁾
Completion of the SW Transaction	HK\$15,800,000	HK\$50,000	HK\$2,888,000
Completion of the NP Transaction	HK\$18,250,000	HK\$50,000	HK\$2,888,000
Total	HK\$34,050,000	HK\$100,000	HK\$5,776,000

Notes:

- (1) *Basis for calculation: 1% of the SW Hotel Purchase Price or the Final Exercise Price payable by the Trustee to P&R pursuant to the Share Purchase Agreement or the Option Agreement (as the case may be). For details of acquisition fee payable to the Manager, please refer to the section headed “Structure and Management — REIT Manager — Fees, Costs and Expenses of the REIT Manager” in the IPO Circular.*
- (2) *Pursuant to clause 14.3.2 of the Trust Deed, the Trustee is entitled to an additional fee in relation to duties undertaken which are of an exceptional nature or otherwise outside the scope of the Trustee’s normal duties such as an acquisition or divestment by the Manager, subject to certain limits provided in the Trust Deed. The Trustee has agreed with the Manager that it will charge Regal REIT a one-time additional fee based on the time and costs incurred by it for duties undertaken by the Trustee in connection with the SW Transaction and NP Transaction, with such additional fee expected to be approximately HK\$50,000 for each transaction.*
- (3) *Other estimated fees and expenses (including stamp duty, advisory fees, professional fees and expenses) incurred or are expected to be incurred by Regal REIT in connection with completion of the SW Transaction and the NP Transaction.*

4.2 Additional Ongoing Fees and Charges Following Completion of the SW Transaction and Completion of the NP Transaction

Following completion of the SW Transaction and the NP Transaction, in addition to the fees payable to the Manager and Trustee in respect of Regal REIT’s existing property portfolio:

- (1) the Manager is entitled under the Trust Deed to receive management fees attributable to the New Hotels comprising (a) a base fee of 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of the Deposited Property attributable to the New Hotels; and (b) a variable fee of 3% per annum, subject to a maximum cap of 5% per annum, of the net property income attributable to the New Hotels; and
- (2) the Trustee is entitled under the Trust Deed to receive a fee based on a percentage of the value of the Deposited Property. The applicable fee percentage depends on the value of the Deposited Property. Based on the total value of the Deposited Property as at 31 December 2012, together with the SW Appraised Value and the NP Initial Appraised Value, the applicable fee percentage will be 0.0155% per annum, which may, with the approval of the Manager, be further increased to a maximum of 0.06% per annum.

5. REASONS FOR, AND BENEFITS OF, THE SW TRANSACTION AND THE NP TRANSACTION

The Board (including all the Independent Non-executive Directors) believes that the SW Transaction and the NP Transaction will bring the following benefits to Unitholders:

- (i) The Sheung Wan Hotel and the North Point Hotel will be operated under the “iclub by Regal (富薈酒店)” brand. For further information in respect of the “iclub by Regal (富薈酒店)” brand, refer to the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — iclub by Regal (富薈酒店)” in this announcement. It is the Manager’s view that operating the New Hotels (and the Wanchai Regal iClub Hotel) under the “iclub by Regal (富薈酒店)” brand will enhance the brand name of “iclub by Regal (富薈酒店)” and provide financial benefits for Regal REIT through economies of scale. For example, a cluster of “iclub by Regal (富薈酒店)” hotels can share the same management team and thereby reduce overheads and improve operating margins.
- (ii) The investment in the New Hotels will increase the scale of Regal REIT. The SW Hotel Purchase Price is HK\$1,580 million and the Initial Exercise Price of the North Point Hotel Option is HK\$1,650 million, and assuming the NP Updated Appraised Value remains unchanged, such investment would increase the appraised value of Regal REIT’s portfolio by approximately 15.4% (from HK\$21,032 million as at 31 December 2012 to HK\$24,262 million). Also, based on the specifications for the Sheung Wan Hotel and the North Point Hotel provided under the Share Purchase Agreement and the Option Agreement respectively, Regal REIT’s number of guestrooms would increase by 14.9% (from 3,929 guestrooms and suites as at 31 December 2012 to approximately 4,515 guestrooms and suites) and the gross floor area of Regal REIT’s property portfolio would increase by 6.5% (from approximately 216,412 sqm as at 31 December 2012 to approximately 230,458 sqm). Such increase in scale may broaden and enlarge Regal REIT’s income base, as well as further improve Regal REIT’s economies of scale (in a similar way to that described in (i) above). The addition of two new hotels to Regal REIT’s existing portfolio of six properties may also enhance Regal REIT’s market positioning and profile, and consequently, further improve Regal REIT’s attractiveness among a wider group of investors.

- (iii) The Option Agreement provides Regal REIT with flexibility as the exercise price adjustment mechanism ensures that any such consideration will be at or below market valuation (as assessed by the Independent Property Valuer). On the other hand, as the Sheung Wan Hotel is at a later stage of development and expected to be completed more imminently in the fourth quarter of 2013, the Manager does not expect any material change to its value subsequent to 25 June 2013 (the date on which the Independent Property Valuer valued the Sheung Wan Hotel at HK\$1,580 million), and accordingly, the Share Purchase Agreement does not contain a similar purchase price adjustment mechanism.
- (iv) The New Lease Agreements will enable Regal REIT to mitigate its exposure to initial start-up risk associated with the operation of the New Hotels, and ensure that Regal REIT receives a base level of income during the terms of the New Lease Agreements. The annual rent for the first three years of each New Lease Agreement, being 5.00% (year 1), 5.25% (year 2) and 5.50% (year 3) of the SW Hotel Purchase Price (in respect of the New Lease Agreement relating to the Sheung Wan Hotel) or the Final Exercise Price (in respect of the New Lease Agreement relating to the North Point Hotel), is expected to contribute additional distributable income to the Unitholders during such period.
- (v) The Deposit and the Refundable Cash Collateral will generate interest income for Regal REIT at a rate calculated at the higher of the following: (a) 4.25% per annum; and (b) the weighted average effective interest cost (taking into account the interest rate, issue price, placement fees and commissions) of the Notes issued to finance the payment of the Deposit and the Refundable Cash Collateral, thus resulting in a neutral or positive interest carry in respect of such funds once they are applied towards such purpose. The weighted average effective interest costs of the March 2013 Notes and May 2013 Notes is 4.3047% per annum. Assuming the Deposit and the Refundable Cash Collateral will be funded from the proceeds of the March 2013 Notes and May 2013 Notes, as is currently intended, the Deposit and the Refundable Cash Collateral will accrue interest at a rate of 4.3047% per annum. Otherwise, such cash proceeds may have to be placed on bank deposits earning a much lower rate of interest.

6. FINANCIAL EFFECTS OF THE SW TRANSACTION AND THE NP TRANSACTION ON REGAL REIT

6.1 Impact of Completion of the SW Transaction and/or the NP Transaction on the Financial Position of Regal REIT

The following information is presented for illustrative purposes only and is based on the assumptions outlined below. The Manager considers these assumptions to be appropriate and reasonable as at the date of this announcement. However, Unitholders should consider the information outlined below in the light of such assumptions and make their own assessment of the future performance of Regal REIT.

Based on the pro forma financial effects of completion of the SW Transaction and/or completion of the NP Transaction as stated below and Appendix 3 headed “Pro Forma Financial Information of the Enlarged Group” to the Regal REIT Circular, the Manager does not foresee any material adverse impact on the financial position of Regal REIT as a result of completion of the SW Transaction and/or completion of the NP Transaction.

The pro forma financial effects of completion of the SW Transaction and/or completion of the NP Transaction presented below are strictly for illustrative purposes only and were prepared based on:

- the audited financial statements of Regal REIT for the year ended 31 December 2012; and
- the audited financial statements of the SW Target Company and the NP Target Company for the three years ended 31 December 2012 as set out in Appendix 2 headed “Accountants’ Reports in respect of the SW Target Company and the NP Target Company” to the Regal REIT Circular.

6.2 Pro Forma Distributable Income

The pro forma financial effects of the SW Transaction and NP Transaction on the distributable income for the year ended 31 December 2012, as if Regal REIT had completed the SW Transaction and/or the NP Transaction on 1 January 2012 and based on the other assumptions below, are as follows:

	<i>Actual</i> <i>(audited)</i>	<i>Pro Forma</i>	<i>Pro Forma</i>	<i>Pro Forma</i> Enlarged Group after
	Regal REIT Group for the year ended 31 December 2012	Enlarged Group after Completion of the SW Transaction	Enlarged Group after Completion of the NP Transaction	Completion of both the SW Transaction and the NP Transaction
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Profit for the year, before distributions to Unitholders	3,548,799	3,553,621	3,554,007	3,558,829
Adjustments ⁽¹⁾	(3,084,141)	(3,088,091)	(3,088,266)	(3,092,216)
Distributable income	464,658	465,530	465,741	466,613
Units in issue	3,257,431,189	3,257,431,189	3,257,431,189	3,257,431,189
Distributable income per Unit	HK\$0.1426	HK\$0.1429	HK\$0.1430	HK\$0.1432

Note:

1. *The Adjustments reflect those adjustments to distributable income provided for in the Trust Deed. Further, the pro forma adjustments reflect the same items disclosed in Regal REIT's distribution statement for the year ended 31 December 2012.*

The following assumptions have been made in respect of the SW Transaction:

- Regal REIT acquired the Sheung Wan Hotel on 1 January 2012 for the SW Hotel Purchase Price and no Current Assets Adjustment was made;
- The New Lease Agreement in respect of the Sheung Wan Hotel commenced on 1 January 2012;
- The accounting rental income for the year ended 31 December 2012 (calculated as 5.25%, being the average annual rent payable during the first three years of the New Lease Agreement, of the SW Hotel Purchase Price) is HK\$82.95 million;

- The cash rental income for the year ended 31 December 2012 (calculated as 5%, being the actual annual rent payable during such year, of the SW Hotel Purchase Price) is HK\$79 million, resulting in an adjustment of HK\$3.95 million;
- The Manager Acquisition Fee, Trustee Additional Fee and Additional Costs for the SW Transaction were paid during 2012;
- The SW Hotel Purchase Price was funded entirely from debt while the Manager Acquisition Fee, Trustee Additional Fee and Additional Costs were funded entirely from Regal REIT's internal resources; and
- The average effective interest cost of funding the SW Transaction is HK\$47.4 million (being 3.0% per annum of the SW Hotel Purchase Price).

The following assumptions have been made in respect of the NP Transaction:

- Regal REIT acquired the North Point Hotel on 1 January 2012 for a Final Exercise Price of HK\$1,650 million (representing no adjustment to the Initial Exercise Price) and no Current Assets Adjustment was made;
- The New Lease Agreement in respect of the North Point Hotel commenced on 1 January 2012;
- The accounting rental income for the year ended 31 December 2012 (calculated as 5.25%, being the average annual rent payable during the first three years of the New Lease Agreement, of the Final Exercise Price) is HK\$86.625 million;
- The cash rental income for the year ended 31 December 2012 (calculated as 5%, being the actual annual rent payable during such year, of the Final Exercise Price) is HK\$82.5 million, resulting in an adjustment of HK\$4.125 million;
- The Manager Acquisition Fee, Trustee Additional Fee and Additional Costs for the NP Transaction were paid during 2012;
- The Final Exercise Price was funded entirely from debt while the Manager Acquisition Fee, Trustee Additional Fee and Additional Costs were funded entirely by Regal REIT's internal resources;
- The average effective interest cost of funding the NP Transaction is HK\$49.5 million (being 3.0% per annum of the Final Exercise Price); and

- The Option Fee has not been accounted for in the pro forma since the Option Fee will be applied towards the Final Exercise Price at completion of the NP Transaction.

For further details regarding the calculation of the pro forma distributable income, please see Appendix 3 headed “Pro Forma Financial Information of the Enlarged Group” to the Regal REIT Circular.

6.3 Pro Forma NAV per Unit

The pro forma financial effects of the SW Transaction and NP Transaction on the NAV per Unit for the year ended 31 December 2012, as if Regal REIT had completed the SW Transaction and/or the NP Transaction on 31 December 2012 and based on the other assumptions below, are as follows:

	<i>Actual</i> <i>(audited)</i>	<i>Pro Forma</i>	<i>Pro Forma</i>	<i>Pro Forma</i>
	Regal REIT	Enlarged	Enlarged	Enlarged
	Group for the	Group after	Group after	Completion of
	year ended	Completion	Completion	both the SW
	31 December	of the SW	of the NP	Transaction
	2012	Transaction	Transaction	and the NP
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
NAV	15,931,046	15,912,591	15,911,891	15,893,436
Units in issue	3,257,431,189	3,257,431,189	3,257,431,189	3,257,431,189
NAV per Unit attributable to Unitholders	HK\$4.891	HK\$4.885 ⁽¹⁾	HK\$4.885 ⁽¹⁾	HK\$4.879 ⁽¹⁾

Note:

1. *The slight dilution in NAV is attributable to one-off costs associated with the SW Transaction and the NP Transaction, including the payment of the Manager Acquisition Fee, Trustee Additional Fee and Additional Costs.*

The following assumptions have been made in respect of the SW Transaction and the NP Transaction:

- Regal REIT acquired the Sheung Wan Hotel and North Point Hotel on 31 December 2012 and no Current Assets Adjustments were made; and
- The fair values of the Sheung Wan Hotel and the North Point Hotel as at 31 December 2012 are HK\$1,580 million (being the SW Appraised Value) and HK\$1,650 million (being the NP Initial Appraised Value), respectively.

For further details regarding the calculation of the pro forma NAV per Unit, please see Appendix 3 headed “Pro Forma Financial Information of the Enlarged Group” to the Regal REIT Circular.

6.4 Pro Forma Capitalisation

The pro forma financial effects of the SW Transaction and NP Transaction on the capitalisation of Regal REIT as at 31 December 2012, as if Regal REIT had completed the SW Transaction and/or the NP Transaction on 31 December 2012 and based on the other assumptions below, are as follows:

	<i>Actual</i> <i>(audited)</i>	<i>Pro Forma</i>	<i>Pro Forma</i>	<i>Pro Forma</i>
Regal REIT				Enlarged
Group for		Enlarged	Enlarged	Group after
the year		Group after	Group after	Completion
ended		Completion	Completion	of both the
31 December		of the SW	of the NP	Transaction
2012		Transaction	Transaction	and the NP
<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Total debt	4,834,600	6,356,065	6,426,065	8,006,065
Net assets attributable to Unitholders	15,931,046	15,912,591	15,911,891	15,893,436
Total capitalisation	20,765,646	22,268,656	22,337,956	23,899,501
Gearing ratio	22.9%	28.5%	28.8%	33.5%

The following assumptions have been made in respect of the SW Transaction and the NP Transaction:

- Regal REIT acquired: (a) the Sheung Wan Hotel on 31 December 2012 for the SW Hotel Purchase Price; and (b) the North Point Hotel on 31 December 2012 for a Final Exercise Price of HK\$1,650 million (representing no adjustment to the Initial Exercise Price), and no Current Assets Adjustments were made;
- The Manager Acquisition Fee, the Trustee Additional Fee and Additional Costs (in the amount and as described in section 4.1 above) for the SW Transaction and NP Transaction were paid during 2012;
- The SW Hotel Purchase Price and the Final Exercise Price were funded entirely from debt while the Manager Acquisition Fee, Trustee Additional Fee and Additional Costs were funded entirely by Regal REIT's internal resources;
- The Option Fee has not been accounted for in the pro forma since the Option Fee will be applied towards the Final Exercise Price at completion of the NP Transaction; and
- The fair values of the Sheung Wan Hotel and the North Point Hotel as at 31 December 2012 are HK\$1,580 million (being the SW Appraised Value) and HK\$1,650 million (being the NP Initial Appraised Value), respectively.

For further details regarding the calculation of the pro forma capitalisation of Regal REIT, please see Appendix 3 headed "Pro Forma Financial Information of the Enlarged Group" to the Regal REIT Circular.

6.5 Sensitivity of Pro Forma Profit for the year on the Enlarged Group for changes to the NP Updated Appraised value and average effective interest cost for financing the transaction(s)

The following tables set out the effect on pro forma profit for the year of the Enlarged Group for changes to the NP Updated Appraised Value and average effective interest cost for financing the transactions, assuming all other assumptions contained in the pro forma financial information statements remain the same except where consequential amendments are required.

Scenario A: Sensitivity of Pro Forma Profit for the year on the Enlarged Group after completion of the SW Transaction

Average Effective Interest Cost	Pro forma Profit for the year⁽¹⁾ (HK\$'000)
3.000%	4,949
3.500%	(1,648)
4.000%	(8,244)
4.338% ⁽²⁾	(12,635)

Notes:

- (1) Figures in this table are based on the assumption that the average effective interest cost for the funding of the SW Hotel Purchase Price is calculated at various percentages as compared to the 3% per annum as assumed in the Pro Forma Financial Information of the Enlarged Group in Appendix 3 to the Regal REIT Circular.
- (2) Assuming the Deposit is financed by the proceeds of issuances of the March 2013 Notes and the May 2013 Notes (which have a weighted average effective interest cost of 4.3047% per annum), and the remainder of the SW Hotel Purchase Price (i.e. excluding the Deposit) is financed by the Vendor Facility.

Scenario B: Sensitivity of Pro Forma Profit for the year on the Enlarged Group after completion of the NP Transaction

Average Effective Interest Cost	Pro forma Profit for the year⁽¹⁾		
	Minimum Updated NP Appraised Value (being HK\$1,300 million)⁽²⁾ (HK\$'000)	NP Initial Appraised Value (being HK\$1,650 million) (HK\$'000)	Maximum Updated NP Appraised Value (being HK\$2,000 million)⁽²⁾ (HK\$'000)
3.000%	3,601	5,285	5,662
3.500%	(1,826)	(1,603)	(1,957)
4.000%	(7,254)	(8,492)	(9,577)
4.338% ⁽³⁾	(10,866)	(13,077)	(14,648)

Notes:

- (1) Figures in this table are based on the assumption that the average effective interest cost for the funding of the Final Exercise Price for the North Point Hotel Option is calculated at various percentages as compared to the 3% per annum as assumed in the Pro Forma Financial Information of the Enlarged Group in Appendix 3 to the Regal REIT Circular.

- (2) *The Minimum Updated NP Appraised Value and the Maximum Updated NP Appraised Value (with the Maximum Final Exercise Price of HK\$1,825 million) are applied in conjunction with the various percentages of average effective interest cost.*
- (3) *Assuming the Refundable Cash Collateral is financed by the proceeds of issuances of the March 2013 Notes and the May 2013 Notes (which have a weighted average effective interest cost of 4.3047% per annum), and the Final Exercise Price (other than the Refundable Cash Collateral) is financed by the Vendor Facility.*

Scenario C: Sensitivity of Pro Forma Profit for the year on the Enlarged Group after completion of both the SW Transaction and the NP Transaction

	Pro forma Profit for the year ⁽¹⁾		
	Minimum Updated NP Appraised Value (being HK\$1,300 million) ⁽²⁾ (HK\$'000)	NP Initial Appraised Value (being HK\$1,650 million) (HK\$'000)	Maximum Updated NP Appraised Value (being HK\$2,000 million) ⁽²⁾ (HK\$'000)
Average Effective Interest Cost			
3.000%	8,550	10,234	10,611
3.500%	(3,474)	(3,251)	(3,605)
4.000%	(15,498)	(16,736)	(17,821)
4.338% ⁽³⁾	(23,501)	(25,712)	(27,283)

Notes:

- (1) *Figures in this table are based on the assumption that the average effective interest cost for the funding of both the SW Hotel Purchase Price and the Final Exercise Price is calculated at various percentages as compared to the 3% per annum as assumed in the Pro Forma Financial Information of the Enlarged Group in Appendix 3 to the Regal REIT Circular.*
- (2) *The Minimum Updated NP Appraised Value and the Maximum Updated NP Appraised Value (with the Maximum Final Exercise Price of HK\$1,825 million) are applied in conjunction with the various percentages of average effective interest cost.*
- (3) *Assuming the Deposit and the Refundable Cash Collateral are financed by the proceeds of issuances of the March 2013 Notes and the May 2013 Notes (which have a weighted average effective interest cost of 4.3047% per annum), and the remainder of the SW Hotel Purchase Price (i.e. excluding the Deposit) and the Final Exercise Price (other than the Refundable Cash Collateral) are financed by the Vendor Facility.*

7. CONTINUING CONNECTED TRANSACTIONS

7.1 Connected Persons of Regal REIT

The Regal REIT Group will enter into continuing transactions (which will constitute continuing connected transactions of Regal REIT within the meaning of the REIT Code) with the following connected persons:

(i) *Regal Connected Persons Group*

For the purpose of the REIT Code, Regal Hotels is a Significant Holder (that is, a holder of 10% or more of the outstanding Units) of Regal REIT, and is therefore a connected person of Regal REIT under paragraph 8.1(d) of the REIT Code. Any person who is connected to Regal REIT under paragraph 8.1(d) of the REIT Code, and any person who is connected to Regal Hotels as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a connected person of Regal REIT, and these persons include: (i) any director, senior executive or officer of Regal Hotels; (ii) any associate (as defined in the REIT Code) of Regal Hotels or of any director, senior executive or officer of Regal Hotels; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of Regal Hotels (the “**Regal Connected Persons Group**”).

(ii) *Manager Group*

The Manager is a connected person of Regal REIT under paragraph 8.1(a) of the REIT Code. Any person who is connected to the Manager as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a connected person of Regal REIT, and these persons include: (i) any director, senior executive or officer of the Manager; (ii) any associate (as defined in the REIT Code) of any director, senior executive or officer of the Manager; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of the Manager (collectively, and together with the Manager, the “**Manager Group**”).

7.2 New CCT Waiver Application

Upon and after completion of the SW Transaction and (assuming the North Point Hotel Option has been exercised) the NP Transaction, members of the Regal REIT Group will enter into transactions with members of the Regal Connected Persons Group in relation to the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the Sheung Wan Hotel (the “**Additional SW Hotel CCTs**”) and the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the North Point Hotel (the “**Additional NP Hotel CCTs**”) and together with the Additional SW Hotel CCTs, the “**Additional Continuing Connected Transactions**”).

Accordingly, the Manager has applied to the SFC for waiver (the “**New CCT Waiver Application**”) from strict compliance with the disclosure and unitholders’ approvals requirements under Chapter 8 of the REIT Code in respect of the Additional Continuing Connected Transactions. Further details regarding the Additional Continuing Connected Transactions are described below.

(i) *New Lease Agreements*

Concurrently with completion of the SW Transaction and the NP Transaction (as the case may be), Regal REIT (through the SW Property Company and the NP Property Company) will enter into lease agreements with the Lessee in respect of the entire Sheung Wan Hotel and North Point Hotel. The Lessee is a member of the Regal Connected Persons Group, and accordingly, the New Lease Agreements are connected transactions pursuant to Chapter 8 of the REIT Code. Certain key information regarding the New Lease Agreements is summarised in the table below:

Hotel	Lessor	Lessee	Commencement Date	Term
Sheung Wan Hotel	SW Property Company	Favour Link International Limited	Date of completion of the SW Transaction	From the Commencement Date and ending on the 31 December immediately following the fifth anniversary, and may be extended for a further 5 years at the Lessor’s sole discretion

Hotel	Lessor	Lessee	Commencement Date	Term
North Point Hotel	NP Property Company	Favour Link International Limited	Date of completion of the NP Transaction	From the Commencement Date and ending on the 31 December immediately following the fifth anniversary, and may be extended for a further 5 years at the Lessor's sole discretion

Further details of the New Lease Agreements are set out in the section headed “Key Documentation — New Lease Agreements and New Lease Guarantees”.

(ii) *New Hotel Management Agreements*

The Lessee, the relevant Lessor, Regal Hotels and the Hotel Manager, will enter into a New Hotel Management Agreement concurrently with the signing of the relevant New Lease Agreement. The Hotel Manager will be engaged to act as the exclusive operator and manager of the relevant New Hotel to supervise, direct and control the management, operation and promotion of the business of the relevant New Hotel during the operating term of the relevant New Hotel Management Agreement. The Hotel Manager and the Lessee are members of the Regal Connected Persons Group, and accordingly, the New Hotel Management Agreements are connected transactions pursuant to Chapter 8 of the REIT Code. Certain key information regarding the New Hotel Management Agreements is summarised in the table below:

Hotel	Commencement Date	Term
Sheung Wan Hotel	Date of completion of the SW Transaction	10 years from the Commencement Date
North Point Hotel	Date of completion of the NP Transaction	10 years from the Commencement Date

Further details of the New Hotel Management Agreements are set out in the section headed “Key Documentation — New Hotel Management Agreements”.

(iii) *New Lease Guarantees*

Regal Hotels will, at the same time as entering into the New Lease Agreements, enter into a lease guarantee pursuant to which Regal Hotels will guarantee: (a) the Lessee's obligations to pay all amounts owing under such New Lease Agreement; and (b) the due observance and performance of such New Lease Agreement by the Lessee. The New Lease Guarantees also contain an indemnity in respect of all guaranteed liabilities. Regal Hotels is a member of the Regal Connected Persons Group, and accordingly, the New Lease Guarantees are connected transactions pursuant to Chapter 8 of the REIT Code.

Further details of the New Lease Guarantees are set out in the section headed "Key Documentation — New Lease Agreements and New Lease Guarantees — Lease Guarantees".

7.3 Waiver Conditions

(i) *Period of Waiver*

The New CCT Waiver Application applied for is in respect of the periods set out in the table below, provided that the Additional Continuing Connected Transactions are duly and properly carried out in accordance with the terms and conditions of the relevant documents.

Agreement

Period of Waiver

New Lease Agreements

- in respect of the
Sheung Wan Hotel

From the date of the New Lease Agreement in respect of the Sheung Wan Hotel and ending on the 31 December immediately following the fifth anniversary (and an additional five years if the original lease term is extended for a further five years) or date of termination, whichever is earlier

- in respect of the North Point Hotel From the date of the New Lease Agreement in respect of the North Point Hotel and ending on the 31 December immediately following the fifth anniversary (and an additional five years if the original lease term is extended for a further five years) or date of termination, whichever is earlier

New Hotel Management Agreements

- in respect of the Sheung Wan Hotel 10 years from the date of the New Hotel Management Agreement in respect of the Sheung Wan Hotel or date of early termination, whichever is earlier
- in respect of the North Point Hotel 10 years from the date of the New Hotel Management Agreement in respect of the North Point Hotel or date of early termination, whichever is earlier

New Lease Guarantees

- in respect of the Sheung Wan Hotel From the date of the New Lease Guarantee in respect of the Sheung Wan Hotel to the last date of subsistence
- in respect of the North Point Hotel From the date of the New Lease Guarantee in respect of the North Point Hotel to the last date of subsistence

(ii) ***Timing***

The New CCT Waiver Application, insofar as it applies to the Additional SW Hotel CCTs, will only take effect once: (i) the Additional SW Hotel CCTs have been entered into; and (ii) the SW Transaction and the New CCT Waiver Application have been approved by the Independent Unitholders at the EGM by way of an Ordinary Resolution.

The New CCT Waiver Application, insofar as it applies to the Additional NP Hotel CCTs, will only take effect once: (i) the Additional NP Hotel CCTs have been entered into; and (ii) the NP Transaction and the New CCT Waiver Application have been approved by the Independent Unitholders at the EGM by way of an Ordinary Resolution.

(iii) *No Material Change*

There shall be no material change to, or waiver or release by or on behalf of Regal REIT of any of its rights and any obligations of the relevant connected persons of Regal REIT under the terms and conditions of the Additional Continuing Connected Transactions, without the approval of Unitholders (other than those Unitholders who have a material interest in the relevant transactions within the meaning of paragraph 8.11 of the REIT Code) by way of an Ordinary Resolution.

(iv) *Disclosure in Reports and Results Announcements*

Details of the Additional Continuing Connected Transactions will be disclosed in Regal REIT's semi-annual and annual reports and results announcements, as required under paragraph 8.14 of the REIT Code.

(v) *Chapter 10 of the REIT Code*

The Manager shall ensure compliance with any applicable disclosure requirements under Chapter 10 of the REIT Code. The Manager shall inform Unitholders by way of an announcement as soon as practicable of any information which is necessary to enable Unitholders to appraise the position of Regal REIT, including, without limitation, if there is: (i) any extension of the relevant completion date or long stop date or any delay in payment of damages or compensation as specified in the Additional Continuing Connected Transactions; (ii) any payments under the New Lease Guarantees; (iii) any payment of hotel management fees (where paid by Regal REIT to the Hotel Manager); (iv) rent reviews under the New Lease Agreements and details of the market rental packages determined by the jointly appointed independent professional property valuer for each Lease Year; and (v) any breach of terms of any of the Additional Continuing Connected Transactions.

(vi) ***Auditors' review procedures***

The Manager shall engage and agree with the auditors of Regal REIT to perform certain review procedures on all of the Additional Continuing Connected Transactions in respect of each relevant financial period. The auditors will then report to the Manager on the factual findings based on the work performed by them (and a copy of such report will be provided to the SFC), confirming whether all such Additional Continuing Connected Transactions:

- (a) have received the approval of the Board (including the approval of all its independent non-executive Directors); and
- (b) have been entered into in accordance with the terms of the agreements and the Manager's internal procedures governing the transactions.

(vii) ***Review by the Independent Non-executive Directors***

The independent non-executive Directors shall review the Additional Continuing Connected Transactions annually and confirm in Regal REIT's annual report for the relevant financial period that such transactions have been entered into:

- (a) in the ordinary and usual course of business of Regal REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are insufficient comparable transactions to assess whether they are on normal commercial terms, on terms no less favourable to Regal REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements and the Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

(viii) ***Access to books and records***

The Manager shall allow, and shall procure the counterparty to the relevant Additional Continuing Connected Transactions to allow, the auditors of Regal REIT sufficient access to their respective records for the purpose of reporting on the transactions.

(ix) *Notification to the SFC*

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in (vi) and/or (vii) above.

(x) *Paragraph 8.14 of the REIT Code*

The Manager shall comply in full with the requirements of paragraph 8.14 of the REIT Code where there is any material change to the terms of any Additional Continuing Connected Transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or unitholders' approvals.

7.4 Opinion of the Board

The board of directors of the Manager (including all the Independent Non-executive Directors except where they are considered to be interested in the below) confirms that in its opinion:

- (i) the New CCT Waiver Application, and the basis for the New CCT Waiver Application, are fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole; and
- (ii) each of the Additional Continuing Connected Transactions to be entered into upon and after completion of the SW Transaction and/or the NP Transaction shall be: (1) in the ordinary and usual course of business of Regal REIT; and (2) on terms which are normal commercial terms, at arm's length and are fair and reasonable and in the interests of the Independent Unitholders, as well as the Unitholders as a whole.

7.5 Opinions of the Independent Financial Adviser, the Independent Board Committee and the Independent Property Valuer

The respective opinions of the Independent Financial Adviser and the Independent Board Committee with regard to the New CCT Waiver Application and the Additional Continuing Connected Transactions are set out in the Regal REIT Circular. Additionally, the Independent Property Valuer has also opined on the New Lease Agreements and the New Hotel Management Agreements associated with the SW Transaction and the NP Transaction, as set out in the Regal REIT Circular.

8. IMPLICATIONS OF THE SW TRANSACTION AND THE NP TRANSACTION UNDER THE REIT CODE AND THE TRUST DEED

8.1 Share Purchase Agreement, Option Agreement, Deeds of Tax Indemnity, Interior Fit-Out Agency Deeds and Facility Letter

Clause 15.1 of the Trust Deed requires any connected transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including any conditions of waivers or exemptions from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time. Under paragraph 8.1 of the REIT Code, connected persons of Regal REIT include, among others, a Significant Holder (that is, a holder of 10% or more of the outstanding Units) and associated companies.

Each of Paliburg and Regal Hotels has an effective interest in more than 10% of the Units and therefore is a Significant Holder of Regal REIT. Each of P&R and P&R Finance Limited is an “associated company” of both Paliburg and Regal Hotels within the meaning of the REIT Code. As a result, Paliburg, Regal Hotels, P&R and P&R Finance Limited are each a connected person of Regal REIT within the meaning of the REIT Code. Accordingly, each of the following constitutes a connected transaction of Regal REIT under paragraph 8.5 of the REIT Code:

- (a) the execution of the Share Purchase Agreement and the consummation of the transactions contemplated thereunder;
- (b) the execution of the Deed of Tax Indemnity in respect of the Sheung Wan Hotel and the consummation of the transactions thereunder;
- (c) the execution of the Interior Fit-Out Agency Deed in respect of the Sheung Wan Hotel and the consummation of the transactions thereunder;
- (d) the execution of the Option Agreement and the consummation of the transactions contemplated thereunder;
- (e) the execution of the Deed of Tax Indemnity in respect of the North Point Hotel and the consummation of the transactions thereunder;

- (f) the execution of the Interior Fit-Out Agency Deed in respect of the North Point Hotel and the consummation of the transactions thereunder; and
- (g) the execution of the Facility Letter and the consummation of the transactions contemplated thereunder and other transactions contemplated under, associated with/or related to the Vendor Facility.

As the maximum aggregate value of the above transactions (including the sum of the Maximum Adjusted SW Hotel Purchase Price, the Maximum Adjusted Final Exercise Price and the full amount of the Vendor Facility) exceeds 5.0% of the latest net asset value of Regal REIT (as disclosed in its latest published audited accounts, and adjusted for any subsequent transaction since their publication), pursuant to paragraph 8.11 of the REIT Code and clause 15.1 of the Trust Deed, the connected transactions in paragraphs (a) to (g) above require Independent Unitholders' approval by way of Ordinary Resolutions at the EGM.

In addition, as the Maximum Total Consideration represents 44.71% of the total market capitalisation of Regal REIT, based on the average closing price of the Units traded on the Stock Exchange for the last five Business Days immediately preceding the Latest Practicable Date, the SW Transaction and the NP Transaction together constitute a major transaction for Regal REIT pursuant to the REIT Code.

8.2 The New CCT Waiver Application

The Manager has applied to the SFC for the New CCT Waiver Application.

The Manager will seek approval of the Independent Unitholders at the EGM on the New CCT Waiver Application and the agreements pertaining thereto (being the New Lease Agreements, New Lease Guarantees and New Hotel Management Agreements).

8.3 Ordinary Resolutions

The Manager takes the view that: (a) the SW Transaction, the Vendor Facility and the New CCT Waiver Application are linked to each other and part and parcel of a significant proposal; and (b) the NP Transaction, the Vendor Facility and the New CCT Waiver Application are linked to each other and part and parcel of another significant proposal. The Vendor Facility and the New CCT Waiver Application (as the case may be) only arise from the consummation of the transactions contemplated under the SW Transaction and/or NP Transaction (as the case may be) and will not be required but for the entering into of the agreements underlying the SW Transaction and/or NP Transaction (as the case may be). Accordingly, the SW Transaction and/or the NP Transaction (as the case may be) will not proceed if the Vendor Facility and the New CCT Waiver Application (as the case may be) have not been approved by the Unitholders at the EGM.

Completion of each of the SW Transaction and the NP Transaction is not conditional upon one another having been approved by the Independent Unitholders at the EGM. Also, the Manager may proceed with either of the SW Transaction or the NP Transaction if the relevant conditions precedent of the NP Transaction or the SW Transaction (as the case may be) have not been satisfied or (if applicable) waived.

Please refer to the notice of the EGM for the proposed resolutions in relation to the SW Transaction, the NP Transaction, the Vendor Facility and the New CCT Waiver Application. As soon as practicable after the EGM, the Manager will issue an announcement setting out the results of the EGM, including whether the proposed resolutions have been passed.

8.4 Restrictions on Voting

Paragraph 9.9(f) of the REIT Code provides that where a Unitholder has a material interest in the resolution tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under paragraph 3.2 of Schedule 2 to the Trust Deed, where a Unitholder has a material interest in the resolution tabled for approval at a general meeting of the Unitholders, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Members of the Regal Connected Persons Group (defined in section 7.1 of this announcement) are parties to the SW Transaction and the NP Transaction, and as such, have a material interest in the relevant resolutions to be proposed at the EGM and have to abstain from voting on the EGM Resolutions.

Pursuant to the REIT Code and the Trust Deed, Regal Hotels has agreed that it will abstain, and will procure that its Associates will abstain, from voting on the EGM Resolutions.

To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that save as disclosed above, no other Unitholders are required to abstain from voting at the EGM in respect of the EGM Resolutions and based on the foregoing information, the Trustee is of the same view.

8.5 Manager Has Discretion

Given the acquisition of the relevant New Hotel is dependent on the satisfaction of certain conditions, for the avoidance of doubt, Unitholders should note that the Trustee may not proceed with the relevant acquisition if any of the conditions shall not have been fulfilled (or waived) prior to the relevant Long Stop Date. In addition, the Manager has the sole discretion as to whether to exercise the North Point Hotel Option during the option exercise period.

8.6 Independent Board Committee's Opinion

The Independent Board Committee has obtained opinion from the Independent Financial Adviser before coming to their view on the Transaction Matters Requiring Approval, and this opinion is set out in the Regal REIT Circular.

8.7 Opinions of the Board, the Independent Financial Adviser and the Trustee

The respective opinions of the Board, the Independent Financial Adviser and the Trustee with regard to the Transaction Matters Requiring Approval are set out in the Regal REIT Circular.

9. DISCLOSURE OF INTERESTS IN UNITS

Interests Held by the Manager and the Directors and Chief Executive Officers of the Manager

The REIT Code requires that connected persons of the Regal REIT shall disclose their interests in Units. In addition, under the provisions of the Trust Deed, Part XV of the SFO is also deemed to be applicable, among other things, to the Manager, the Directors and the chief executive officers of the Manager.

The interests and short positions held by the Manager, Directors and chief executive officers of the Manager in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed are set out below:

Long position in the Units:

Name of Director and the Manager	Nature of the interest	As at the Latest Practicable Date	
		Number of Units held	Approximate % of interest
Lo Yuk Sui ⁽¹⁾	Interest in a controlled corporation	2,434,282,102	74.73%
Regal Portfolio Management Limited ⁽²⁾	Beneficial owner	120,381,598	3.70%

Notes:

(1) The interests in 2,434,282,102 Units were the same parcel of Units held through Century City in which Mr. Lo held approximately 58.16% shareholding interest.

(2) Regal Portfolio Management Limited is the Manager.

Save as disclosed above, none of the Manager, Directors and chief executive officers of the Manager were interested (or deemed to be interested) in Units, or held any short position in Units.

Unitholdings of Holders of 5% or More Interests

The following persons have interests or short position in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed:

Long position in the Units:

Name of Unitholder	Nature of the interest	As at the Latest Practicable Date	
		Number of Units held	Approximate % of interest
Century City ⁽¹⁾	Interest in a controlled corporation	2,434,282,102	74.73%
Century City BVI Holdings Limited (“CCBVI”) ^(1 and 2)	Interest in a controlled corporation	2,434,282,102	74.73%
Paliburg ^(3 and 4)	Interest in a controlled corporation	2,428,995,102	74.57%
Paliburg Development BVI Holdings Limited (“PDBVI”) ^(3 and 5)	Interest in a controlled corporation	2,428,995,102	74.57%
Regal Hotels ^(6 and 7)	Interest in a controlled corporation	2,428,262,739	74.55%
Regal International (BVI) Holdings Limited (“RBVI”) ^(6 and 8)	Interest in a controlled corporation	2,428,262,739	74.55%
Complete Success Investments Limited ⁽⁹⁾	Beneficial owner	1,817,012,072	55.78%
Great Prestige Investments Limited ⁽⁹⁾	Beneficial owner	373,134,326	11.45%

Notes:

- (1) The interests in 2,434,282,102 Units held by each of Century City and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI, PDBVI and RBVI, respectively.
- (2) CCBVI is a wholly-owned subsidiary of Century City and its interests in Units are deemed to be the same interests held by Century City.
- (3) The interests in 2,428,995,102 Units held by each of Paliburg and PDBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of PDBVI and RBVI, respectively.

- (4) *Paliburg is a listed subsidiary of Century City, which held approximately 62.17% shareholding interest in Paliburg as at the Latest Practicable Date, and Paliburg's interests in Units are deemed to be the same interests held by Century City.*
- (5) *PDBVI is a wholly-owned subsidiary of Paliburg and its interests in Units are deemed to be the same interests held by Paliburg.*
- (6) *The interests in 2,428,262,739 Units held by each of Regal Hotels and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.*
- (7) *Regal Hotels is a listed subsidiary of PDBVI, which held approximately 51.28% shareholding interest in Regal Hotels as at the Latest Practicable Date, and its interests in Units are deemed to be the same interests held by PDBVI.*
- (8) *RBVI is a wholly-owned subsidiary of Regal Hotels and its interests in Units are deemed to be the same interests held by Regal Hotels.*
- (9) *These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.*

Save as disclosed above, the Manager is not aware of any connected persons of Regal REIT, including the Trustee and the Independent Property Valuer who were interested (or deemed to be interested) in Units as at the Latest Practicable Date.

For further details regarding disclosure of interests in Units, please see Appendix 8 headed "General Information" to the Regal REIT Circular.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at no charge during normal business hours at the offices of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days, from the date of the Regal REIT Circular, up to and including the date of the EGM:

- (a) Share Purchase Agreement (together with the agreed forms of the New Lease Agreement (with the agreed form of the New Hotel Management Agreement attached thereto), the New Lease Guarantee, the assignment of the SW Shareholder Loan, the Deed of Tax Indemnity and the Interior Fit-Out Agency Deed in respect of the Sheung Wan Hotel attached thereto);

- (b) Option Agreement (together with the agreed forms of the New Lease Agreement (with the agreed form of the New Hotel Management Agreement attached thereto), the New Lease Guarantee, the assignment of the NP Shareholder Loan, the Deed of Tax Indemnity and the Interior Fit-Out Agency Deed in respect of the North Point Hotel attached thereto);
- (c) Facility Letter;
- (d) the annual reports of Regal REIT for the 3 years ended 31 December 2012;
- (e) the accountants' reports in respect of the SW Target Company and the NP Target Company as set out in Appendix 2 to the Regal REIT Circular;
- (f) the unaudited pro forma financial information of the Enlarged Group disclosed under Appendix 3 to the Regal REIT Circular;
- (g) the Letter from the Independent Board Committee;
- (h) the Letter from the Independent Financial Adviser;
- (i) the Independent Property Valuer's valuation reports as set out in Appendix 4 to the Regal REIT Circular;
- (j) the Market Consultant's report as set out in Appendix 5 to the Regal REIT Circular;
- (k) the written consents referred to in the section headed "Experts and Consents" of Appendix 8 to the Regal REIT Circular; and
- (l) the MOU Announcements.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as Regal REIT continues to be in existence.

11. GENERAL

The Regal REIT Circular containing, among other things: (1) a letter from the Board to the Unitholders containing details of, among other things, the Transaction Matters Requiring Approval and the Additional Continuing Connected Transactions; (2) a letter from the Independent Board Committee to the Independent Unitholders on the Transaction Matters Requiring Approval as to whether they are fair and reasonable; (3) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee on the Transaction Matters Requiring Approval as to whether they are fair and reasonable; (4) the Independent Property Valuer's valuation reports in respect of the Sheung Wan Hotel and the North Point Hotel; and (5) the notice of the EGM, has been issued on the date hereof and will be sent to the Unitholders as soon as possible.

You can vote at the EGM if you are a Unitholder on 18 July 2013, the EGM record date. You will find enclosed with the Regal REIT Circular the EGM notice and a form of proxy for use for the EGM.

Unitholders who do not receive the Regal REIT Circular within a week from the date of this announcement may obtain a copy of the same from the Unit Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, during office hours and subject to availability.

12. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

The EGM will be held at 11:00 a.m. on Thursday, 18 July 2013 at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, for the purpose of considering and, if thought fit, passing with or without amendments, the Ordinary Resolutions set out in the notice of the EGM.

The EGM Resolutions, in summary, seek Independent Unitholders' approval for:

- (a) the consummation by Regal REIT of the transactions contemplated under the Share Purchase Agreement and other transactions contemplated under, associated with and/or related to the SW Transaction, including but not limited to the execution of and consummation of the transactions under the Deed of Tax Indemnity and the Interior Fit-Out Agency Deed in respect of the Sheung Wan Hotel;

- (b) the consummation by Regal REIT of the transactions contemplated under the Option Agreement and other transactions contemplated under, associated with and/or related to the NP Transaction, including but not limited to the exercise of the North Point Hotel Option, as well as the execution of and consummation of the transactions under the Deed of Tax Indemnity and the Interior Fit-Out Agency Deed in respect of the North Point Hotel;
- (c) the consummation by Regal REIT of the transactions contemplated under the Facility Letter and other transactions contemplated under, associated with and/or related to the Vendor Facility; and
- (d) the New CCT Waiver Application.

The Register of Unitholders will be closed from 16 July 2013 to 18 July 2013, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by the duly completed transfer documents must be lodged with Unit Registrar of Regal REIT, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on 15 July 2013.

13. INDICATIVE TIMETABLE

Event	Date and Time
Latest date and time for lodging transfers of Units to qualify for voting at the EGM	15 July 2013 at 4:30 p.m.
Book closure period (both days inclusive) to determine the eligibility of Unitholders to vote at the EGM	16 July 2013 to 18 July 2013
Latest date and time for lodging proxy forms for the EGM	16 July 2013 at 11:00 a.m.
EGM record date	18 July 2013
Date and time of the EGM	18 July 2013 at 11:00 a.m.

Event	Date and Time
If the approvals sought at the EGM are obtained:	
Payment of the Deposit, Option Fee and Refundable Cash Collateral	22 July 2013
Estimated date for grant of occupation permit for the Sheung Wan Hotel	In the fourth quarter of 2013
Target date for completion of the SW Transaction	In the fourth quarter of 2013
Estimated date for grant of occupation permit for the North Point Hotel	In the second quarter of 2014
If the North Point Hotel Option is exercised - Target date for completion of the NP Transaction	In the third quarter of 2014

Further announcement(s) will be made by the Manager in relation to those events which are scheduled to take place after the EGM as and when appropriate in accordance with applicable regulatory requirements.

Unitholders and potential investors in the Units should note that the Option Agreement does not oblige the Trustee to exercise the North Point Hotel Option, and therefore the NP Transaction may or may not proceed. Unitholders and potential investors in the Units are advised to exercise caution when dealing in the Units.

DEFINITIONS

In this announcement, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, these defined terms are not included in the table below.

Additional SW Hotel CCTs	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — New CCT Waiver Application”.
Additional NP Hotel CCTs	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — New CCT Waiver Application”.

Additional Continuing Connected Transactions	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — New CCT Waiver Application”.
Additional Costs	has the meaning ascribed to this term in the section headed “Fees and Charges in relation to the SW Transaction and the NP Transaction — Fees Payable to the Manager and the Trustee and the Additional Costs in relation to the SW Transaction and the NP Transaction”.
Adjusted GOP	the aggregate of the Gross Operating Profit and the Net Rental Income.
Associated company	shall bear the meaning as defined in the REIT Code.
Associate(s)	shall bear the meaning as defined in the REIT Code.
Audited Report	in relation to the New Hotel Management Agreements, means the report of the Auditors on their audit of the books and records of the relevant New Hotel and their audit of the financial information under the “Actual Year to Date” column of the Profit and Loss Statements for the relevant Fiscal Year prepared in accordance with the generally accepted accounting principles adopted in Hong Kong and such professional standards deemed appropriate by the Auditors for this purpose, and by reference to the terms of the relevant New Hotel Management Agreement.
Auditors	in relation to the New Hotel Management Agreements, means an internationally recognised accounting firm experienced in hotel audits as may be mutually agreed between by the Owner and the Hotel Manager and engaged by the Owner to audit the books and accounting records of the relevant New Hotel for any Fiscal Year, and to review the financial statement of the operation of the relevant New Hotel prepared and submitted by the Hotel Manager for each Fiscal Year pursuant to the relevant New Hotel Management Agreement.
Base Rent	a fixed amount of monthly rent payable.

Board	the board of Directors.
Business Day	a day (excluding, Saturdays, Sundays and public holidays) on which commercial banks are open for business in Hong Kong and the Stock Exchange is open for trading.
Century City	Century City International Holdings Limited (Stock code: 355), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange.
connected person	has the meaning ascribed to it in the REIT Code.
Current Assets Adjustment	in relation to the consideration payable by the Trustee in respect of each of the SW Transaction and the NP Transaction, the customary adjustment on a dollar-for-dollar basis for the current assets (such as all receivables, refundable utility and other deposits placed with relevant authorities or suppliers and all cash and deposits at bank), of the SW Target Group as at completion of the SW Transaction and the NP Target Group as at completion of the NP Transaction respectively, provided that each current assets adjustment will be capped at HK\$1.5 million; and collectively the “Current Assets Adjustments”.
Deed(s) of Tax Indemnity	has the meaning ascribed to it in the section headed “Key Documentation — Deeds of Tax Indemnity”.
Deposit	a deposit of HK\$948 million (representing 60% of the SW Hotel Purchase Price), which is refundable in limited circumstances, and payable by the Trustee to P&R under the Share Purchase Agreement within two Business Days following the satisfaction of the conditions described in paragraphs (a) and (b) of the section headed “Key Documentation — Share Purchase Agreement — Conditions Precedent”.
Deposited Property	all the assets of Regal REIT.
Directors	the directors of the Manager.
EGM	the extraordinary general meeting of Unitholders convened by and referred to in the notice of the EGM.

EGM Resolutions	the Ordinary Resolutions to be passed at the EGM, as set out in the notice of the EGM and summarised in this announcement.
Enlarged Group	Regal REIT, the SW Target Group and the NP Target Group.
Excess	the amount by which the Net Property Income for a Lease Year exceeds the Base Rent for the same Lease Year.
Facility Letter	the facility letter entered into by the Trustee (as borrower) and P&R Finance Limited (as lender) in respect of the Vendor Facility, as described in the section headed “Financing of the SW Transaction and the NP Transaction — Vendor Facility”.
FF&E	<p>all investments in the replacement of furniture, fixtures and equipment at the relevant New Hotel which are required to maintain the relevant New Hotel at the operating standards and at the operating capacity of the relevant New Hotel, and for the purpose of this definition:</p> <p>(a) “furniture” includes all loose furniture, furnishings, decorations and appliances in restaurants, bars, hotel rooms, offices, kitchens and workshops throughout the relevant New Hotel;</p> <p>(b) “fixtures” includes all fixed furniture such as stationary bar counters and reception desks, fixed carpets, marble and hardwood floors, wall coverings and walk-in freezers and fridges;</p> <p>(c) “equipment” includes kitchen equipment, ranges, workshop machinery, cleaning equipment, telecommunications equipment, computer equipment and vehicles;</p>

but the term “FF&E” shall exclude (i) items which are included as part of the fixtures of the building in which the relevant New Hotel is located; (ii) Operating Equipment except for those Operating Equipment owned by the Lessor on the day on which the relevant New Hotel Management Agreement becomes effective and any additional Operating Equipment capitalized under the circumstances of a Capital Addition as defined in the section headed “Key Documentation — New Hotel Management Agreements — Capital Additions”; and (iii) investments in fitting out, fixtures and furniture in relation to the relevant Interior Fit-Out Programme.

FF&E Expenditure has the meaning ascribed to this term in the section headed “Key Documentation — New Hotel Management Agreements — Furniture, Fixtures and Equipment Reserve & Expenditure”.

FF&E Reserve an interest bearing account established for funds to be held on reserve for FF&E in the name of the Lessor at a bank designated by the Hotel Manager and approved by the Lessor.

Final Exercise Price has the meaning ascribed to this term in the section headed “Key Documentation — Option Agreement — Option Exercise Price”.

Fiscal Year in relation to the New Hotel Management Agreements, means 1 January in one year to 31 December of the same year, and the first Fiscal Year shall commence on the day on which the relevant New Hotel Management Agreement becomes effective and end on 31 December of the same year and the last Fiscal Year shall end on the date of the expiration of the relevant New Hotel Management Agreement.

Fixed Charges expenses which constitute a non-operating expense in nature in accordance with the Uniform System including but not limited to government rent and rates, property tax and other similar taxes, government charges in respect of the relevant New Hotel and other sundry fixed charges.

Gearing Ratio	the aggregate borrowings of Regal REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property as set out in Regal REIT's latest published audited accounts immediately prior to such borrowing being effected (as adjusted by (a) the amount of any proposed distribution declared by the Manager since the publication of such accounts; and (b) where appropriate the latest published valuation of the assets of Regal REIT if such valuation is published after the publication of such accounts).
Government	the government of Hong Kong.
Government Grants	in respect of each New Hotel, the Government Lease(s) under which the land on which such New Hotel is located is held from the Government by the NP Property Company or the SW Property Company, as the case may be.
Gross Operating Profit	the Total Hotel Revenue less the Hotel Operating Expenses during the same period.
Gross Revenues	all revenue derived from the relevant New Hotel, including the Total Hotel Revenue and all subsidy payments, governmental allowances and awards, and any other form of incentive payments or awards which are attributable to the operation of the relevant New Hotel, but excluding (a) hotel accommodation tax or other similar government charges; (b) income derived from securities and other property investments; (c) receipts from expropriation awards or sales under the threat of expropriation; (d) proceeds of any insurance other than business interruption; (e) rebates, discounts or credits of a similar nature; (f) gratuities paid to hotel employees; (g) payments received at the relevant New Hotel for accommodation, goods or services to be provided at other hotels.

Guarantors	Paliburg and Regal Hotels.
HK\$ or Hong Kong dollars	Hong Kong dollars, the lawful currency of Hong Kong.
HIBOR	the rate of interest offered on Hong Kong dollar loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year.
Hong Kong	the Hong Kong Special Administrative Region of the People’s Republic of China.
Hotel Manager	Regal Hotels International Limited, a company incorporated in Hong Kong, which is also the hotel manager of the Initial Hotel Properties and Wanchai Regal iClub Hotel. It is a wholly-owned subsidiary of Regal Hotels.
Hotel Operating Expenses	the expenses which constitute an operating expense in nature in accordance with the Uniform System, including but not limited to: (a) cost of sales; (b) payroll and related expenses by hotel rooms, food and beverage, administrative and general, sales and marketing, and repair and maintenance departments; (c) expenses for Operating Equipment; (d) other departmental expenses; (e) administrative and general expenses; (f) sales and marketing expense; (g) repair and maintenance expenses; (h) energy and utility expenses; and (i) premiums of business interruption insurance, third party liability insurance and other insurances against items like theft or damage to hotel guests’ properties.

Independent Board Committee	the independent board committee of the Board (comprising Mr. John William CRAWFORD, JP, Mr. Kai Ole RINGENSON and Mr. Alvin Leslie LAM Kwing Wai, all of whom are Independent Non-executive Directors who have no direct or indirect interest in the SW Transaction or the NP Transaction) which has been established to advise the Independent Unitholders on the Transaction Matters Requiring Approval.
Independent Financial Adviser	Somerley Limited.
Independent Non-executive Directors	the independent non-executive directors of the Manager as at the date of this announcement.
Independent Property Valuer	Savills Valuation and Professional Services Limited.
Independent Unitholder(s)	Unitholder(s) other than those who have a material interest in the EGM Resolutions.
Initial Exercise Price	has the meaning ascribed to this term in the section headed “Key Documentation — Option Agreement — Option Exercise Price”.
Initial Hotel Properties	the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel and “Initial Hotel Property” means any one of them.
Interior Fit-Out Agent	P&R Contracting Agency Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of P&R, to be appointed by the SW Property Company or the NP Property Company to manage and settle Interior Fit-Out Contracts on its behalf under the relevant Interior Fit-Out Programme.
Interior Fit-Out Agency Deed(s)	has the meaning ascribed to it in the section headed “Key Documentation — Interior Fit-Out Agency Deeds”.

Interior Fit-Out Contracts	all construction contracts and/or other contracts in relation to the carrying out of the relevant Interior Fit-Out Programme to be entered into by the SW Property Company or the NP Property Company, and to be managed and settled by the Interior Fit-Out Agent on behalf of the SW Property Company or the NP Property Company, with the relevant contractors and/or project consultants and/or other professional advisers whose services are from time to time engaged in connection with the execution of the relevant Interior Fit-Out Programme.
Interior Fit-Out Long Stop Date	the date falling six months after the completion of the SW Transaction or (as the case may be) the NP Transaction.
Interior Fit-Out Programmes	collectively, the SW Interior Fit-Out Programme and the NP Interior Fit-Out Programme, and each an “Interior Fit-Out Programme”.
IPO Circular	the offering circular dated 19 March 2007 issued by the Manager in connection with the listing of the Units on the Stock Exchange by way of global offering.
Latest Practicable Date	25 June 2013, being the latest practicable date prior to the printing of the Regal REIT Circular for ascertaining certain information contained in the Regal REIT Circular prior to its publication.
Lease Year	<p>(a) each of the first three years of a New Lease Agreement, commencing from the date that the New Lease Agreement is executed;</p> <p>(b) the period commencing immediately following the end of the third year of a New Lease Agreement and ending on 31 December of the same year (if such period commenced before 30 June) or 31 December of the following year (if such period commenced after 30 June); and</p> <p>(c) each calendar year immediately following the end of the period described in (b) above.</p>

Lessee	Favour Link International Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Regal Hotels.
Lessor	in respect of the New Lease Agreement for the Sheung Wan Hotel, the SW Property Company, and in respect of the New Lease Agreement for the North Point Hotel, the NP Property Company.
Listing Date	30 March 2007, being the date on which the Units were first listed and from which dealings of the Units were permitted to take place on the Stock Exchange.
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange.
Long Stop Date	in respect of the Share Purchase Agreement or, as the case may be, the Option Agreement, 31 March 2014 and 30 September 2014 respectively, or such later date as may be agreed between P&R and the Trustee (acting on the recommendation and at the direction of the Manager).
Manager	Regal Portfolio Management Limited (in its capacity as the manager of Regal REIT), a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of Regal Hotels.
Manager Acquisition Fee	has the meaning ascribed to this term in the section headed “Fees and Charges in relation to the SW Transaction and the NP Transaction — Fees Payable to the Manager and the Trustee and the Additional Costs in relation to the SW Transaction and the NP Transaction”.
Manager Group	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — Connected Persons of Regal REIT — Manager Group”.

March 2013 Notes	has the meaning ascribed to this term in the section headed “Financing of the SW Transaction and the NP Transaction — Regal REIT MTN Programme”.
Market Consultant	Colliers International (Hong Kong) Limited.
Maximum Adjusted Final Exercise Price	HK\$1,826.5 million, being the Maximum Final Exercise Price plus the maximum positive Current Assets Adjustment to the Final Exercise Price pursuant to the Option Agreement.
Maximum Adjusted SW Hotel Purchase Price	HK\$1,581.5 million, being the SW Hotel Purchase Price plus the maximum positive Current Assets Adjustment to the SW Hotel Purchase Price pursuant to the Share Purchase Agreement.
Maximum Final Exercise Price	HK\$1,825 million, being the Final Exercise Price payable based on the Maximum NP Updated Appraised Value.
Maximum NP Updated Appraised Value	HK\$2,000 million, being the highest NP Updated Appraised Value that will not cause the North Point Hotel Option to expire (unless otherwise mutually agreed by the parties to the Option Agreement).
Maximum Total Consideration	the aggregate of the Maximum Adjusted SW Hotel Purchase Price and the Maximum Adjusted Final Exercise Price.
May 2013 Notes	has the meaning ascribed to this term in the section headed “Financing of the SW Transaction and the NP Transaction — Regal REIT MTN Programme”.
Minimum NP Updated Appraised Value	HK\$1,300 million, being the lowest NP Updated Appraised Value that will not cause the North Point Hotel Option to expire (unless otherwise mutually agreed by the parties to the Option Agreement).
MOU	has the meaning ascribed to this term in the section headed “The SW Transaction and the NP Transaction — Overview”.

MOU Announcements	has the meaning ascribed to this term in the section headed “The SW Transaction and the NP Transaction — Overview”.
MTN Issuer	has the meaning ascribed to this term in the section headed “Financing of the SW Transaction and the NP Transaction — Regal REIT MTN Programme”.
MTR	Mass Transit Railway.
NAV	net asset value.
Net Property Income	the amount equal to Adjusted GOP less: (a) the hotel management fee payable under the relevant New Hotel Management Agreement; and (b) the Fixed Charges.
Net Rental Income	the aggregate of: (a) income received from concessions and other persons (not related to operation of the relevant New Hotel) occupying space of the relevant New Hotel; and (b) licence fee income (including income generated from mobile phone integrated radio system antennae space rental at the relevant New Hotel).
New CCT Waiver Application	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — New CCT Waiver Application”.
New Hotel Management Agreement(s)	has the meaning ascribed to this term in the section headed “Key Documentation — New Hotel Management Agreements — General”.
New Hotels	the Sheung Wan Hotel and the North Point Hotel, and “New Hotel” means any one of them.
New Lease Agreement(s)	has the meaning ascribed to this term in the section headed “Key Documentation — New Lease Agreements and New Lease Guarantees — General”.
New Lease Guarantee(s)	has the meaning ascribed to this term in the section headed “Key Documentation — New Lease Agreements and New Lease Guarantees — Lease Guarantees”.

North Point Hotel	has the meaning ascribed to this term in the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — North Point Hotel — Description”.
North Point Hotel Option	has the meaning ascribed to this term in the section headed “The SW Transaction and the NP Transaction — Overview”.
Notes	the notes issued or to be issued by the MTN Issuer from time to time pursuant to the Regal REIT MTN Programme.
NP Interior Fit-Out Programme	the interior fit-out programme in relation to the North Point Hotel as more fully described under the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — North Point Hotel — NP Interior Fit-Out Programme”.
NP Initial Appraised Value	the value of the North Point Hotel as at 25 June 2013, as appraised by the Independent Property Valuer on an as-completed basis, being HK\$1,650 million.
NP Nominee	a special purpose vehicle of Regal REIT, to be incorporated in the British Virgin Islands, being the entity that will directly hold the NP Target Company.
NP Property Company	Wise Decade Investments Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the NP Target Company.
NP Shareholder Loan	all amounts due (including principal, interests and other sums (if any)), owing or payable by the NP Target Company to P&R in respect of the loan advanced by P&R to NP Target Company and outstanding as at the date of completion of the NP Transaction.
NP Specifications Summary	the plans and specifications in respect of the North Point Hotel as set out in the Option Agreement and may be amended by mutual agreement of the parties thereto, the key items of which are summarised in the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — North Point Hotel — Description”.

NP Target Company	Fortune Mine Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of P&R.
NP Target Company Shares	100% of the issued share capital of the NP Target Company to be acquired by the Trustee (or its nominee) upon exercise of the North Point Hotel Option under the Option Agreement.
NP Target Group	the NP Target Company and the NP Property Company.
NP Transaction	(a) the acquisition by the Trustee (acting on the instructions of the Manager) (or its nominee) of the NP Target Company Shares; and (b) the assignment of the NP Shareholder Loan to the Trustee (or its nominee), on the terms and subject to the conditions of the Option Agreement, upon exercise of the North Point Hotel Option.
NP Transaction Documents	collectively, the Option Agreement, the loan assignment, the Deed of Tax Indemnity, the Interior Fit-Out Agency Deed, the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the North Point Hotel to be entered into at completion of the NP Transaction.
NP Updated Appraised Value	has the meaning ascribed to this term in the section headed “Key Documentation — Option Agreement — Option Exercise Price”.
Operating Equipment	supply items which may be consumed in the operation of a hotel including chinaware, glassware, linens, towels, silverware, tools, kitchen utensils, miscellaneous serving equipment, uniforms, engineering and housekeeping tools and utensils, and similar items, as more fully described in the relevant New Hotel Management Agreement.
Option Agreement	the option agreement entered into between P&R, the Trustee, Paliburg, Regal Hotels and the Manager dated 28 June 2013 in respect of the grant of the North Point Hotel Option.

Option Fee	has the meaning ascribed to this term in the section headed “Key Documentation — Option Agreement — Option Fee”.
Ordinary Resolution	a resolution passed at a meeting of Unitholders duly convened and held in accordance with the provisions contained in the Trust Deed and carried by a simple majority of the votes of those Unitholders present and entitled to vote in person or by proxy.
Owner	has the meaning ascribed to this term in the section headed “Key Documentation — New Hotel Management Agreements — General”.
P&R	P&R Holdings Limited, a joint venture company incorporated in the British Virgin Islands with limited liability, held as to 50% by a wholly-owned subsidiary of Paliburg and as to 50% by a wholly-owned subsidiary of Regal Hotels.
Paliburg	Paliburg Holdings Limited (Stock code: 617), a company incorporated in Bermuda with limited liability, ordinary shares of which are listed on the Stock Exchange.
Performance Test	the requirement for the Hotel Manager to achieve at least 80% of the approved Gross Operating Profit in respect of the operations of the relevant New Hotel.
Profit and Loss Statement	the profit and loss statement on the operation of the relevant New Hotel for the relevant calendar month and the Fiscal Year to date prepared and delivered by the Hotel Manager to the Lessee pursuant to the terms of the relevant New Hotel Management Agreement.
Refundable Cash Collateral	a refundable sum of HK\$990 million (representing 60% of the Initial Exercise Price) payable by the Trustee to P&R under the Option Agreement within two Business Days following the satisfaction of the conditions described in the section headed “Key Documentation — Option Agreement — Conditions Precedent to Grant of the North Point Hotel Option”.

Regal Airport Hotel	the property sub-leased by Bauhinia Hotels Limited from the Airport Authority Hong Kong on which Regal Airport Hotel is situated.
Regal Connected Persons Group	has the meaning ascribed to this term in the section headed “Continuing Connected Transactions — Connected Persons of Regal REIT — Regal Connected Persons Group”.
Regal Hongkong Hotel	the property owned by Cityability Limited on which Regal Hongkong Hotel is situated.
Regal Hotels	Regal Hotels International Holdings Limited (Stock code: 78), a company incorporated in Bermuda with limited liability, ordinary shares of which listed on the Stock Exchange.
Regal Hotels Group	Regal Hotels and its subsidiaries.
Regal Kowloon Hotel	the property owned by Ricobem Limited on which Regal Kowloon Hotel is situated.
Regal Oriental Hotel	the property owned by Gala Hotels Limited on which Regal Oriental Hotel is situated.
Regal REIT	Regal Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time, the units of which are listed on the Stock Exchange.
Regal REIT Circular	The circular dated 29 June 2013 issued by the Manager in respect of the major acquisition and connected transactions in relation to the Share Purchase Agreement and the Option Agreement to acquire the New Hotels, continuing connected transactions and related matters.
Regal REIT Group	Regal REIT and its subsidiaries.
Regal REIT MTN Programme	the U.S.\$1 billion medium term note programme established by the MTN Issuer on 11 January 2013.

Regal Riverside Hotel	the property owned by Regal Riverside Hotel Limited on which Regal Riverside Hotel is situated.
REIT Code	the Code on Real Estate Investment Trusts published by the SFC (as amended from time to time).
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 and the rules thereunder.
Share Purchase Agreement	the sale and purchase agreement entered into between P&R, the Trustee, Paliburg, Regal Hotels and the Manager dated 28 June 2013 in respect of the sale and purchase of the SW Target Company Shares and assignment of the SW Shareholder Loan.
Sheung Wan Hotel	has the meaning ascribed to this term in the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — Sheung Wan Hotel — Description”.
Significant Holder	has the meaning ascribed to this term in the REIT Code.
sqm	square metre.
Stock Exchange	The Stock Exchange of Hong Kong Limited.
SW Appraised Value	the value of the Sheung Wan Hotel as at 25 June 2013, as appraised by the Independent Property Valuer on an as-completed basis, being HK\$1,580 million.
SW Hotel Purchase Price	has the meaning ascribed to this term in the section headed “Key Documentation — Share Purchase Agreement — Consideration”.
SW Interior Fit-Out Programme	the interior fit-out programme in relation to the Sheung Wan Hotel as more fully described under the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — Sheung Wan Hotel — SW Interior Fit-Out Programme”.
SW Nominee	a special purpose vehicle of Regal REIT, to be incorporated in the British Virgin Islands, being the entity that will directly hold the SW Target Company.

SW Property Company	Tristan Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the SW Target Company.
SW Shareholder Loan	all amounts due (including principal, interests and other sums (if any)), owing or payable by SW Target Company to P&R in respect of the loan advanced by P&R to SW Target Company and outstanding as at the date of completion of the SW Transaction.
SW Specifications Summary	the plans and specifications in respect of the Sheung Wan Hotel as set out in the Share Purchase Agreement and may be amended by mutual agreement of the parties thereto, the key items of which are summarised in the section headed “The SW Transaction and the NP Transaction — Information on the New Hotels — Sheung Wan Hotel — Description”.
SW Target Company	Plentiful Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of P&R.
SW Target Company Shares	100% of the issued share capital of the SW Target Company to be acquired by the Trustee (or its nominee) on the terms of and subject to the conditions of the Share Purchase Agreement.
SW Target Group	SW Target Company and the SW Property Company.
SW Transaction	(a) the acquisition by the Trustee (acting on the instructions of the Manager) (or its nominee) of the SW Target Company Shares; and (b) the assignment of the SW Shareholder Loan to the Trustee (or its nominee), on the terms and subject to the conditions of the Share Purchase Agreement.
SW Transaction Documents	collectively, the Share Purchase Agreement, the loan assignment, the Deed of Tax Indemnity, the Interior Fit-Out Agency Deed, the New Lease Agreement, the New Lease Guarantee and the New Hotel Management Agreement in respect of the Sheung Wan Hotel to be entered into at completion of the SW Transaction.

Total Hotel Revenue	revenue derived from (a) the relevant New Hotel in relation to (i) all hotel rooms and suites rented for any period; (ii) food and beverage sales; (iii) catering operations conducted outside of the relevant New Hotel; (iv) miscellaneous banquet and meeting room income; (v) rental of audio/video equipment, use of telephone, internet and other telecommunication devices in the relevant New Hotel; (vi) laundry and dry cleaning services rendered; (b) other miscellaneous operated departments in the relevant New Hotel; and (c) service charge levied by the relevant New Hotel on all hotel room revenue and food and beverage revenue (excluding in-hotel-room mini-bar revenue), as more fully described in the relevant New Hotel Management Agreement.
Transaction Matters Requiring Approval	the matters which require the approval of the Independent Unitholders at the EGM, as specified in the notice of the EGM and summarised in the section headed “Extraordinary General Meeting and Closure of Register of Unitholders” of this announcement.
Trust Deed	the trust deed constituting Regal REIT dated 11 December 2006, entered into between the Trustee and the Manager, as supplemented by a first supplemental deed dated 2 March 2007, a second supplemental deed dated 15 May 2008, a third supplemental deed dated 8 May 2009, a fourth supplemental deed dated 23 July 2010, a fifth supplemental deed dated 3 May 2011 and a sixth supplemental deed dated 21 July 2011 all entered into between the same parties (as may be further amended and supplemented from time to time).
Trustee	DB Trustees (Hong Kong) Limited, in its capacity as trustee of Regal REIT.
Trustee Additional Fee	has the meaning ascribed to this term in the section headed “Fees and Charges in relation to the SW Transaction and the NP Transaction — Fees payable to the Manager and the Trustee and the Additional Costs in relation to the SW Transaction and the NP Transaction”.

U.S.\$	the lawful currency of the United States of America.
Uniform System	the Tenth Revised Edition of the Uniform System of Accounts for the Lodging Industry published by the American Hotel & Lodging Association, 2113 N. High Street, Lansing, Michigan 48906, or such later edition adopted by the Hotel Manager for implementation by the relevant New Hotel from time to time.
Unitholders	holders of the Units from time to time.
Units	units of Regal REIT.
Variable Rent	means a percentage of the Excess (if any) to be paid as variable rent.
Vendor Facility	the loan facility described in the section headed “Financing of the SW Transaction and the NP Transaction — Vendor Facility”.
Wanchai Regal iClub Hotel	a contemporary, select service hotel with 99 guestrooms and suites situated at 211 Johnston Road, Wanchai owned by Regal REIT through Sonnix Limited.

Yours faithfully,
By order of the Board
Regal Portfolio Management Limited
as manager of Regal Real Estate Investment Trust

Francis CHIU
Director

Hong Kong, 29 June 2013

As at the date of this announcement, the Board of the Manager comprises Mr. LO Yuk Sui as Chairman and Non-executive Director; Mr. Francis CHIU and Mr. Simon LAM Man Lim as Executive Directors; Mr. Donald FAN Tung, Mr. Jimmy LO Chun To, Miss LO Po Man and Mr. Kenneth NG Kwai Kai as Non-executive Directors; and Mr. John William CRAWFORD, JP, Mr. Alvin Leslie LAM Kwing Wai, Mr. Kai Ole RINGENSON and Hon. Abraham SHEK Lai Him, SBS, JP as Independent Non-executive Directors.