
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution licensed to deal in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your units in Regal REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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



CIRCULAR TO UNITHOLDERS IN RELATION TO

- (1) LEASE EXTENSION/AMENDMENT, LEASE GUARANTEE AMENDMENTS AND CCPT WAIVER EXTENSION
- (2) PROPOSED EXPANSION OF REGAL REIT'S INVESTMENT STRATEGY TO INCLUDE:
 - (A) PROPERTY DEVELOPMENT AND RELATED ACTIVITIES AND (B) RELEVANT INVESTMENTS AND RELATED AMENDMENTS TO THE TRUST DEED
- (3) OTHER PROPOSED MINOR AMENDMENTS TO THE TRUST DEED
- (4) PROPOSED RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND
- (5) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the Lease Agreements, the Lease Guarantees and the Lease Matters Requiring Approval

ALTUS CAPITAL LIMITED

A letter to the Unitholders is set out on pages 12 to 45 of this Circular.

A notice convening the EGM of Regal REIT to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 14 April 2015 at 11:00 a.m. is set out on pages N-1 to N-4 of this Circular. Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to the Unit Registrar of Regal REIT, Computershare Hong Kong Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

13 March 2015

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CORPORATE INFORMATION

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| 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, or Regal Real Estate Investment Trust and the companies controlled by it, as the context requires |
| Manager | Regal Portfolio Management Limited Unit No. 2001, 20th Floor 68 Yee Wo Street Causeway Bay Hong Kong |
| Directors of the Manager | |
| <i>Non-executive Directors</i> | Mr. LO Yuk Sui (<i>Chairman</i>) Miss LO Po Man (<i>Vice Chairman</i>) Mr. Donald FAN Tung Mr. Jimmy LO Chun To Mr. Kenneth NG Kwai Kai |
| <i>Executive Directors</i> | Mr. Johnny CHEN Sing Hung Mr. Simon LAM Man Lim |
| <i>Independent Non-executive Directors</i> | Mr. John William CRAWFORD, JP Mr. Alvin Leslie LAM Kwing Wai Mr. Kai Ole RINGENSON Hon. Abraham SHEK Lai Him, GBS, JP |
| Trustee | DB Trustees (Hong Kong) Limited Level 52, International Commerce Centre 1 Austin Road West Kowloon Hong Kong |
| Unit Registrar | Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong |
| Legal Advisers to the Manager | Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Hong Kong |

CORPORATE INFORMATION

Legal Advisers to the Trustee

Mayer Brown JSM
16th - 19th Floors
Prince's Building
Hong Kong

**Independent Financial Adviser to the
Independent Board Committee, the
Independent Unitholders and the
Trustee in relation to the Lease
Agreements, the Lease Guarantees
and the Lease Matters Requiring
Approval**

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

DEFINITIONS

In this Circular, 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.

| | |
|------------------------------------|--|
| Aggregate Development Costs | the aggregate Property Development Costs of all Property Development and Related Activities, together with the aggregate contract value of the uncompleted units of real estate acquired by a REIT |
| Associate(s) | shall bear the meaning as defined in the REIT Code |
| Audit Committee | the audit committee of the Manager |
| Board | the board of Directors of the Manager |
| Business Day | has the meaning ascribed to this term in the Trust Deed |
| CCPT Waiver | has the meaning ascribed to this term in section 2.4 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — CCPT Waiver Extension” |
| CCPT Waiver Extension | has the meaning ascribed to this term in section 2.4 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — CCPT Waiver Extension” |
| Century City | Century City International Holdings Limited (Stock code: 355), a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the SEHK |
| Compliance Manual | the compliance manual of the Manager in relation to the management and operation of Regal REIT |
| connected person | has the meaning ascribed to it in the REIT Code |
| 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 EGM Notice |
| EGM Notice | the notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the EGM Resolutions |
| EGM Record Date | 14 April 2015, being the date by reference to which eligibility of the Unitholders to vote at the EGM will be determined |

DEFINITIONS

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| EGM Resolutions | collectively, the Special Resolutions and the Ordinary Resolutions to be passed at the EGM, as set out in the EGM Notice and explained in this Circular |
| Expanded Investment Scope regarding Property Development | the proposed expansion of the scope of Regal REIT's investment strategy so that the Manager shall have the flexibility to engage in or undertake Property Development and Related Activities (subject to the restrictions in the REIT Code and the Trust Deed), which may be considered, and if thought fit, approved by Unitholders as part of the proposed Special Resolution no. 1 set out in the EGM Notice |
| Expanded Investment Scope regarding Relevant Investments | the proposed expansion of the scope of Regal REIT's investment strategy so that the Manager shall have the flexibility to invest in Relevant Investments (subject to the restrictions in the REIT Code and the Trust Deed), which may be considered, and if thought fit, approved by Unitholders as part of the proposed Special Resolution no. 2 set out in the EGM Notice |
| Extended Period | the extended five-year lease period from 1 January 2016 to 31 December 2020 pursuant to the Supplemental Lease Agreement |
| GAV Cap | 10% of the Gross Asset Value of the Deposited Property, being the threshold limit of the Aggregate Development Costs |
| Gross Asset Value of the Deposited Property | for the purpose of calculating the denominator to be used for the purpose of the GAV Cap and the Maximum Cap, the total gross asset value of the Deposited Property calculated: (i) by reference to the latest published accounts of Regal REIT as adjusted for any distributions declared and any published valuations; and (ii) in a manner similar to the determination of the total assets figure in the context of notifiable transactions under the Listing Rules, with necessary changes, but excluding the value of any investments in properties under development (for the avoidance of doubt, the value of existing properties undergoing redevelopment shall not be subject to such exclusion, and will be included in Gross Asset Value of the Deposited Property) |
| HK\$ or Hong Kong Dollars | Hong Kong dollars, the lawful currency of Hong Kong |
| Hong Kong | the Hong Kong Special Administrative Region of the People's Republic of China |

DEFINITIONS

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| Hotel Management Agreement(s) | the hotel management agreement(s) entered into among (i) the relevant Lessor, (ii) the Lessee, (iii) the Hotel Manager, (iv) Regal Asset Holdings Limited and (v) Regal Hotels relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of the relevant Initial Hotels |
| Hotel Manager | Regal Hotels International Limited, a company incorporated in Hong Kong which is a wholly-owned subsidiary of Regal Hotels |
| iclub Fortress Hill Hotel | the iclub Fortress Hill Hotel situated at Nos. 14-20 Merlin Street, North Point, Hong Kong. For further details, refer to the circular dated 29 June 2013 issued by the Manager |
| iclub Hotels | the iclub Wan Chai Hotel, the iclub Fortress Hill Hotel and the iclub Sheung Wan Hotel |
| iclub Sheung Wan Hotel | the iclub Sheung Wan Hotel situated at Nos. 132-140 Bonham Strand, Sheung Wan, Hong Kong. For further details, refer to the circular dated 29 June 2013 issued by the Manager |
| iclub Wan Chai Hotel | the iclub Wan Chai Hotel situated at 211 Johnston Road, Wanchai, Hong Kong |
| Independent Board Committee | the independent 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 interests in the Lease Matters Requiring Approval) which has been established to advise the Independent Unitholders in respect of the Lease Matters Requiring Approval |
| Independent Financial Adviser | Altus Capital Limited, a licensed corporation to conduct type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO |
| Independent Hotel Expert | Savills (Hong Kong) Limited, a real estate consultant having over 15 years of experience in hotel investment, asset management and operations, and a track record of projects across Asia Pacific including Hong Kong, dealing with institutional investors, private equity firms, and high net worth individuals specifically on hospitality investments and assets of REIT and non-REIT nature. Savills (Hong Kong) Limited is an entity separate from Savills Valuation and Professional Services Limited (being the Principal Valuer of Regal REIT), and does not perform valuation of Regal REIT's real estate assets |

DEFINITIONS

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| Independent Non-executive Directors | the independent non-executive directors of the Manager as at the date of this Circular |
| Independent Professional Property Valuer | the independent professional property valuer jointly appointed by the parties to the Lease Agreements |
| Independent Unitholder(s) | Unitholder(s) other than those who have a material interest in the relevant EGM Resolutions and who are entitled to vote at the EGM |
| Initial Hotels | the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel and “Initial Hotel” means any one of them |
| Latest Practicable Date | 10 March 2015 |
| Lease Agreement(s) | has the meaning ascribed to this term in section 2.1 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — Background” |
| Lease Extension/Amendment | has the meaning ascribed to this term in section 2.2 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — Lease Extension/Amendment and Lease Guarantee Amendments” |
| Lease Guarantee(s) | has the meaning ascribed to this term in section 2.1 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — Background” |
| Lease Guarantee Amendments | has the meaning ascribed to this term in section 2.2 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — Lease Extension/Amendment and Lease Guarantee Amendments” |
| Lease Matters Requiring Approval | collectively, the Lease Extension/Amendment, the Lease Guarantee Amendments and the CCPT Waiver Extension |
| Lessee | Favour Link International Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Regal Hotels |
| Lessors | the respective direct owners of the Initial Hotels (being (i) Bauhinia Hotels Limited, in relation to Regal Airport Hotel, (ii) Cityability Limited, in relation to Regal Hongkong Hotel, (iii) Ricobem Limited, in relation to Regal Kowloon Hotel, (iv) Gala Hotels Limited, in relation to Regal Oriental Hotel and (v) Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel) and “Lessor” means any one of them |

DEFINITIONS

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| 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 SEHK |
| Listing Rules | the Rules Governing the Listing of Securities on the SEHK |
| 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 |
| Market Rental Package(s) | the market rental package(s) determined by the Independent Professional Property Valuer, including the amount of market rents (including base rent, variable rent and the Lessee's contribution to the furniture, fixtures and equipment reserve) and the amount of the security deposit |
| Maximum Cap | 25% of the Gross Asset Value of the Deposited Property, being the threshold limit for the total sum of: (i) the Aggregate Development Costs; (ii) the combined value of the Relevant Investments; and (iii) other non-real estate assets of Regal REIT |
| Miscellaneous Amendments | the proposed minor amendments to the Trust Deed, the details of which are set out in Part A of Appendix III to this Circular |
| Offering Circular | the offering circular dated 19 March 2007 issued by the Manager in connection with the listing of the Units on the SEHK by way of global offering |
| 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 |
| Paliburg | Paliburg Holdings Limited (Stock code: 617), a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on SEHK |
| Property Development Amendments | the proposed amendments to the Trust Deed in connection with the Expanded Investment Scope regarding Property Development, the details of which are set out in Appendix I to this Circular, which are to be considered and, if thought fit, approved by Unitholders as part of the proposed Special Resolution no. 1 set out in the EGM Notice |

DEFINITIONS

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| Property Development and Related Activities | (i) property development (including both new development projects and the redevelopment (but not refurbishments, retrofittings and renovations) of existing real estate); and (ii) the acquisition of an interest in uncompleted units in a building |
| Property Development Costs | the total project costs borne and to be borne by a REIT in relation to the property development project, inclusive of all costs associated with such project. These costs would include, but are not limited to, where applicable, the costs for the acquisition of land, development or construction costs, financing costs, stamp duties and professional fees |
| REIT(s) | real estate investment trust(s) |
| Regal Hotels | Regal Hotels International Holdings Limited (Stock code: 78), a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the SEHK |
| 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 SEHK |
| REIT Code | the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified |
| REIT Code Amendments | the amendments to the REIT Code to allow, subject to Unitholders' approval, for greater flexibility in the scope of Regal REIT's investment strategy, namely, (i) investments in Property Development and Related Activities; and (ii) investments in Relevant Investments, effective from 29 August 2014 |
| Relevant Investments | the following types of investment: (i) securities listed on the SEHK or other internationally recognised stock exchanges; (ii) unlisted debt securities; (iii) government and other public securities; and (iv) local or overseas property funds |
| Relevant Investments Amendments | the proposed amendments to the Trust Deed in connection with the Expanded Investment Scope regarding Relevant Investments, the details of which are set out in Appendix II to this Circular, which are to be considered and, if thought fit, approved by Unitholders as part of the proposed Special Resolution no. 2 set out in the EGM Notice |
| SEHK | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

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| SFC | the Securities and Futures Commission of Hong Kong |
| SFC Circular | the Circular to Management Companies and Trustees of SFC-authorised Hong Kong domiciled funds published by the SFC on 17 April 2014 |
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified and the rules thereunder |
| Special Resolution | a resolution of Unitholders passed at a duly convened meeting of Unitholders, by a majority consisting of 75% or more of the votes of those present, whether in person or by proxy, and entitled to vote, where the votes shall be taken by way of poll (such meeting shall be with a quorum of two or more Unitholders holding not less than 25% of the Units in issue) |
| Supplemental Agreements | collectively, the Supplemental Lease Agreements and the Supplemental Lease Guarantees |
| Supplemental Lease Agreement(s) | the second supplemental deed(s) amending the relevant Lease Agreement dated 12 March 2015 between the same parties to the relevant Lease Agreement |
| Supplemental Lease Guarantee(s) | the supplemental deed(s) amending the relevant Lease Guarantee dated 12 March 2015 between the same parties to the relevant Lease Guarantee |
| 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, or such other person as may from time to time be appointed as the trustee of Regal REIT. All references to the Trustee in this Circular are, as the context may require, to the Trustee acting on behalf of Regal REIT and on the instructions of the Manager |
| Trustee Ordinance | the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as amended, supplemented or otherwise modified |

DEFINITIONS

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| Trustee Ordinance Clarification Amendments | the proposed amendments to the Trust Deed in line with the SFC Circular, the details of which are set out in Part B of Appendix III to this Circular |
| Unit | one undivided unit in Regal REIT |
| Unitholder | holders of a Unit from time to time |
| Waiver Conditions | has the meaning ascribed to this term in section 2.4 of the Letter to the Unitholders headed “Lease Matters Requiring Approval — CCPT Waiver Extension” |
| % | per centum or percentage |

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

INDICATIVE TIMETABLE

| Event | Date and Time |
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| Latest date and time for lodging transfers of Units to qualify for voting at the EGM | 9 April 2015 at 4:30 p.m. |
| Book closure period (both days inclusive) to determine the eligibility of Unitholders to vote at the EGM | 10 April 2015 to 14 April 2015 |
| Latest date and time for lodging forms of proxy for the EGM | 12 April 2015 at 11:00 a.m. ¹ |
| EGM Record Date | 14 April 2015 |
| Date and time of the EGM | 14 April 2015 at 11:00 a.m. |

¹ Forms of proxy have to be lodged not less than 48 hours before the time set for the EGM.

LETTER TO THE UNITHOLDERS



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



Directors of the Manager:

Non-executive Directors

Mr. LO Yuk Sui (*Chairman*)
Miss LO Po Man (*Vice Chairman*)
Mr. Donald FAN Tung
Mr. Jimmy LO Chun To
Mr. Kenneth NG Kwai Kai

Executive Directors

Mr. Johnny CHEN Sing Hung
Mr. Simon LAM Man Lim

Independent Non-executive Directors

Mr. John William CRAWFORD, JP
Mr. Alvin Leslie LAM Kwing Wai
Mr. Kai Ole RINGENSON
Hon. Abraham SHEK Lai Him, GBS, JP

Registered Office:

Unit No. 2001
20th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

13 March 2015

To: The Unitholders of Regal REIT

Dear Sir or Madam,

- (1) LEASE EXTENSION/AMENDMENT, LEASE GUARANTEE AMENDMENTS AND CCPT WAIVER EXTENSION**
- (2) PROPOSED EXPANSION OF REGAL REIT'S INVESTMENT STRATEGY TO INCLUDE: (A) PROPERTY DEVELOPMENT AND RELATED ACTIVITIES AND (B) RELEVANT INVESTMENTS AND RELATED AMENDMENTS TO THE TRUST DEED**
- (3) OTHER PROPOSED MINOR AMENDMENTS TO THE TRUST DEED**
- (4) PROPOSED RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND**
- (5) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS**

LETTER TO THE UNITHOLDERS

1. INTRODUCTION

1.1 Purposes of this Circular

The purposes of this Circular are to, among other things:

- (1) provide you with the EGM Notice and further information on the EGM Resolutions relating to: (i) the Lease Matters Requiring Approval; (ii) the Expanded Investment Scope regarding Property Development and the Property Development Amendments; (iii) the Expanded Investment Scope regarding Relevant Investments and the Relevant Investments Amendments; and (iv) the re-election of the four Independent Non-executive Directors; and
- (2) set out the recommendations of the Independent Board Committee and the Independent Financial Adviser in relation to the Lease Agreements, the Lease Guarantees and the Lease Matters Requiring Approval.

1.2 Overview of Regal REIT's Portfolio

At present, the property portfolio of Regal REIT comprises a total of 8 hotel properties, being the Initial Hotels and the iclub Hotels. The Initial Hotels are a crucial part of Regal REIT's property portfolio which account for almost 80% of the total gross rental revenue and gross hotel revenue of Regal REIT.

LETTER TO THE UNITHOLDERS

For illustrative purposes only, a summary of the valuation and gross rental revenue in respect of Regal REIT's property portfolio is set out in the following table, which has been prepared on the basis of the notes set out below.

| Description | Valuation as at 30 June 2014 ¹ <i>(HK\$'000)</i> <i>(% of Total Valuation)²</i> | Leased/ Self- operated | Gross Rental Revenue and Gross Hotel Revenue for the year ended 31 December 2013 <i>(HK\$'000)</i> <i>(% of Total Gross Rental Revenue and Gross Hotel Revenue)⁵</i> |
|------------------------------|---|---------------------------|---|
| 1. Regal Airport Hotel | 3,480,000 <i>(14.26%)</i> | Under Master Lease | } Initial Hotels: 807,497 ³ <i>(78.70%)</i> |
| 2. Regal Hongkong Hotel | 4,290,000 <i>(17.58%)</i> | Under Master Lease | |
| 3. Regal Kowloon Hotel | 5,510,000 <i>(22.58%)</i> | Under Master Lease | |
| 4. Regal Oriental Hotel | 2,200,000 <i>(9.02%)</i> | Under Master Lease | |
| 5. Regal Riverside Hotel | 4,800,000 <i>(19.67%)</i> | Under Master Lease | |
| 6. iclub Wan Chai Hotel | 889,000 <i>(3.64%)</i> | Self-operated | 49,035 ⁴ <i>(4.78%)</i> |
| 7. iclub Sheung Wan Hotel | 1,580,000 <i>(6.48%)</i> | Under Lease | 82,950 ³ <i>(8.08%)</i> |
| 8. iclub Fortress Hill Hotel | 1,650,000 ¹ <i>(6.76%)</i> | Under Lease | 86,625 ³ <i>(8.44%)</i> |
| Total: | <u>24,399,000</u> | | <u>1,026,107</u> |

Notes:

¹ Valuation as set out in the 2014 Interim Report, except for the iclub Fortress Hill Hotel which was acquired by Regal REIT on 28 July 2014. The valuation of the iclub Fortress Hill Hotel is as at 30 April 2014 and set out in Regal REIT's announcement regarding the exercise of the option to acquire the iclub Fortress Hill Hotel dated 15 May 2014.

LETTER TO THE UNITHOLDERS

² *The total valuation of Regal REIT's property portfolio (HK\$24,399,000,000) is based on the valuation of (i) the Initial Hotels, the iclub Wan Chai Hotel and the iclub Sheung Wan Hotel as at 30 June 2014; and (ii) the iclub Fortress Hill Hotel as at 30 April 2014 as set out in Regal REIT's announcement regarding the exercise of the option to acquire the iclub Fortress Hill Hotel dated 15 May 2014.*

³ *Gross rental revenue as set out in the 2013 Annual Report, except for the iclub Sheung Wan Hotel and iclub Fortress Hill Hotel which only started accruing rental income in February 2014 and July 2014, respectively. The gross rental revenue for the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel is based on the "Unaudited Pro Forma Consolidated Income Statement for the year ended 31 December 2012" set out in Regal REIT's circular dated 29 June 2013.*

⁴ *Gross rental revenue and gross hotel revenue as set out in the 2013 Annual Report.*

⁵ *The total gross rental revenue and gross hotel revenue of Regal REIT's property portfolio (HK\$1,026,107,000) is based on the aggregate gross rental revenue and gross hotel revenue of: (i) the Initial Hotels and the iclub Wan Chai Hotel for the year ended 31 December 2013 as set out in the 2013 Annual Report; and (ii) the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel as set out in the "Unaudited Pro Forma Consolidated Income Statement for the year ended 31 December 2012" set out in Regal REIT's circular dated 29 June 2013.*

2. LEASE MATTERS REQUIRING APPROVAL

2.1 Background

As stated in the Offering Circular of Regal REIT dated 19 March 2007, the Initial Hotels are leased to Favour Link International Limited (as the Lessee), a wholly-owned subsidiary of Regal Hotels, pursuant to separate lease agreements (each as supplemented and/or amended from time to time, individually, the "**Lease Agreement**" and, collectively, the "**Lease Agreements**") which will expire on 31 December 2015.

Under separate guarantees (individually, the "**Lease Guarantee**" and, collectively, the "**Lease Guarantees**"), Regal Hotels guaranteed to pay to the Lessor of each Initial Hotel and/or the Trustee, on demand, all amounts from time to time owing or payable by the Lessee under the relevant Lease Agreement.

The Manager confirms that the summary below contains all the key terms of the Lease Agreements and Lease Guarantees for the purposes of the upcoming EGM. For further details of the currently applicable key terms of the Lease Agreements and Lease Guarantees, please refer to the Offering Circular.

LETTER TO THE UNITHOLDERS

(a) Key Terms of the Lease Agreements

| | Current Lease Agreements | After the Lease Extension/Amendment <i>(subject to Independent Unitholders' approval)</i> |
|---------------------------------|--|---|
| Term | Commencing from the Listing Date (30 March 2007) and expiring on 31 December 2015. | Commencing from the Listing Date (30 March 2007) and expiring on 31 December 2020. |
| Rental from 2007 to 2010 | <p>Base rent</p> <p>For the years from 2007 to 2010: an annual aggregate base rent of HK\$630 million in the first fiscal year, and HK\$700 million, HK\$750 million and HK\$780 million for the second, third and fourth fiscal years, respectively.</p> <p>Variable rent</p> <p>During each of the first to fourth fiscal years: 100%, 70%, 60% and 50% of the excess of the aggregate net property income over the aggregate annual base rent (taking into account any negative net property income) for each year from 2007 to 2010, respectively, to be paid semi-annually in arrears.</p> <p>In the event the aggregate of the variable rent paid by the Lessee under the Lease Agreements for the full period of the four fiscal years from the Listing Date to 31 December 2010 shall be less than HK\$220 million, the Lessee shall pay the shortfall within 95 days after the end of the fourth fiscal year.</p> | <p>No change.</p> <p>No change.</p> |
| | <p>Furniture, fixtures and equipment reserve contribution</p> <p>The Lessee is required from the Listing Date until 31 December 2010 to contribute 2% of the total hotel revenue towards the furniture, fixtures and equipment reserve.</p> | <p>No change.</p> |

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| | Current Lease Agreements | After the Lease Extension/Amendment <i>(subject to Independent Unitholders' approval)</i> |
|--|--|--|
| Rental from 2011 to 2015 (Annual Market Rental Package) | <p>A rent review by the Independent Professional Property Valuer will take place no later than 30 September of each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (inclusive of base rent, variable rent and the Lessee's contribution to the furniture, fixtures and equipment reserve) for each of the Initial Hotels for the relevant subsequent year from 2011 to 2015 and the amount of the security deposit.</p> | No change. |
| | <p>Floor rent</p> <p>HK\$400 million per annum in respect of all the Initial Hotels.</p> <p>The Lessee is required to pay the higher of the floor rent and the monthly base rent, comprised within the Market Rental Package, in such manner that the monthly lease income of the Lessors will not be less than one-twelfth of the floor rent.</p> | No change. |
| Rental from 2016 to 2020 | Not applicable. | The rent payable will reflect the current rental arrangement and continue to be determined in the same manner as for the period from 1 January 2011 to 31 December 2015 (that is, such rent will be determined annually based on the Market Rental Package determined by the Independent Professional Property Valuer no later than 30 September of the preceding year). |
| Security Deposit | The highest of: (i) market rate determined by the Independent Professional Property Valuer upon each annual rent review; (ii) 50% of annual base rent as determined by such valuer, and (iii) 50% of annual floor rent. | The highest of: (i) market rate determined by the Independent Professional Property Valuer upon each annual rent review; (ii) 25% of annual base rent as determined by such valuer, and (iii) 25% of annual floor rent. |
| Early Termination | <p>By the Lessor</p> <p>Cross-default provision giving the right to the relevant Lessor to terminate the Lease Agreement if: (a) a termination notice has been served under any one or more of the other Lease Agreements resulting in a termination of any such other Lease Agreement; and (b) the Lessee of any of the Initial Hotels defaults as "owner" under the related Hotel Management Agreement resulting in the termination of the same in respect of such Initial Hotel.</p> | No change. |

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Current Lease Agreements

After the Lease Extension/Amendment

(subject to Independent Unitholders' approval)

By the Lessee

No change.

Save in the case of severe destruction of the Initial Hotels and *force majeure*, the Lessee does not have a right to early terminate a Lease Agreement.

(b) Key Terms of the Lease Guarantees

Current Lease Guarantees

After the Lease Guarantee Amendments

Term

Commencing from the Listing Date (30 March 2007) and until the end of the term of the Lease Agreement.

Commencing from the Listing Date (30 March 2007) and until the end of the term of the Lease Agreement.

Guarantee

Regal Hotels has guaranteed to pay to the Lessor and the Trustee on demand by the Lessor and/or the Trustee all amounts from time to time owing or payable by the Lessee's to the Lessors under the Lease Agreements.

No change.

Third Party Guarantee

For as long as the Lease Agreements are in place, Regal Hotels will maintain an irrevocable and unconditional on demand third party guarantee in favour of the Lessors and the Trustee. For the period from 2011 to 2015, the guaranteed amount shall equal to the highest of: (a) the amount of security deposit as determined by the Independent Professional Property Valuer upon each annual rent review; (b) 50% of the annual base rent as determined by such valuer upon each annual rent review; and (c) 50% of the floor rent.

For as long as the Lease Agreements are in place, Regal Hotels will maintain an irrevocable and unconditional on demand third party guarantee in favour of the Lessors and the Trustee. For the period from 2016 to 2020, the guaranteed amount shall equal to the highest of: (a) the amount of security deposit as determined by the Independent Professional Property Valuer upon each annual rent review; (b) 25% of the annual base rent as determined by such valuer upon each annual rent review; and (c) 25% of the floor rent.

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2.2 Lease Extension/Amendment and Lease Guarantee Amendments

On 12 March 2015, the parties to each Lease Agreement entered into a Supplemental Lease Agreement to: (a) extend the original term of each Lease Agreement by a further five years (so that the total term of each Lease Agreement, being the original term together with the Extended Period, will be from 30 March 2007 to 31 December 2020); and (b) amend the formula for calculating the amount of the security deposit during the Extended Period as set out in the table below (the “**Lease Extension/Amendment**”).

| Security deposit for the current lease period (for the fiscal years 2011-2015) | Security deposit for the Extended Period (for the fiscal years 2016-2020) |
|--|--|
| The highest of: (i) market rate determined by the Independent Professional Property Valuer upon each annual rent review; (ii) 50% of annual base rent as determined by such valuer, and (iii) 50% of annual floor rent | The highest of: (i) market rate determined by the Independent Professional Property Valuer upon each annual rent review; (ii) 25% of annual base rent as determined by such valuer, and (iii) 25% of annual floor rent |

The current market rate for the security deposit is 25% of annual base rent, as determined by the Independent Professional Property Valuer for the market rental packages in respect of the 2014 and 2015 fiscal years, and the Manager considers it reasonable to anticipate the same security deposit market rate for the years beyond 2015 and to align the required minimum amount of security deposit with the anticipated market rate.

On the same date, the parties to each of the Lease Guarantees also entered into a Supplemental Lease Guarantee to make consequential amendments in light of the Lease Extension/Amendment, so that Regal Hotel’s obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit under the Lease Extension/Amendment (the “**Lease Guarantee Amendments**”).

The Supplemental Agreements shall only become effective upon Independent Unitholders having approved the Lease Matters Requiring Approval.

Save for the Lease Extension/Amendment and Lease Guarantee Amendments, no other changes would be made to the terms and conditions of the Lease Agreements and the Lease Guarantees. In particular, the rent payable by the Lessee to each Lessor in respect of the Extended Period will reflect the current rental arrangement and continue to be determined in the same manner as for the period from 1 January 2011 to 31 December 2015 (that is, such rent will be determined annually based on the Market Rental Package determined by the Independent Professional Property Valuer no later than 30 September of the preceding year). Pursuant to the terms of the Lease Agreements, the Independent Professional Property Valuer is jointly appointed by the parties to the Lease Agreements. Separately, going forward, such appointment shall be reviewed, considered and endorsed by the Audit Committee.

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The Lessors will commence negotiations with the Lessee for the possible further extension of the leases of the Initial Hotels at least two years before the expiry of the Extended Period to facilitate the Manager's formulation of strategic plans with respect to the Initial Hotels. Further announcement(s) will be made by the Manager in compliance with the REIT Code if and when definitive documents in respect of the possible further extension of the leases of the Initial Hotels are entered into.

2.3 Reasons and Benefits; Risk Factors

The Manager considers that the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are: (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding: (i) the Extended Period being shorter than the original term of the Lease Agreements; (ii) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit; and (iii) no specific deals with alternative parties having been sought or considered by the Manager. In forming this view, the Manager has, among other things, considered the following:

(a) Track Record and Continuity

The Lease Agreements have been in place since Regal REIT's listing. Since then, the Lessee has paid rent and other payments punctually and met all of its other obligations under the Lease Agreements such as provision of information to Regal REIT. Further, the Lessee has consistently been co-operative with the Manager on matters which require their joint input such as the determination of capital expenditure budgets and annual Market Rental Packages.

With the proven track record of the Lessee and considering the strong alignment of interests between Regal REIT and Regal Hotels (being the holding company of the Lessee), the Manager considers it to be crucial to maintain its business relationship with the Lessee. The Manager also believes that the Lease Extension/Amendment will facilitate business continuity by maintaining the current lease structure. Such business relationship and business continuity are well-proven and important for Regal REIT's Unitholders, noteholders and other stakeholders (including but not limited to the lenders, the Lessee and the Hotel Manager) who may have invested in or partnered with Regal REIT on the above basis.

Conversely, if the Lease Matters Requiring Approval are not approved by Independent Unitholders, the Manager would need to seek an alternative lessee to replace the existing Lessee. The incoming lessee will have no operating history with the Initial Hotels, nor any track record on whether the incoming lessee will consistently meet its obligations under its lease agreement. Accordingly, there is a risk that the performance of the Initial Hotels may deteriorate under another lessee which, in turn, may adversely affect the financial performance of Regal REIT.

(b) Facilitation of Regal REIT's Growth Strategy

Regal Hotels has been very supportive of Regal REIT since its listing and has provided acquisition opportunities (such as the acquisition of the iclub Wan Chai Hotel, the iclub Sheung

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Wan Hotel and the iclub Fortress Hill Hotel) to facilitate Regal REIT's external growth strategy during such time. The Manager believes that Regal Hotels will continue its efforts to contribute to the growth of Regal REIT if it can come to terms with the Lessee regarding the extension of the term of the Lease Agreements.

Conversely, if the Lease Matters Requiring Approval are not approved by Independent Unitholders, Regal Hotels may be discouraged from introducing new acquisition opportunities to Regal REIT if, after the initial lease term for the target hotel has expired, there is a risk that the parties are unable to come to terms regarding an extension of the term of the lease (following which Regal Hotels' operational control over the target hotel will be lessened). This could, in turn, have a material adverse impact on Regal REIT's external growth strategy and the future financial performance of Regal REIT.

(c) Maintain Current Hotel Management Fee

As stated in the Offering Circular, the appointment of the Hotel Manager under the Hotel Management Agreements is 20 years from the Listing Date (expiring in March 2027).

If the Lease Matters Requiring Approval are not approved by Independent Unitholders, the Lease Agreements shall expire while the Hotel Management Agreements are in subsistence. Following the expiry of the Lease Agreements, the hotel management base fees and incentive fees payable by Regal REIT to the Hotel Manager under the Hotel Management Agreements will increase from 1% to 2% of Gross Revenues (as defined in the Hotel Management Agreement) and from 1% to 5% of the excess of Adjusted GOP (as defined in the Hotel Management Agreement) over the hotel management base fees and fixed charges. The Lease Extension/Amendment can avoid an uplift in fees during the Extended Period that may have a material adverse impact on the financial performance of Regal REIT.

(d) Potential Conflict of Interests between an Incoming Lessee and the Existing Hotel Manager

Currently, there is no subsisting event of default under the Hotel Management Agreements that would entitle Regal REIT to terminate the Hotel Management Agreements. Expiry of the Lease Agreements does not, in and of itself, constitute an event of default that allows Regal REIT to terminate the Hotel Management Agreements. While Regal REIT may terminate the Hotel Management Agreements if the relevant Lease Agreements are terminated due to a breach by the Lessee, no such breach by the Lessee has taken place to date.

Further, as stated in the Offering Circular, the Initial Hotels are permitted to use the "Regal" brand name pursuant to the Deed of Trade Mark Licence dated 16 March 2007. However, this licence shall terminate upon termination of the relevant Hotel Management Agreements. The early termination of this licence would be very disruptive to Regal REIT's business operations and could, in turn, have a material adverse impact on the financial performance of Regal REIT.

Accordingly, the terms of the Hotel Management Agreement do not permit, nor is it otherwise feasible for, an incoming lessee to also replace the Hotel Manager. If the incoming

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lessee has no affiliation with the Hotel Manager, their interests may not be aligned, as the incoming lessee and the Hotel Manager may have different economic interests and goals. There may also be conflicts between the policies or objectives adopted by the incoming lessee and the Hotel Manager. Such conflicts may affect the smooth operation of the Initial Hotels and could have a material adverse impact on the financial performance of Regal REIT.

(e) Best Available Deal under the Current Contractual Structure/Arrangements of Regal REIT's Initial Hotels

Pursuant to the Hotel Management Agreements, the Hotel Manager cannot be replaced prior to expiry of the relevant Hotel Management Agreement (unless under the particular circumstances as described in detail in the Offering Circular), and therefore any incoming lessee may not be able to replace the Hotel Manager. Given the prevailing structure of Regal REIT's business operations in respect of the Initial Hotels, the Manager is of the view that the prospect of receiving any reasonable proposal from other parties adopting a structure similar to the prevailing one is unlikely due to the practical limitations under the Hotel Management Agreements. In addition, having considered the time, financial and administrative resources required, the Manager is of the view that, on balance, it is not commercially practical for Regal REIT to seek alternative deals from other potential lessees.

The Manager considers that, if there were to be a new lessee, certain amount of time will be required by such new lessee to adapt to the existing business operations of the Initial Hotels and cooperation arrangement with the Hotel Manager. The Manager wishes to keep the existing lease/management structure of the Initial Hotels intact, thereby maintaining the smooth operations of the Initial Hotels managed by the Hotel Manager. Any changes in lessee or hotel manager may unnecessarily disrupt the operations of Regal REIT. Based on the foregoing and having taken into account the alignment in economic interests of the Lessee and the Hotel Manager (both being wholly-owned subsidiaries of Regal Hotels), the Manager considers the Lease Agreements as extended/amended pursuant to the Lease Extension/Amendment to be the best available deal for Regal REIT.

2.4 CCPT Waiver Extension

The SFC has granted a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions between Regal REIT, the Regal Connected Persons Group (as defined in the Offering Circular) and/or the REIT Manager Group (as defined in the Offering Circular) (the "**CCPT Waiver**"). Details of the CCPT Waiver are contained in the Offering Circular.

Such categories of connected party transactions include transactions under the Lease Agreements and the Lease Guarantees. However, the duration of the abovementioned waiver for these agreements is: (a) (in respect of the Lease Agreements) until the earlier of 31 December 2015 or the date of termination; and (b) (in respect of the Lease Guarantees) until the last date of subsistence.

As a consequence of the Lease Extension/Amendment, the Manager has made a submission to the SFC to seek an extension of the abovementioned waiver in respect of the Lease Agreements, so that

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such waiver will only cease on the date of expiry (being 31 December 2020) or termination of such agreements, whichever is earlier (the “**CCPT Waiver Extension**”). For the avoidance of doubt, the period of waiver in respect of the Lease Guarantees under the existing CCPT Waiver covers the last date of subsistence of the Lease Guarantees, and therefore would not require an extension.

The Manager undertakes that it will continue to comply with the waiver conditions (the “**Waiver Conditions**”) of the CCPT Waiver, subject to the proposed CCPT Waiver Extension. Assuming the CCPT Waiver Extension is approved by the Independent Unitholders and the SFC, the following Waiver Conditions will apply or continue to apply:

(i) Due approval by Independent Unitholders

The CCPT Waiver Extension will only take effect upon the CCPT Waiver Extension having been approved by the Independent Unitholders at the EGM by way of an Ordinary Resolution.

(ii) Duration

The waiver is for a period set out in the table below, provided that the connected party transactions are duly and properly carried out in accordance with the terms and conditions of the relevant documents.

| Agreement/Deed | Period of Waiver granted |
|---|---|
| Lease Agreements (as supplemented and/or amended from time to time) | Listing Date to 31 December 2020 or termination, whichever is earlier |
| Lease Guarantees (as supplemented and/or amended from time to time) | Listing Date to last date of subsistence |
| Hotel Management Agreements | 20 years from the Listing Date or date of early termination, whichever is earlier |
| Deed of Trade Mark Licence | Listing Date to date of expiry or termination, whichever is earlier |

The lessor of each Lease Agreement shall commence negotiations with the lessee of same Lease Agreement for the possible further extension of that Lease Agreement at least two years before expiry of the extended five-year lease period from 1 January 2016 to 31 December 2020.

(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

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the terms and conditions of the above documents, without the approval of Unitholders (other than those Unitholders who have a material interest in the relevant transactions within the meaning of 8.11 of the REIT Code) by way of an Ordinary Resolution.

(iv) Disclosure in reports and results announcements

Details of the relevant connected party transactions will be disclosed in Regal REIT's semi-annual and annual reports and results announcements, as required under 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 and/or any delay in payment of liquidated damages or cash compensation as specified in the relevant documents; (ii) any payments under the Lease Guarantees; (iii) any payments of hotel management fees (where paid by Regal REIT to the Hotel Manager); (iv) annual rent reviews under the Lease Agreements and details of the Market Rental Packages determined by the jointly appointed independent professional property valuer; and (v) any breach of terms of any of the above documents covered by the waiver.

(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 connected party 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 connected party 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/deeds 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 relevant connected party 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;

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- (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 or deeds 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 connected party transaction to allow, the auditors of Regal REIT sufficient access to their respective records for the purpose of reporting on the transactions.

(ix) Notifications 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) 8.14 of the REIT Code

The Manager shall comply in full with the requirements of 8.14 of the REIT Code where there is any material change to the terms of any of the relevant connected party 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.

2.5 Approvals Required

Pursuant to the CCPT Waiver, material changes to the terms and conditions of the Lease Agreements and Lease Guarantees shall require the approval of Independent Unitholders by Ordinary Resolution. For good corporate governance, the Manager will also seek approval for the CCPT Waiver Extension from the Independent Unitholders by way of an Ordinary Resolution.

If the Lease Matters Requiring Approval are not approved by the Independent Unitholders: (a) the Lease Agreements shall terminate on 31 December 2015; and (b) the Manager will explore the entering into of a new lease agreement with a new lessee so that the Initial Hotels will continue to be master leased following the termination of the Lease Agreements. However, this may involve risks that could adversely affect the financial performance of Regal REIT. A new lessee may affect Regal REIT's track record and business continuity, and an incoming lessee's interests may not be aligned with the interests of the existing Hotel Manager. Conflicts between a new lessee and the existing Hotel Manager may affect the smooth operation of the Initial Hotels and could have a material adverse impact on the financial performance of Regal REIT. Further, Regal REIT's growth strategy may be affected if Regal Hotels is discouraged from introducing new acquisition opportunities to Regal REIT.

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Further, the hotel management base fee and incentive fee payable by Regal REIT to the Hotel Manager under the Hotel Management Agreements will increase, which may have a material adverse impact on the financial performance of Regal REIT. For further details of such risks, please refer to section 2.3 above.

Accordingly, the Manager shall seek Independent Unitholders' approval for the Lease Matters Requiring Approval at the EGM, as set out in Ordinary Resolution no. 1. Such Ordinary Resolution will be decided on a poll at the EGM pursuant to the Trust Deed.

2.6 Opinion of the Board

The Board (including all the Independent Non-executive Directors) confirms that in its opinion:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are: (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding: (a) the Extended Period being shorter than the original term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit; and (c) no specific deals with alternative parties having been sought or considered by the Manager. In forming such view, the Board has considered (among other things) the reasons and benefits referred to in section 2.3 above; and
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole.

Further, the Board confirms that (a) the Lease Agreements and Lease Guarantees, as supplemented and/or amended, continue to be conducted in the ordinary and usual course of business of Regal REIT; and (b) the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended, are at arm's length, on normal commercial terms and are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole. The Board recommends that the Independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the Lease Matters Requiring Approval.

Savills (Hong Kong) Limited has been appointed as the Independent Hotel Expert to provide its opinion on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are entered into on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. Taking into account the Letter from the Independent Financial Adviser, the Board considers the appointment of the Independent Hotel Expert to be acceptable.

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2.7 Opinion of the Independent Financial Adviser

Altus Capital Limited, appointed by the Manager as the Independent Financial Adviser, is of the view that:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are: (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding: (a) the Extended Period being shorter than the original term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in lower security deposit; and (c) no specific deals with alternative parties having been sought or considered by the Manager; and
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole.

Further, the Independent Financial adviser is of the view that (a) the Lease Agreements and Lease Guarantees, as supplemented and/or amended, continue to be conducted in the ordinary and usual course of business of Regal REIT; and (b) the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended, are at arm's length, on normal commercial terms and are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole.

Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration (including consultation with, and the opinion of, the Independent Hotel Expert on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts), and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" in this Circular. As stated therein, the Independent Financial Adviser is of the view that the appointment of the Independent Hotel Expert is acceptable.

2.8 Opinion of the Independent Board Committee

The Independent Board Committee, comprising all the Independent Non-executive Directors (other than Hon. Abraham SHEK Lai Him, GBS, JP, who is an independent non-executive director of Paliburg, being the controlling shareholder of Regal Hotels which is the parent company of the Lessee), has been established by the Board to advise the Independent Unitholders on the Lease Agreements, the Lease Guarantees and the Lease Matters Requiring Approval.

Altus Capital Limited has been appointed as the Independent Financial Adviser to provide its opinion on the Lease Agreements, the Lease Guarantees and the Lease Matters Requiring Approval to the Independent Board Committee (as well as the Independent Unitholders and the Trustee).

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Having taken into account the opinion of and reasons considered by the Independent Financial Adviser, the Independent Board Committee confirms that in its opinion:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are: (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding the Extended Period being shorter than the original term of the Lease Agreements, the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit in respect of the Lease Agreements and no specific deals with alternative parties having been sought or considered by the Manager; and
- (ii) in its opinion the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole.

Further, the Independent Board Committee confirms that (a) the Lease Agreements and Lease Guarantees, as supplemented and/or amended, continue to be conducted in the ordinary and usual course of business of Regal REIT; and (b) the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended, are at arm's length, on normal commercial terms and are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole. The Independent Board Committee recommends that the Independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the Lease Matters Requiring Approval.

Savills (Hong Kong) Limited has been appointed as an Independent Hotel Expert to provide its opinion on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are entered into on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. Taking into account the Letter from the Independent Financial Adviser, the Independent Board Committee considers the appointment of the Independent Hotel Expert to be acceptable.

2.9 Trustee's view

Based and in sole reliance on (1) the information and assurances provided by the Manager; (2) the opinion of the Board; (3) the opinion of the Independent Financial Adviser; (4) the opinion of the Independent Board Committee; and the (5) Market Rental Packages determined by the Independent Professional Property Valuer, and having taken into account its duties set out in the Trust Deed and the REIT Code, the Trustee is of the view that the Lease Matters Requiring Approval are fair and reasonable so far as the Independent Unitholders are concerned, and in the best interests of Independent Unitholders and Regal REIT as a whole and the Trustee is satisfied as to the independence and competence of the Independent Hotel Expert in relation to the Lease Matters Requiring Approval.

Based on the foregoing matters, the Trustee has no objection to the Manager proceeding with the Lease Matters Requiring Approval, subject to approval of Independent Unitholders.

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These views are furnished for the sole purpose of complying with 10.10(o) of the REIT Code, and are not to be taken as a recommendation or representation by the Trustee of the merits of the Lease Matters Requiring Approval.

The Trustee has not made any assessment of the merits or impact of the Lease Matters Requiring Approval, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Independent Unitholders, including those who are in any doubt as to the merits or impact of the Lease Matters Requiring Approval, to consider the opinions of the Independent Financial Adviser and Independent Board Committee addressed to them and to seek their own additional financial or other professional advice.

3. PROPOSED EXPANSION OF REGAL REIT'S INVESTMENT STRATEGY TO INCLUDE PROPERTY DEVELOPMENT AND RELATED ACTIVITIES

3.1 Overview of the REIT Code Amendments

On 27 January 2014, the SFC issued a consultation paper on Amendments to the Code on Real Estate Investment Trusts inviting public comments on proposed amendments to the REIT Code to allow REITs to undertake property development activities and invest in certain financial instruments. The proposals gained majority support, and the REIT Code Amendments became effective from 29 August 2014.

As a result, subject to Unitholders' approval of relevant changes to the Trust Deed as appropriate, REITs could be provided with more flexibility in the scope of their investment strategy, as they can undertake Property Development and Related Activities and invest in Relevant Investments (being certain financial instruments specified in the REIT Code). The ability of a REIT to do so is subject to certain restrictions including (but not limited to) the following investment caps, which are more particularly detailed in sections 3.4(a) and 4.3(a) of this Circular:

- the Aggregate Development Costs shall not exceed 10% of the REIT's gross asset value at any time; and
- the total sum of: (1) the Aggregate Development Costs; (2) the combined value of the Relevant Investments; and (3) the value of other non-real estate assets shall not exceed 25% of the REIT's gross asset value at any time.

Currently, the scope of Regal REIT's investment strategy does not include Property Development and Related Activities or investing in Relevant Investments. The Manager considers the new flexibility provided by the REIT Code Amendments to be beneficial to Regal REIT as such flexibility will support its long-term and sustainable growth, as more fully explained below and, accordingly, subject to Unitholders' approval, proposes to adopt the Expanded Investment Scope regarding Property Development and the Expanded Investment Scope regarding Relevant Investments.

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3.2 Expanded Investment Scope regarding Property Development

The Manager proposes to expand the scope of Regal REIT's investment strategy to include Property Development and Related Activities. Property Development and Related Activities refers to (i) property development (including both new development projects and the redevelopment (but not refurbishments, retrofittings and renovations)) of existing real estate; and (ii) the acquisition of an interest in uncompleted units in a building.

3.3 Reasons and Benefits for Undertaking Property Development and Related Activities

The reasons and benefits for the Expanded Investment Scope regarding Property Development are set out below.

- ***Acquisition of properties at an early stage increases investment opportunities and lowers entry cost.*** Attractive opportunities to acquire additional properties that meet Regal REIT's investment criteria are limited and not always readily available. If Regal REIT can invest early in the project cycle (either by way of acquiring properties under development or undertaking property developments), it will be provided with an avenue to investment opportunities at lower investment costs (even close to "at-cost" pricing), which could lead to more attractive yields and/or greater capital appreciation potential.
- ***Better control over designing and building a property that fits Regal REIT's investment strategy.*** Early investment in a property development project will enable the Manager to have input and control over the final product it wishes to acquire. This "design-and-build" concept will help to avoid the situation where the Manager has to acquire a property with design and specifications that are not entirely satisfactory to the Manager, leading to additional costs for modifications and enhancement.
- ***Opportunities to redevelop existing hotel properties where the financial benefit of redevelopment outweighs the negative impact on rental due to age.*** Currently, Regal REIT can only carry out refurbishments, renovation and improvements work on the existing hotel properties but not on redevelopments. As quality and design of the existing hotel properties greatly affect the room rates and the demand for rooms, the existing hotel properties may reach a stage where they can be redeveloped for higher rates of return. Further, if Regal REIT is not able to redevelop its aging hotel properties, significant capital amounts will need to be spent on renovation work, repairs and maintenance and such hotel properties might eventually have to be disposed of at depressed prices.
- ***Opportunities to acquire properties at strategic locations.*** The location of a property may affect or may be affected by the potential strategic benefits and synergies with Regal REIT's existing portfolio. The Manager will be able to tap into a larger pool of potential acquisitions which may allow the Manager to acquire properties at better geographical locations that may enhance the overall performance of its existing portfolio.

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The Manager will ensure that before engaging in any Property Development and Related Activities, it will have competent and adequate staff with sufficient and appropriate skills, resources and expertise in place, either as part of their in-house abilities or by way of outsourcing to a competent external party under the Manager's oversight, to manage the Property Development and Related Activities. The Manager may consider, where appropriate and subject to requirements under the REIT Code, collaborating with third parties (such as reputable developer(s)) in conducting the Property Development and Related Activities, by way of joint ventures or other arrangements.

In order to diversify the property portfolio of Regal REIT, it is also possible for Regal REIT to undertake Property Development and Related Activities in respect of types of properties other than hotels, such as serviced apartments or commercial properties (including office and retail properties), in accordance with its current investment strategy.

3.4 Compliance with Laws and Regulations

(a) Restrictions under the REIT Code

Having regard to the applicable legal and regulatory requirements, the proposed Expanded Investment Scope regarding Property Development is subject to the REIT Code restrictions summarised below.

- (i) The Aggregate Development Costs shall not exceed 10% of Regal REIT's Gross Asset Value of the Deposited Property (which, for the purpose of calculating the denominator to be used for the purpose of the GAV Cap, shall exclude the value of any investments in properties under development (which for the avoidance of doubt, shall not include the value of existing properties undergoing redevelopment)) at any time.
- (ii) Investment in vacant land is prohibited unless it can be demonstrated that such investment is "part-and-parcel" of Property Development and Related Activities and within the investment objective or policies of Regal REIT.
- (iii) Regal REIT shall hold properties developed pursuant to Property Development and Related Activities for a minimum of two years from the completion of the property, unless the Unitholders approve the disposal of such properties by Special Resolution at a general meeting.
- (iv) At least 75% of Regal REIT's Gross Asset Value of its Deposited Property shall be invested in real estate that generates recurrent rental income at all times.

The Manager will revise the Compliance Manual to contain the restrictions set out in this section 3.4(a).

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(b) Corporate Governance

In addition to the REIT Code, the Manager should comply with the principles of good corporate governance in relation to Property Development and Related Activities, including the following:

- the Manager should include a prudent buffer when preparing budgets in line with best industry standards and practices to cater for cost overruns that may arise during the course of development (and where the Property Development and Related Activities are conducted overseas, the Manager should also take into account any currency impact in the calculation);
- any decisions made by the Manager to invest in Property Development and Related Activities must be made solely in the best interest of Unitholders;
- investments in Property Development and Related Activities should not result in a material change in the overall risk profile of Regal REIT;
- the Manager must have the requisite resources, competence, expertise, effective internal controls and risk management systems for conducting Property Development and Related Activities;
- the upfront calculation of Property Development Costs and, where necessary, any subsequent increases should be based on a fair estimate made by the Manager in good faith and supported by the opinion of an independent expert acceptable to the SFC;
- the Manager should consult the Trustee and issue an announcement to inform Unitholders upon Regal REIT entering into a contract to invest in Property Development and Related Activities which should include all material information concerning the Property Development and Related Activities (including a summary of the key terms and conditions, the Property Development Costs and the risks involved); and
- the Manager shall also ensure that all material information concerning the Property Development and Related Activities is set out in periodic updates (namely, the interim and annual reports) which should include, for instance, the development progress, costs incurred and the extent (in percentage terms) to which the GAV Cap has been applied. The relevant disclosure in the annual reports shall be reviewed by the Audit Committee of the Manager.

The Manager will revise the Compliance Manual to contain the measures set out in this section 3.4(b).

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3.5 Risks Relating to Property Development and Related Activities

Undertaking Property Development and Related Activities may involve, without limitation, the following characteristics and risks:

- (a) **Construction risk.** The progress and costs of Property Development and Related Activities may be affected by factors such as shortages of materials, equipment, contractors and skilled labour, labour disputes, construction accidents, natural catastrophes and adverse weather conditions. By undertaking Property Development and Related Activities, Regal REIT will be exposed to the risk of increased labour and construction costs during various stages of the property development. If the costs of labour or construction materials increase significantly, and Regal REIT cannot offset such increase by reducing other costs associated with the project, this may adversely impact the return from its investments in that project and Regal REIT's financial condition, results of operations and level of distributions to Unitholders.
- (b) **Risk of default of construction project counterparties.** The work of third party contractors (including sub-contractors) engaged to carry out work in relation to Property Development and Related Activities may not always be satisfactory or match Regal REIT's expected quality, timing and safety standards and its timing requirements. Any such contractors may undertake projects for other development companies thereby diverting resources or may encounter financial or other difficulties, which may cause unforeseen delays in the completion of Regal REIT's property developments or increase the costs of construction. This, in turn, may adversely impact the return from its investments in that project and Regal REIT's financial condition, results of operations and level of distributions to Unitholders.
- (c) **Risk of failure or delays in obtaining governmental approvals.** In order to develop and complete a property development, various governmental permits, licences, certificates and other regulatory approvals at various stages of the property development process are required. Each approval is dependent on the satisfaction of certain conditions. Regal REIT may encounter problems or delays in obtaining such approvals or in fulfilling the conditions required for obtaining the approvals. If Regal REIT fails to obtain the approvals or to fulfil the conditions of those approvals for its property developments in a timely manner, or at all, these property developments may not proceed on schedule. In addition, if there is any change in local legislation, rules and regulations relating to a property development, Regal REIT may need to revise its original property development plan, leading to extra cost and time needed for completion. This in turn may adversely impact Regal REIT's financial condition, results of operations and level of distributions to Unitholders.
- (d) **Risk of rising financing costs.** Property development projects typically require substantial capital expenditures prior to and during the construction period. Regal REIT may have to obtain debt facilities to finance the construction project. There is a risk that Regal REIT may not be able to source and secure adequate financing to complete a development project. Fluctuations in interest rates may increase the financing costs incurred from the loan agreements and may have an adverse impact on the level of distributions to Unitholders. Changes in the business environment during the construction period, such as fluctuations

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in the prospective rental yield and property value, may affect the value of a development which, in turn, may result in rising financing costs of the project that may adversely impact Regal REIT's financial condition, results of operations and level of distributions to Unitholders.

- (e) ***Risk of disputes with partners.*** Regal REIT may undertake Property Development and Related Activities through joint ventures or in collaboration with third parties, subject to the REIT Code. Such joint venture arrangements or collaborations may involve a number of risks, including disputes with partners in connection with the performance of their obligations under the relevant projects, joint ventures or cooperative property development agreements, disputes as to the scope of each party's responsibilities under these arrangements, financial difficulties encountered by such partners affecting their ability to perform their obligations, or conflicts between the policies or objectives adopted by such partners and those adopted by Regal REIT. These disputes may lead to disputes or legal proceedings and may result in damage to Regal REIT's reputation, incurrence of substantial costs and the diversion of resources and management's attention. The occurrence of any of the foregoing and other related factors could adversely affect Regal REIT's financial condition, results of operations and level of distributions to Unitholders.

- (f) ***Risk of delay and impact on income.*** During the period that Property Development and Related Activities are being undertaken, Regal REIT may receive reduced or no income from the underlying property. Such period may be extended if, for the reasons noted above, completion of the Property Development and Related Activities is delayed. This in turn may adversely impact Regal REIT's financial condition, results of operations and level of distributions to Unitholders.

The Manager will revise the Compliance Manual to contain the following measures to mitigate the above risks:

- (a) to prepare detailed budgets and manage budgets effectively and efficiently;

- (b) to ensure that construction contracts are entered into at arm's length on normal commercial terms and contain adequate risk ring-fencing measures in line with best industry practices (for example, appropriate payment and indemnity terms) so as to protect investors' interests;

- (c) to monitor the process of application of all relevant governmental and regulatory approvals, and conduct proper due diligence to ensure all such approvals required for Property Development and Related Activities have been obtained and all applicable laws and regulations are complied with;

- (d) to ensure Regal REIT has sufficient resources to finance the Property Development and Related Activities at all times, having regard to the limitations on borrowing under the REIT Code and any exigencies that may arise in the course of construction;

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- (e) to ensure it has competent and adequate staff with sufficient and appropriate skills, resources and expertise in place, either as part of their in-house abilities or by way of outsourcing to a competent external party (e.g. engaging a reputable, suitably qualified and financially sound developer or contractor to undertake the development or construction activities) under the Manager's oversight, to manage the Property Development and Related Activities; and
- (f) to ensure that the Property Development and Related Activities would not result in a material change or increase in the overall risk profile of Regal REIT.

3.6 Related Proposed Amendments to the Trust Deed

In connection with the proposed Expanded Investment Scope regarding Property Development, the Manager proposes consequential amendments to the Trust Deed (being the Property Development Amendments) as summarised below, the full text of which is set out in Appendix I to this Circular.

- (a) ***Property Development and Related Activities.*** The Manager proposes to insert a new Clause 10.2.4A into the Trust Deed to specify that the investment policy of the Manager shall include engaging in or participating in Property Development and Related Activities, provided the Aggregate Development Costs do not exceed the GAV Cap at any time. Consequentially, the Manager proposes to: (i) amend and expand the definition of "Authorised Investments" to expressly include Property Development and Related Activities; (ii) insert new definitions for "Property Development and Related Activities", "GAV Cap", "Gross Asset Value of the Deposited Property", "Property Development Costs" and "Aggregate Development Costs" under Clause 1.1 of the Trust Deed; and (iii) insert a new Clause 6.2A into the Trust Deed providing further details as to calculation of the Gross Asset Value of the Deposited Property for the purposes of the GAV Cap.
- (b) ***Vacant Land Restrictions.*** The Manager proposes to amend Clause 10.3.3 of the Trust Deed to specify that Regal REIT shall not invest in vacant land unless such investment is part-and-parcel of Property Development and Related Activities and within the investment objective or policies of Regal REIT.
- (c) ***Minimum Holding Period.*** The Manager proposes to amend Clauses 10.3.6 and 25.4.1(iii) of the Trust Deed to add that the requirement to hold its properties for a period of two years will, in the context of a property undergoing Property Development and Related Activities, commence from the date that the Property Development and Related Activities are completed unless Unitholders pass a Special Resolution approving a disposal prior to the expiration of such two year holding period.
- (d) ***General Threshold Requirement.*** The Manager proposes to insert a new Clause 10.3.9 into the Trust Deed in compliance with the REIT Code requirement stating that at least 75% of the Gross Asset Value of the Deposited Property shall be invested in real estate that generates recurrent rental income at all times.

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3.7 Approvals Required

Currently, the scope of Regal REIT's investment strategy does not include Property Development and Related Activities. In order for Regal REIT to be able to invest in Property Development and Related Activities, Unitholders must first approve, by way of Special Resolution at the EGM in accordance with the Trust Deed, the Expanded Investment Scope regarding Property Development as set out in Special Resolution no. 1.

Special Resolution no. 1 also covers the Property Development Amendments, because 9.6 of the REIT Code and Clause 26 of the Trust Deed provide that, save for certain limited exceptions as certified by the Trustee in writing, the Manager and the Trustee are only entitled to modify, alter or add to the provisions of the Trust Deed by a supplemental deed with the approval of Unitholders by way of Special Resolution.

Such Special Resolution will be decided on a poll vote at the EGM pursuant to the Trust Deed.

3.8 Recommendation

The Board considers that the proposed Expanded Investment Scope regarding Property Development together with the Property Development Amendments are in the interests of Regal REIT and the Unitholders as a whole and, accordingly, recommends Unitholders to vote in favour of Special Resolution no. 1 to be proposed at the EGM. The Trustee has no objection to the Manager submitting the Expanded Investment Scope regarding Property Development together with the Property Development Amendments for Unitholders' approval.

4. PROPOSED EXPANSION OF REGAL REIT'S INVESTMENT STRATEGY TO INCLUDE INVESTMENTS IN RELEVANT INVESTMENTS

4.1 Expanded Investment Scope regarding Relevant Investments

The Manager proposes to expand the scope of Regal REIT's investment strategy to include investments in Relevant Investments. Relevant Investments refers to the following types of investment: (i) securities listed on the SEHK or other internationally recognised stock exchanges; (ii) unlisted debt securities; (iii) government and other public securities; and (iv) local or overseas property funds.

4.2 Reasons and Benefits for Investments in Relevant Investments

The Manager considers it would be beneficial for the Unitholders to allow Regal REIT to invest in Relevant Investments, so that the Manager may have greater flexibility to manage Regal REIT's cash position to enhance returns to Unitholders, especially when cash deposit rates are low or when there are limited suitable property investment opportunities.

The Manager will ensure that before investing in any Relevant Investments, it will have competent and adequate staff with sufficient and appropriate skills, resources and expertise in place, either as part of their in-house abilities or by way of outsourcing to a competent external party under the Manager's oversight, to manage the Relevant Investments.

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4.3 Compliance with Laws and Regulations

(a) Restrictions under the REIT Code

Having regard to the applicable legal and regulatory requirements, the proposed Expanded Investment Scope regarding Relevant Investments is subject to the REIT Code restrictions summarised below.

- (i) The value of Regal REIT's holding of the Relevant Investments issued by any single group of companies shall not exceed 5% of Regal REIT's Gross Asset Value of the Deposited Property.
- (ii) The total sum of: (1) the Aggregate Development Costs, (2) the combined value of the Relevant Investments and (3) other non-real estate assets shall not exceed 25% of Regal REIT's Gross Asset Value of the Deposited Property at any time.
- (iii) The Relevant Investments should be sufficiently liquid, be capable of being readily acquired or disposed of under normal market conditions and in the absence of trading restrictions, and have transparent pricing.
- (iv) Regal REIT shall not invest in any high risk, speculative, or complex financial instruments, structured products or enter into any securities lending, repurchase transactions or other similar over-the-counter transactions.

When determining whether the 25% threshold limit in (ii) above is exceeded:

- Items that are considered as part-and-parcel of the properties of Regal REIT, and accounted for as such in accordance with requisite accounting standards, shall not be treated as "other non-real estate assets", and hence may be disregarded. These items would include plant, machinery and equipment, fixtures, furniture and fittings.
- Plain vanilla hedging instruments in the nature of treasury tools for Regal REIT to manage interest rate and currency exposures may also be disregarded. This exclusion is limited to those instruments to the extent used for genuine hedging purposes in connection with the ordinary course of business of Regal REIT, and not with the aim of yield enhancement.

The Manager will revise the Compliance Manual to contain the restrictions set out in this section 4.3(a).

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(b) Proper Investment Management and Corporate Governance

In addition to the REIT Code, the Manager should comply with the guidelines set by the SFC in relation to investments in Relevant Investments, including the following:

- any decisions made by the Manager to invest in Relevant Investments must be made solely in the best interests of Unitholders;
- the investments in Relevant Investments should not result in a material change in the overall risk profile of Regal REIT. In assessing the risks involved, the Manager should take into account relevant factors such as the creditworthiness of the issuer of the Relevant Investments. The Manager should monitor these investments on an ongoing basis to ensure compliance with all applicable requirements;
- the Manager must have the requisite resources, competence, expertise, effective internal controls and risk management system for investing in Relevant Investments;
- the Manager must ensure that the Relevant Investments are independently and fairly valued on a regular basis in accordance with the Trust Deed, in consultation with the Trustee. The valuation should be made in accordance with requisite accounting standards, as well as best industry standards and practices, and there should be a daily marked-to-market valuation wherever practicable;
- the Manager shall publish the full investment portfolio of the Relevant Investments with key information, such as credit ratings of the instruments invested, if applicable, on Regal REIT's website on an ongoing basis which shall be updated monthly within five business days of each calendar month end;
- the Manager shall manage the Relevant Investments and monitor them on an on-going basis to ensure the Maximum Cap is observed; and
- the Manager shall also ensure that all material information concerning the Relevant Investments is set out in periodic updates (namely, the interim and annual reports) which should include the extent (in percentage terms) to which the Maximum Cap has been applied. The relevant disclosures in the annual reports shall be reviewed by the Audit Committee of the Manager.

The Manager will revise the Compliance Manual to contain the measures set out in this section 4.3(b).

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4.4 Risks Relating to Investments in Relevant Investments

Investments in Relevant Investments may involve, without limitation, the following characteristics and risks:

- (a) **Market risk.** If Regal REIT invests in the Relevant Investments in the nature of equity securities, debt securities or property funds, it will be vulnerable to the risk that the market as a whole, or certain parts of the market where it has invested in declines or drops. The value of stocks, debt securities and property funds will fluctuate in response to (but not limited to) general market and economic conditions. Regal REIT will also be exposed to changes in commodity prices, foreign exchange rates and interest rates. Since the Hong Kong Dollar is pegged to the US Dollar, interest rate movements in Hong Kong can be directly influenced by interest rate movements in the United States. An increase in interest rate will adversely impact the value of debt securities. Such market fluctuations may affect the value of the Relevant Investments and have an adverse impact on the level of distributions to Unitholders.
- (b) **Default/Credit risk.** Regal REIT may face financial loss if an issuer or counterparty to the Relevant Investments defaults in payment, or experiences a decline in its payment capacity. A corporate event such as a merger or takeover may have an adverse impact on the financial position and thus the credit rating of the issuer. Any declines in the creditworthiness of an issuer may have a major impact on the value of the Relevant Investments.
- (c) **Price volatility risk.** Substantial fluctuations in the price of a financial instrument may negatively affect the investment. In the case of equity securities, stock prices may be highly volatile and unpredictable subject to different local and international market and economic factors. The price volatility of the stock may also increase due to speculations in the market and change in business risk of the underlying operations. These fluctuations can be unpredictable, and such occurrences could adversely affect Regal REIT's financial condition and results of operations.
- (d) **Liquidity risk.** There is a risk that Regal REIT cannot sell a sufficient amount of the Relevant Investments at a time that it wishes and at a satisfactory price because demand in the Relevant Investments is low at a particular time, notwithstanding the Relevant Investments being generally liquid when they were acquired and transparently priced. In such circumstances, Regal REIT may be forced to sell the Relevant Investments on unfavourable terms. In addition, Regal REIT will inevitably face liquidity risk in the unfortunate event of trading suspension or delisting of the Relevant Investments.
- (e) **Management and policy risk.** There is a risk that a company that Regal REIT invests in has improper management practices, which conducts a transaction that is detrimental to Regal REIT's interests as an investor or, in the case of property funds, poor performance by fund managers. Such actions by management of the relevant company or fund managers may affect the value of the Relevant Investments and have an adverse impact on the level of distributions to Unitholders. Changes in government policies and regulations, both locally and internationally, could have a profound impact on equity securities in the relevant sectors or industries.

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- (f) ***Risks in relation to property funds.*** Investments in local or overseas property funds may involve other additional risks. There is no assurance that a property fund will achieve its investment objective and strategy. A property fund will be highly susceptible to the relevant real estate market conditions if it concentrates its investment in a single property or asset class. In the case of overseas property funds, changes in exchange rates may have an adverse effect on the value of the fund's assets. Also, investing overseas will entail country/regional risks, as well as political risks.

Further, the Manager will use its best endeavours to mitigate and contain these risks by: (a) analysing the financials of any issuer before an investment is made and on a regular basis so long as it is part of Regal REIT's portfolio; (b) ensuring that the proportion of Regal REIT's assets exposed to such risks will be small and spread across multiple investments; and (c) adhering to the restrictions and adopting the corporate governance measures set out above in this section. It is also noted that, given Regal REIT is currently subject to fluctuating hotel room rates and occupancy levels in respect of its properties, investments in Relevant Investments will tend to have a diversifying effect on Regal REIT's overall risk exposure.

4.5 Related Proposed Amendments to the Trust Deed

In connection with the proposed Expanded Investment Scope regarding Relevant Investments, the Manager proposes consequential amendments to the Trust Deed (being the Relevant Investments Amendments) as summarised below, the full text of which is set out in Appendix II to this Circular.

- (a) ***Investments in Relevant Investments.*** The Manager proposes to expand the definition of "Authorised Investments" to expressly include the Relevant Investments. Consequentially, the Manager also proposes to: (i) insert new definitions for "Relevant Investments" and "Maximum Cap"; and (ii) insert a new Clause 6.2A of the Trust Deed providing further details as to calculation of Gross Asset Value of the Deposited Property for the purposes of the Maximum Cap.
- (b) ***Threshold on Relevant Investments Issued by Any Single Group of Companies.*** The Manager proposes to insert a new Clause 10.3.8 into the Trust Deed in compliance with the REIT Code requirement stating that the value of Regal REIT's holding of the Relevant Investments issued by any single group of companies shall not exceed 5% of the Gross Asset Value of the Deposited Property.
- (c) ***Valuation of Relevant Investments.*** The Manager proposes to amend Clause 6.1.4 of the Trust Deed (which currently only applies to derivative instruments used for hedging or efficient portfolio management purposes) so that it will also apply to the valuation of Relevant Investments. Such valuation shall also be subject to the existing Trust Deed proviso that requires all valuations to be in accordance with generally accepted accounting principles.
- (d) ***General Threshold Requirement.*** The Manager proposes to insert a new Clause 10.3.9 into the Trust Deed in compliance with the REIT Code requirement stating that at least 75% of the Gross Asset Value of the Deposited Property shall be invested in real estate that generates recurrent rental income at all times.

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4.6 Approvals Required

Currently, the scope of Regal REIT's investment strategy does not include investments in the Relevant Investments. In order for Regal REIT to be able to invest in the Relevant Investments, Unitholders must first approve, by way of Special Resolution at the EGM in accordance with the Trust Deed, the proposed Expanded Investment Scope regarding Relevant Investments as set out in Special Resolution no. 2.

Special Resolution no. 2 also covers the Relevant Investments Amendments, since (as noted in section 3.7 of this Circular) save for certain limited exceptions, amendments to the Trust Deed require the approval of Unitholders by way of Special Resolution.

Such Special Resolution will be decided on a poll vote at the EGM pursuant to the Trust Deed.

4.7 Recommendation

The Board considers that the proposed Expanded Investment Scope regarding Relevant Investments together with the Relevant Investments Amendments are in the interests of Regal REIT and the Unitholders as a whole and, accordingly, recommends Unitholders to vote in favour of Special Resolution no. 2 to be proposed at the EGM. The Trustee has no objection to the Manager submitting the Expanded Investment Scope regarding Relevant Investments together with the Relevant Investments Amendments for Unitholders' approval.

5. OTHER PROPOSED MINOR AMENDMENTS TO THE TRUST DEED

5.1 Amendments pursuant to the REIT Code Amendments

The REIT Code Amendments also include certain minor miscellaneous amendments, which the Manager wishes to reflect in the Trust Deed. The Miscellaneous Amendments are set out in Part A of Appendix III to this Circular.

5.2 Amendments pursuant to the SFC Circular

The Trustee Ordinance was revised with effect from 1 December 2013, which, among others, provides that a trustee of a trust is not liable for any act or omission of an agent, nominee or custodian acting for the trust if the trustee has discharged the statutory duty of care applicable to the trustee imposed under the revised Trustee Ordinance, but if such provision is inconsistent with the terms of the instrument creating the trust (in the case of Regal REIT, the Trust Deed), then such provision in the Trustee Ordinance will not apply.

In compliance with the SFC Circular, the Manager would like to take this opportunity to adopt the Trustee Ordinance Clarification Amendments to the Trust Deed. For reference, the proposed Trustee Ordinance Clarification Amendments are set out in Part B of Appendix III to this Circular.

5.3 Approvals Not Required

No specific approval from Unitholders is required for the Miscellaneous Amendments or the Trustee Ordinance Clarification Amendments, provided that the Trustee certifies pursuant to Clause

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26 of the Trust Deed and 9.6(a) of the REIT Code that, in its opinion, such modifications, alterations and/or additions to the Trust Deed are necessary in order to comply with applicable fiscal, statutory or official requirements (whether or not having the force of law). The Trustee has indicated that it would provide the relevant certificate prior to the execution of the supplemental Trust Deed to effect such amendments.

6. PROPOSED RE-ELECTION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

6.1 Recent Amendment to Compliance Manual in Relation to Term of Appointment of Independent Non-executive Directors

Recently, the Manager has amended the Compliance Manual in relation to the term of appointment of Independent Non-executive Directors. Prior to such amendments, under the Compliance Manual, the maximum term of an Independent Non-executive Director was nine years. The Compliance Manual has been amended so as to allow an Independent Non-executive Director to serve more than nine years on the Board subject to a separate resolution to be approved by Unitholders. Such amendments are in line with and reflect the requirement in A.4.3 of Appendix 14 of the Listing Rules as if they were applicable to Regal REIT.

6.2 Proposed Re-election of Independent Non-executive Directors

(i) Mr. John William Crawford, JP, an Independent Non-executive Director and the chairman of both the Audit Committee and Disclosure Committee of the Manager; (ii) Mr. Alvin Leslie Lam Kwing Wai, an Independent Non-executive Director and a member of the Audit Committee of the Manager; (iii) Mr. Kai Ole Ringenson, an Independent Non-executive Director and a member of both the Audit Committee and Disclosure Committee of the Manager; and (iv) Hon. Abraham Shek Lai Him, GBS, JP, an Independent Non-executive Director and a member of the Audit Committee of the Manager (collectively, the “**Relevant Directors**”) have served on the Board for more than nine years.

In accordance with the Compliance Manual, the Relevant Directors shall retire as Independent Non-executive Directors at the forthcoming EGM and have offered themselves for re-election.

The Relevant Directors have, when holding office as Independent Non-executive Directors, always contributed objectively in advising and giving independent guidance to the Board in their capacities as Independent Non-executive Directors and as members of Board committees. The four Relevant Directors place great importance on the Manager observing high standards of corporate governance, and with their relevant financial experience, regularly monitor communications with the Regal REIT’s external auditors to ensure the integrity of the Regal REIT’s interim and annual reports. The Manager has also received confirmations from each of the Relevant Directors regarding their independence in accordance with Rule 3.13 of the Listing Rules (as if they were applicable to Regal REIT) and the Compliance Manual, and the Board is of the view that the four Relevant Directors will continue to meet the Director independence requirements stated therein.

Taking into consideration the above and having considered the recommendations of the Audit Committee of the Manager, the Board is of the view that the lengths of service of each of the Relevant Directors has not, in any way, diminished their independence, and that each of the Relevant Directors

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is independent notwithstanding the fact that each of them has served on the Board for more than nine years as at 19 February 2015. The Board believes that each of the Relevant Directors possesses the required character, integrity and experience to continue fulfilling their respective roles as Independent Non-executive Directors, and their continued tenures will continue to bring valuable insights and expertise to the Board.

As such, the Board believes that each of the Relevant Directors should be re-elected as Independent Non-executive Directors, and that their respective re-elections as Independent Non-executive Directors are in the best interests of Regal REIT and the Unitholders as a whole. Accordingly, the Board proposes to the Unitholders the re-election of the Relevant Directors at the forthcoming EGM and their respective further appointments shall be subject to separate resolutions to be approved by the Unitholders. Subject to the passing of the EGM Resolutions to re-elect the Relevant Directors as set out in the EGM Notice (such date of passing the requisite resolutions is referred to as the “**Re-elected Date**”), the Relevant Directors shall continue to hold office until the general meeting immediately following the third anniversary of the Re-elected Date and shall then be eligible for re-election at that meeting and otherwise subject to the provisions under the Compliance Manual, as amended and/or supplemented from time to time.

Save as disclosed in this Circular, there is no other matter in connection with the re-election of the Relevant Directors that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Regal REIT.

None of the Relevant Directors has entered into any service contract with the Manager, nor have they been appointed for a specific term. Biographical details and other relevant information of each of the Relevant Directors are set out in Appendices IV to VII to this Circular.

6.3 Approvals Required

In accordance with the Compliance Manual, as each of Relevant Directors has served as a Director for nine years on 19 February 2015, their respective further appointments shall be subject to a separate resolution to be approved by Unitholders. Accordingly, subject to the passing of the relevant EGM Resolutions to re-elect the Relevant Directors as Independent Non-executive Directors as set out in the EGM Notice, the Relevant Directors shall continue to hold office after the Re-elected Date.

LETTER TO THE UNITHOLDERS

7. EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

EGM

The EGM will be held at 11:00 a.m. on 14 April 2015 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 EGM Resolutions set out on pages N-1 to N-4 in this Circular.

Closure of Register of Unitholders

The register of Unitholders will be closed from 10 April 2015 to 14 April 2015, 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 9 April 2015.

Voting

You can vote at the EGM if you are a Unitholder on 14 April 2015, which is referred to in this Circular as the EGM Record Date. You will find enclosed with this Circular the EGM Notice (please refer to pages N-1 to N-4 in this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, whether or not you plan to attend the EGM in person, in accordance with the instructions printed on the form of proxy, and return it to the Unit Registrar of Regal REIT, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Persons who have an interest in the EGM Resolutions must decline to accept appointment as proxies in respect of the EGM Resolutions unless the Unitholder concerned has specific instructions in his form of proxy as to the manner in which his votes are to be cast in respect of the EGM Resolutions.

Restriction on Voting on the EGM Resolution in respect of the Lease Matters Requiring Approval

9.9(f) of the REIT Code provides that where a Unitholder has a material interest in a resolution tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting its own Units at or being counted in the quorum for the general meeting.

LETTER TO THE UNITHOLDERS

Further, under paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in a 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 at or being counted in the quorum for the general meeting.

The Lessee is a wholly-owned subsidiary of Regal Hotels. As such, Regal Hotels has a material interest in the EGM Resolution in respect of the Lease Matters Requiring Approvals to be proposed at the EGM. Pursuant to the REIT Code and the Trust Deed, Regal Hotels has agreed that it will abstain, and will procure that its Associates (including without limitation, Century City, Paliburg and the Manager) will abstain, from voting on the EGM Resolution in respect of the Lease Matters Requiring Approval (except for voting pursuant to a proxy under a specific direction given by Independent Unitholder(s) to vote for or against such EGM Resolution on his or their behalf). As at the Latest Practicable Date, the aggregate number of Units held by Regal Hotels and its Associates was 2,443,033,102, which represents approximately 74.99% of the total Units in issue.

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. RESPONSIBILITY STATEMENT

The Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

Yours faithfully,
By Order of the Board
Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)
Simon LAM Man Lim
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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



13 March 2015

To: The Independent Unitholders of Regal REIT

Dear Sir or Madam,

LEASE MATTERS REQUIRING APPROVAL

We have been appointed as members of the Independent Board Committee to advise you in respect of the Lease Matters Requiring Approval, details of which are set out in the “Letter to the Unitholders” in the circular dated 13 March 2015 from the Manager to the Unitholders (the “**Circular**”), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

The Independent Financial Adviser has been appointed by the Manager to advise us, the Independent Unitholders and the Trustee as to whether, among other things:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are:
 - (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm’s length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding: (a) the Extended Period being shorter than the original term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit; and (c) no specific deals with alternative parties having been sought or considered by the Manager; and
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the “Letter from the Independent Financial Adviser” the text of which is contained in the Circular.

Having taken into account the opinion of the Independent Financial Adviser and the principal factors and reasons considered by them, we confirm that in our opinion:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, collectively, are: (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm’s length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole; (a) notwithstanding the Extended Period being shorter than the original term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit; and (c) no specific deals with alternative parties having been sought or considered by the Manager; and
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interests of the Independent Unitholders, as well as the Unitholders as a whole.

Further, we confirm that (a) the Lease Agreements and Lease Guarantees, as supplemented and/or amended, continue to be conducted in the ordinary and usual course of business of Regal REIT; and (b) the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended, are at arm’s length, on normal commercial terms and are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole.

Savills (Hong Kong) Limited has been appointed as an Independent Hotel Expert to provide its opinion on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are entered into on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. Taking into account the Letter from the Independent Financial Adviser, we consider the appointment of the Independent Hotel Expert to be acceptable.

Accordingly, we recommend that the Independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the Lease Matters Requiring Approval.

Yours faithfully,

For and on behalf of Independent Board Committee of
Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)

**Mr. John William
CRAWFORD**
*Independent
Non-executive Director*

**Mr. Alvin Leslie
LAM Kwing Wai**
*Independent
Non-executive Director*

**Mr. Kai Ole
RINGENSON**
*Independent
Non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee in respect of the Lease Agreements and the Lease Guarantees (where their respective existing terms will continue to be valid after the Lease Extension/Amendment), and the Lease Matters Requiring Approval, which is prepared for the purpose of incorporation in this circular.

ALTUS CAPITAL LIMITED

21 Wing Wo Street
Central, Hong Kong

13 March 2015

*To the Independent Board Committee and
the Independent Unitholders and the Trustee*

Dear Sirs,

LEASE EXTENSION/AMENDMENT, LEASE GUARANTEE AMENDMENTS AND CCPT WAIVER EXTENSION

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, the Independent Unitholders and the Trustee in respect of the Lease Agreements, the Lease Guarantees and the Lease Matters Requiring Approval. Details of the Lease Agreements, the Lease Guarantees, the Lease Extension/Amendment, the Lease Guarantee Amendments and the CCPT Waiver Extension are set out in the “Letter to the Unitholders” contained in the circular of Regal Real Estate Investment Trust (the “**Regal REIT**”) dated 13 March 2015 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 12 March 2015, the parties to each Lease Agreement entered into a Supplemental Lease Agreement to (i) further extend the original term of each Lease Agreement by five years (so that the total term of each Lease Agreement, being the original term together with the Extended Period, will be from 30 March 2007 to 31 December 2020); and (ii) amend the formula for calculating the amount of the security deposit during the Extended Period. On the same date, the parties to each of the Lease Guarantees also entered into a Supplemental Lease Guarantee to make consequential amendments in light of the Lease Extension/Amendment, so that Regal Hotels’ obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit under the Lease Extension/Amendment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Save for the Lease Extension/Amendment and the Lease Guarantee Amendments, no other changes would be made to the terms and conditions of the Lease Agreements and the Lease Guarantees. In particular, the rent payable by the Lessee to each Lessor in respect of the Extended Period will reflect the current rental arrangement and continue to be determined in the same manner as for the period from 1 January 2011 to 31 December 2015 (that is, such rent will be determined annually based on the Market Rental Package determined no later than 30 September of the preceding year).

As the Lease Extension/Amendment and the Lease Guarantee Amendments constitute material changes to the terms and conditions of the Lease Agreements and the Lease Guarantees, Regal REIT shall be required to comply with Rule 8.14 of the REIT Code and seek Independent Unitholders' approval of the Ordinary Resolution to be proposed at the EGM to approve the Lease Matters Requiring Approval.

The CCPT Waiver Extension is a natural extension of and is incidental to the Lease Extension/Amendment and the Lease Guarantee Amendments. In connection with the CCPT Waiver, which will expire on 31 December 2015, the Manager has consequently submitted to the SFC a request to seek an extension of the CCPT Waiver. The CCPT Waiver Extension will be subject to the approval of the Independent Unitholders at the EGM.

Since the Lessee is a wholly-owned subsidiary of Regal Hotels, Regal Hotels is deemed to have a material interest in the Ordinary Resolution to be proposed at the EGM to approve the Lease Matters Requiring Approval. Pursuant to the REIT Code and the Trust Deed, Regal Hotels and its Associates will abstain from voting on the Ordinary Resolution to approve the Lease Matters Requiring Approval. To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that other than Regal Hotels and its Associates (including, but not limited to, the Manager, Century City and Paliburg), no other Unitholders are required to abstain from voting at the EGM in respect of the Ordinary Resolution to approve the Lease Matters Requiring Approval.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the following Independent Non-executive Directors (namely, Mr. John William Crawford, JP, Mr. Alvin Leslie Lam Kwing Wai and Mr. Kai Ole Ringenson), has been established by the Board to give advice and a recommendation to the Independent Unitholders as to whether:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments are (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on terms which are normal commercial terms and at arm's length; and (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding (a) the Extended Period being shorter than the original term of the Lease Agreements, being from the Listing Date to 31 December 2015 (the "**Original**

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Term"); (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit in respect of the Lease Agreements; and (c) no specific deals with alternative parties having been sought or considered by the Manager;

- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interest of the Independent Unitholders, as well as the Unitholders as a whole; and
- (iii) the Lease Agreements and the Lease Guarantees, as supplemented and/or amended as described in (i) above, continue to be conducted in the ordinary and usual course of business of Regal REIT; and the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended as described in (i) above, are at arm's length, on normal commercial terms, are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole.

Hon. Abraham Shek Lai Him, GBS, JP, an Independent Non-executive Director of the Manager, is not a member of the Independent Board Committee due to the fact that he is an independent non-executive director of Paliburg, being the controlling shareholder of Regal Hotels which is the parent company of the Lessee.

Altus Capital Limited is independent of (i) Regal REIT; (ii) the Trustee; (iii) the Manager; (iv) the Unitholders (including Regal Hotels and its subsidiaries); and (v) their respective Associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from Regal REIT, the Manager or any other party to the Lease Agreements or Lease Guarantees.

As the independent financial adviser to the Independent Board Committee, the Independent Unitholders and the Trustee, our role is to give an independent opinion to the Independent Board Committee, the Independent Unitholders and the Trustee as to whether:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, are (1) the best available deal for Regal REIT; (2) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; (3) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding (a) the Extended Period being shorter than the Original Term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit in respect of the Lease Agreements; and (c) no specific deals with alternative parties having been sought or considered by the Manager;
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interest of the Independent Unitholders, as well as the Unitholders as a whole;

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- (iii) the Lease Agreements and the Lease Guarantees, as supplemented and/or amended as described in (i) above, continue to be conducted in the ordinary and usual course of business of Regal REIT; and the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended as described in (i) above, are at arm's length, on normal commercial terms, are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole; and
- (iv) how the Independent Unitholders should vote in respect of the Ordinary Resolution to be proposed at the EGM to approve the Lease Matters Requiring Approval.

INDEPENDENT HOTEL EXPERT

Savills (Hong Kong) Limited has been engaged by the Manager as the Independent Hotel Expert to opine on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are entered into on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. In formulating our advice, reference was made to the opinion of the Independent Hotel Expert on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts.

Based on our discussions with the Independent Hotel Expert, we note that the Independent Hotel Expert has declared its independence from Regal REIT, its respective subsidiaries, the Manager, the Trustee and the respective directors of the Trustee, Regal Hotels and its subsidiaries; and has no direct or indirect material interests in the securities or assets of Regal REIT, the Trustee, the Manager, any of their respective connected persons, or any of their associated parties, pursuant to Rule 3A.07 of the Listing Rules (if applicable).

Further details of the opinion of the Independent Hotel Expert are set out under the section headed "Opinion of the Independent Hotel Expert" below.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed the relevant Lease Agreements, Lease Guarantees, Supplemental Lease Agreements, Supplemental Lease Guarantees, Hotel Management Agreements ("HMAs"), the Market Rental Packages, the opinion provided to us by the Independent Hotel Expert, the Offering Circular, and the relevant announcements, circulars and annual reports published by Regal REIT. In addition to reviewing the aforementioned documents, we have also had discussions with the management of the Manager and the Independent Hotel Expert.

In addition, when formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by Regal REIT, the Manager, the Directors and the Independent Hotel Expert. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. We have also sought and received confirmation from the Directors that no material information have been omitted and withheld.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate, incomplete or misleading. So far as we are aware, there are no material facts being omitted or withheld, which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate, incomplete or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to Regal REIT contained or referred to in the Circular and/or provided to us by the Manager, and the Directors have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of Regal REIT, other than taking into consideration of the Independent Hotel Expert's opinion provided to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of the Lease Agreements

1.1 Information on Regal REIT and the Manager

Regal REIT was formed to own an investment portfolio of hotel properties initially in Hong Kong. As disclosed in the Offering Circular, the Manager believed the formation of Regal REIT followed the global trend to separate hotel ownership from hotel operation, which allowed hotel managers and franchisors to focus on hotel operation and brand extension while hotel REITs would focus on hotel ownership and seek hotel managers and franchisors to manage its hotel properties.

It was also disclosed in the Offering Circular and in the Circular that Regal REIT's primary objectives would be to provide stable distributions to Unitholders and to achieve long-term capital growth in NAV per Unit. The Manager intends to achieve such objectives by way of (i) internal growth through asset enhancement opportunities and operational improvements; (ii) external growth through potential acquisitions that meet the Manager's investment criteria; and (iii) financing through an appropriate capital structure. Based on our discussions with the Manager, we understand that the abovementioned objectives of Regal REIT remain unchanged.

1.2 Key terms of the Lease Agreements

As disclosed in the Offering Circular and in the Circular, the Initial Hotels (being the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel) are leased to the Lessee, a wholly-owned subsidiary of Regal Hotels, pursuant to the Lease Agreements with a term which will expire on 31 December 2015.

For the years from 2007 to 2010 (the "**First Term**"), the rents payable by the Lessee consisted of (i) annual base rent of HK\$630 million (which was pro-rated from the Listing Date until 31 December 2007), HK\$700 million, HK\$750 million and HK\$780 million, respectively; and (ii)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

variable rent, which was guaranteed by Regal Hotels to be no less than HK\$220 million in aggregate for the entire First Term, subject to downward adjustments. Further details regarding the base rent (“**Base Rent**”) and variable rent (“**Variable Rent**”) are disclosed in the section headed “Lease Agreements” in the Offering Circular.

For the years from 2011 to 2015 (the “**Second Term**”), the rents payable by the Lessee were based on (i) a market rental package (the “**Market Rental Package**” which includes Base Rent, Variable Rent, the Lessee’s contribution to the furniture, fixtures and equipment reserve and the amount of security deposit) determined pursuant to a rent review by a jointly appointed Independent Professional Property Valuer that took place in each of the years from 2010 to 2014 to determine the market rental package for the relevant subsequent years from 2011 to 2015; and (ii) a floor rent of HK\$400 million per annum (the “**Floor Rent**”). The Lessee was required to pay the highest of the Floor Rent and the monthly Base Rent comprised within the Market Rental Package in such a manner that the monthly lease income of the Lessors would not be less than one-twelfth of the Floor Rent.

We noted that there are fundamental differences on the basis on which the rents payable by the Lessee is calculated under the First Term and the Second Term. We are of the view that the lease extension of the Lease Agreements (the “**Lease Extension**”) is a continuation of the Second Term on the basis that the abovementioned terms regarding rents payable by the Lessee will remain the same during the Extended Period. Details on the basis of the length of the Lease Extension are set out under the section 2.1.1 below headed “Length of the Lease Extension” of this letter.

1.3 Key terms of the Lease Guarantees

Pursuant to the Lease Guarantees, Regal Hotels guaranteed to pay to the Lessor of each Initial Hotel and/or the Trustee, on demand, all amounts from time to time owing or payable by the Lessee under the relevant Lease Agreements. In addition, Regal Hotels had procured an unconditional and irrevocable guarantee of HK\$1 billion by a bank in favour of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to 30 June 2011.

Under the Market Rental Package for 2011, a replacement third party guarantee of an amount equivalent to six months of the Base Rent for the year 2011 was subsequently delivered by the Lessee as security deposit in favour of the Lessors and the Trustee. Pursuant to the Lease Guarantees, for as long as the Lease Agreements are in place, Regal Hotels will maintain an irrevocable and unconditional on demand third party guarantee or other equivalent amendment in favour of the Lessors and the Trustee. The calculation of the quantum of the guaranteed amount corresponds to the calculation of the security deposit during the Second Term and shall be equal to the highest of: (a) the amount of security deposit as determined by the Independent Professional Property Valuer upon each annual rent review; (b) 50% of the annual Base Rent as determined by the Independent Professional Property Valuer upon each annual rent review; and (c) 50% of the Floor Rent. Hence, the security deposit has been revised annually pursuant to the Market Rental Package for each year and the security deposit for the years 2014 and 2015 amounted to approximately HK\$371.5 million and HK\$381.5 million, respectively, equivalent to six months of the Base Rent for the years 2014 and 2015. We note that the Independent Professional Property Valuer had opined in the Market Rental Package for the year 2015 that, with reference to tenancy agreements of hotels and service apartments in the market,

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the market rate of the security deposits at the time of the report was around 25% of the annual Base Rent, equivalent to three months of the Base Rent for the year 2015, compared to the aforesaid six months of the Base Rent as stipulated in the Lease Agreements (effective until 31 December 2015). Further details of the Lease Guarantees are set out in the section headed “Lease Guarantees” in the Offering Circular and in the Circular.

1.4 Key terms of the Hotel Management Agreements

Pursuant to the Lease Agreements, the Lessee is required to manage and operate each Initial Hotel to no less a standard than that as generally recognised by the hotel industry as at the Listing Date and as designated from time to time by the Hong Kong Tourism Board to hotels of applicable tariff. The Lessee may delegate its obligation to operate and manage an Initial Hotel to the Hotel Manager under the relevant HMAs.

As disclosed in the Offering Circular, the Lessors entered into the HMAs with the Lessee, the Hotel Manager, and Regal Hotels in respect of the Initial Hotels for a term of 20 years from the Listing Date. The Hotel Manager is required to operate each Initial Hotel solely under the “Regal” brand and to act in the best interest of Regal REIT with a view to optimising the profit of each Initial Hotel. Further details of the HMAs are set out in the section headed “Hotel Management Agreements” in the Offering Circular.

2. The Lease Extension/Amendment and the Lease Guarantee Amendments

Save for the Lease Extension/Amendment and the Lease Guarantee Amendments as discussed below, no other changes would be made to the terms and conditions of each Lease Agreement and the Lease Guarantees. In particular, the rent payable in respect of the Extended Period will reflect the current rental arrangement and continue to be determined in the same manner as for the period from 1 January 2011 to 31 December 2015 (that is, such rent will be determined annually based on the Market Rental Package determined no later than 30 September of the preceding year).

2.1 Lease Extension

Pursuant to the Supplemental Lease Agreements dated 12 March 2015, the term of the Lease Agreements will be extended for another five years so that the total extended term of the Lease Agreements will be from 30 March 2007 to 31 December 2020.

As discussed in section 1.2 above, we note that the main difference regarding the key terms of the Lease Agreements during the First Term and the Second Term is the basis for calculation of the rent payable by the Lessee. On the basis that (i) the rents payable during the Extended Period will be calculated in the same way that they are currently calculated during the Second Term; (ii) both the Extended Period and the Second Term are for a period of five years; and (iii) save for the amendments on the Lease Agreements (the “**Lease Amendment**”) and Lease Guarantee Amendments, no other changes were made to the terms and conditions of each Lease Agreement, we are of the view that the Lease Agreements under the Extended Period and the Second Term are comparable. Given that the Lease Extension is a continuation of the Second Term, and not a continuation of the entire Original Term since there are fundamental differences on the basis on which the rents payable by the Lessee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

are calculated (as described in section 1.2 above) and in view of the abovementioned factors, we are of the view that the Lease Extension (under which the existing terms of the Lease Agreements and Lease Guarantees will continue to be valid) is commercially justifiable and fair and reasonable under current market circumstances with reference to the Independent Hotel Expert's opinion provided to us.

We have discussed with the Manager and understand that the Manager believes that the rental arrangements during the Second Term are more closely in line with current market practice. The Manager and the Independent Hotel Expert are of the view, and we concur, that such arrangements will be consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts in the next five years and that the Extended Period is simply an extension of the Second Term, with the only difference in the terms and conditions being the amendment in the calculation of the amount of the security deposit as further discussed below.

2.1.1 Length of the Lease Extension

According to the Independent Hotel Expert, comparable Hong Kong hospitality REITs or business trusts were identified and their lease terms were compared to the proposed Extended Period of five years. The term of the Lease Agreements, after taking into account the Lease Extension for an additional five years from 30 March 2007 to 31 December 2020, is in line and comparable to the lease terms of the Comparables (as defined below). Further coverage in respect of the Independent Hotel Expert's conclusion is set out under the section headed "Conclusion of the Independent Hotel Expert" in this letter.

Based on our discussions with the Manager, it is noted that the Lessors and the Lessee, after arm's length negotiations, have determined the length of the Lease Extension to be five years on the basis that the extension is a natural continuation of the Second Term which, in turn, allows for the business continuation of the operations of the Initial Hotels.

Further, it is noted that following the Lease Extension, the Manager will in future commence negotiations with the Lessee for further extensions of the Lease Agreements at least two years before their expiry. We are of the view that the aforesaid two-year period allows sufficient time for the purpose of negotiations and provides an adequate buffer for the Manager to consider contingency plans in the event that a further extension of the Lease Agreements cannot be reached between the Lessee and the Lessors.

Having considered the above, we are of the view that the Supplemental Lease Agreements in relation to the Lease Extension were entered into on normal commercial terms and at arm's length.

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2.2 Lease Amendment and the Lease Guarantee Amendments

As detailed in sections 1.2 and 1.3 above and under the section headed “Lease Extension/Amendment and Lease Guarantee Amendments” in the “Letter to the Unitholders” of the Circular, other than the Lease Extensions as discussed above, the amendment to the formula for the calculation of the amount of the security deposit during the Extended Period is the only material change made to the terms and conditions of the Lease Agreements and the Lease Guarantees. The formula for calculating the amount of the security deposit for the Second Term and the Extended Period are set out below.

Arrangements for the Second Term (for the fiscal years 2011-2015)

Security deposit shall be the highest of:

- Amount based on market rate determined by Independent Professional Property Valuer
- 50% of annual Floor Rent
- 50% of annual Base Rent

Arrangements for the Extended Period (for the fiscal years 2016-2020)

Security deposit shall be the highest of:

- Amount based on market rate determined by Independent Professional Property Valuer
- 25% of annual Floor Rent
- 25% of annual Base Rent

As described in the Circular, we note that the Manager considers it reasonable to anticipate the same security deposit market rate for the years beyond 2015 (notwithstanding that the annual Floor Rent and annual Base Rent in regards to the formula for calculating the security deposit has been reduced from 50% to 25%). Based on our discussions with the Manager, we understand and concur with the Manager’s view that the Lease Guarantee Amendments are consequential to the Lease Amendment, which is necessary to reflect the proposed rental arrangements under the Extended Period.

2.2.1 Effects of the Lease Amendment and the Lease Guarantee Amendments

Save for the market rate amount of the security deposit determined by the Independent Professional Property Valuer being the same for the Second Term and the Extended Period, the other two criteria for the determination of the security deposit have been amended from 50% of the annual Base Rent and the annual Floor Rent for the Second Term to 25% for the Extended Period, based on the market rate for the security deposit determined in the 2015 Market Rental Package.

According to the Independent Hotel Expert, the formula for calculating the security deposit during the Extended Period is in line with that as determined by the Independent Professional Property Valuer as set out in the 2015 Market Rental Package. The Independent Hotel Expert also noted that in reviewing other Hong Kong hospitality REITs or business trusts, no specific benchmark or comparable amount could be determined. Nevertheless, the Independent Hotel Expert is of the view that in principle, the proposed consideration of (i) 25% of annual Floor Rent; and (ii) 25% of annual Base Rent, would provide a level deemed to be sufficient and reasonable for such security deposit purposes and is consistent with normal business practice for contracts of the relevant type entered into

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by other comparable hospitality REITs or business trusts. Having considered the Market Rental Package prepared by the Independent Professional Property Valuer and the opinion of the Independent Hotel Expert above, we concur with them (the Independent Professional Property Valuer and the Independent Hotel Expert) and believe that the proposed consideration of 25% of annual Floor Rent or 25% of annual Base Rent is fair and reasonable.

While the annual Floor Rent and annual Base Rent in regards to the formula for calculating the security deposit has been reduced from 50% to 25%, we concur with the Manager that this would not pose a significant additional risk to Regal REIT given the Lease Guarantees and the Lessee's proven track record and credibility (as further elaborated below).

Further, we understand that the Lessors and the Lessee have also considered the lease terms of the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, which have their respective security deposits fixed at 25% of their respective annual rents. Further details of the aforesaid hotels are set out in Regal REIT's circular dated 29 June 2013.

As discussed in section 2.2 above, we note that the Lease Guarantee Amendments are consequential to the Lease Amendment. Accordingly, we are of the view that the Supplemental Lease Guarantees were therefore entered into for the benefit of making consequential amendments in light of the Lease Extension/Amendment, so that Regal Hotel's obligation to maintain a third party guarantee will cover the Extended Period and track changes to the formula for calculating the amount of the security deposit in respect of the Supplemental Lease Agreements.

Based on the above, and in particular that the Lease Amendment and the Lease Guarantee Amendments do not in any way change the nature of the existing business of Regal REIT, and that the security deposit under the Extended Period reflects the current market rate per the Independent Professional Property Valuer (notwithstanding that the annual Floor Rent and annual Base Rent in regard to the formula for calculating the security deposit has been reduced from 50% to 25%), we are of the view that the Supplemental Lease Agreements and the Supplemental Lease Guarantees, in relation to the Lease Amendment and the Lease Guarantee Amendments, were entered into in the ordinary and usual course of business of Regal REIT, on normal commercial terms and at arm's length.

3. Reasons and benefits of the Lease Extension/Amendment and the Lease Guarantee Amendments

3.1 Alignment of interests between an incoming lessee and the existing Hotel Manager

Based on our discussions with the Manager and as detailed in the Offering Circular, we note that the terms of the HMAs do not permit an incoming lessee to replace the Hotel Manager. There is also no subsisting event of default under the HMAs that would entitle Regal REIT to terminate the HMAs; and expiry of the Lease Agreements does not, in and of itself, constitute an event of default that allows Regal REIT to terminate the HMAs. In addition, the Initial Hotels are to use the "Regal" brand name pursuant to HMAs and any incoming lessee must use the "Regal" brand name to operate the Initial Hotels.

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We are of the view that if the Lease Agreements were not extended, when an incoming lessee were to participate in the operation of the Initial Hotels, there would be a period of adaptation to the business of the Initial Hotels since the incoming lessee would inevitably require a certain amount of time to adapt to the existing business operations and cooperation with Regal Hotels as it had no previous working relationships with the Hotel Manager, Regal Hotels and Regal REIT. We concur with the Manager that it is in the interests of the Independent Unitholders and the Unitholders as a whole that the economic interests of any incoming lessee be aligned with that of the Hotel Manager and Regal Hotels, or there may be potential conflicts which may affect the smooth operations of the Initial Hotels.

Given the above reasoning, we concur with the Manager's view that it is important to maintain the alignment of interests between the lessee and the existing Hotel Manager as the operations and financial performance of Regal REIT may be materially and adversely impacted otherwise. Since both the Hotel Manager and the Lessee are wholly-owned subsidiaries of Regal Hotels, we are of the view that their interests are indeed aligned and they can work together for the benefit of Regal REIT.

3.2 Track record and continuity

According to our discussions with the Manager and as detailed in the "Letter to the Unitholders" of the Circular, during the cooperation between the Lessee and the Manager to date, the Lessee has (i) paid its rent and other payments punctually; (ii) met all of its other obligations pursuant to the Lease Agreements; and (iii) consistently been co-operative with the Manager on matters which require their joint input. Further, the Manager is of the view that the Lessee's continued interest in Regal REIT and the Initial Hotels greatly contributed to Regal REIT's success and the stability of its hotel operations. Given the proven track record of the Lessee, we understand the Manager's desire to maintain its current business relationship with the Lessee and to extend the Lease Agreements.

We note that, conversely, if the Lease Agreements were not to be extended, and if the Lessee were to be replaced, the incoming lessee (irrespective of its comparable track record to meet its obligations to other hotels under other lease agreements) would have no history of operating the Initial Hotels. Since there is no track record on whether a new incoming lessee will consistently meet its obligations to the Initial Hotels under lease agreements, it cannot be determined whether the Initial Hotels would perform better, or to the contrary, perform not as well, which would adversely affect Regal REIT.

Further, we also note that if the Ordinary Resolution to approve the Lease Matters Requiring Approval were not approved by the Independent Unitholders at the EGM, the Lease Agreements will be terminated on 31 December 2015 and the Manager will have to explore the possibility of entering into a new lease agreement with a new lessee so that the Initial Hotels will continue to be master leased following the termination of the Lease Agreements. Consequently, such termination of the Lease Agreements may have similar risks as mentioned above, such as the misalignment of interests between the incoming lessee and the Hotel Manager and the uncertainty of the incoming lessee's performance in maintaining its obligations in hotel operation, that may adversely affect Regal REIT.

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In addition, we note that the Lease Extension/Amendment and the Lease Guarantee Amendments will facilitate Regal REIT's business continuity by maintaining the current lease structure. The ongoing business relationship with the Lessee and business continuity are important to Regal REIT's Independent Unitholders and the Unitholders as a whole, as well as noteholders and other stakeholders (including but not limited to the lenders, the Lessee and the Hotel Manager) who may have invested in or partnered with Regal REIT on the above basis. In this connection and on the basis as stated under section 3.5 below, since it is unlikely that a similar lease structure can be agreed with any potential lessee, and given the Manager's objectives, we are of the view that the Lease Extension/Amendment and the Lease Guarantee Amendments are commercially reasonable.

3.3 Facilitation of Regal REIT's growth strategy

As discussed under section 1.1 above, Regal REIT's primary objectives are to provide stable distributions to Unitholders and to achieve long-term capital growth in NAV per Unit. These objectives are achieved by way of, among other things, external growth through potential acquisitions that meet the Manager's investment criteria.

According to our discussions with the Manager and as detailed in the "Letter to the Unitholders" of the Circular, Regal Hotels has been supportive of Regal REIT since its listing and has provided acquisition opportunities to facilitate Regal REIT's external growth strategy, such as the acquisition of the iclub Wan Chai Hotel, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel.

We note that the Manager believes that Regal Hotels would continue to provide acquisition opportunities to facilitate the growth of Regal REIT upon the extension of the Lease Agreement with the Lessee (being a wholly-owned subsidiary of Regal Hotels) and we agree with such views of the Manager.

3.4 Maintain current hotel management fees

As disclosed in the Offering Circular and as detailed in the "Letter to the Unitholders" of the Circular, if the Lease Agreements are no longer in place while the HMAs are in subsistence, the hotel management base fees and incentive fees payable by Regal REIT to the Hotel Manager pursuant to the HMAs will increase from 1% to 2% of the Gross Revenues (as defined in the HMAs) and from 1% to 5% of the excess of Adjusted GOP (as defined in the HMAs) over the hotel management base fees and fixed charges. Based on our discussions with the Manager and as disclosed in the annual report of Regal REIT for the year ended 31 December 2013, we understand that an increase of 1% in the Gross Revenues represents an increase of approximately HK\$1.9 million, while an increase of 4% in the excess of Adjusted GOP represents an increase of approximately HK\$36.6 million. Such increases would reduce the revenue derived from Regal REIT's hotel operations which may, in turn, have an adverse impact on Regal REIT.

We concur with the Manager's view that entering into the Supplemental Agreements can avoid the aforesaid possible increase in fees.

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3.5 Best available deal under the contractual structure/arrangements of Regal REIT

As described under section 3.1 above, we note that under the HMAs, the Hotel Manager cannot be replaced before the end of the terms of the relevant HMAs (unless under the particular circumstances as described in detail in the Offering Circular), and any incoming lessee may not be able to replace the Hotel Manager. Given the prevailing structure of Regal REIT's business operations, the Manager is of the view that the prospect of receiving any reasonable proposal which provides for a structure similar to that which is prevailing from other parties, is unlikely due to the aforementioned practical limitations regarding the HMAs. Based on the above, and also having considered the time, financial and administrative resources required, we are of the view that, on balance, it is not commercially practical for Regal REIT to seek alternative deals from other potential lessees.

The Manager has considered Regal REIT's hotel operations in the event where there will be a new lessee, and is of the view that any new lessee is likely to require a certain amount of time to adapt to the existing business operations of the Initial Hotels and cooperation arrangement with the Hotel Manager. Based on the above, the Manager intends to maintain the existing structure of Regal REIT and thereby maintaining the smooth hotel operations managed by the Hotel Manager. Any changes in lessee or hotel manager may unnecessarily disrupt the operations of Regal REIT.

Having considered the above, we concur with the Manager that the Lease Agreements are the best available deal under the circumstances since the economic interests of both Lessee and Hotel Manager (both being wholly-owned subsidiaries of Regal Hotels) are aligned and they can work together for the benefit of Regal REIT.

Based on the above discussions, and with reference to the Independent Hotel Expert's opinion, we are of the view that the Lease Agreements and Lease Guarantees (where their respective existing terms will continue to be valid after the Lease Extension/Amendment), the Lease Extension/Amendment and the Lease Guarantee Amendments, are (i) the best available deal for Regal REIT; (ii) entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (iii) fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding (a) the Extended Period being shorter than the Original Term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit; and (c) no specific deals with alternative parties having been sought or considered by the Manager.

4. Opinion of the Independent Hotel Expert

According to the Independent Hotel Expert, they have, in the process of arriving at their opinion, accessed and made reference to, including but not limited to, the Offering Circular, Lease Agreements, Lease Guarantees, HMAs, Supplemental Agreements, Market Rental Packages for 2014 and 2015, and the Hotel Expert's independent research on Hong Kong's hotel market overview and forecasts. The Independent Hotel Expert, having considered the terms of the aforementioned documents, considered that the Lease Extension/Amendment and the Lease Guarantee Amendments, (i) are consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts; (ii) are fair and reasonable so far as the Independent Unitholders are concerned; and (iii) are on normal commercial terms.

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4.1 Regal REIT and other comparable trusts

Based on the characteristics and attributes of Regal REIT, the Independent Hotel Expert had selected a comparable hospitality REIT and a comparable business trust in Hong Kong (the “**Comparables**”) for the purpose of analysing whether the Lease Extension/Amendment and the Lease Guarantee Amendments are the best available deal, is entered into on normal commercial terms and is consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. The Independent Hotel Expert noted that the number of registered Asian REITs and business trusts focusing in hospitality is limited. The Comparables were selected based on the jurisdiction of the REIT or business trust, the regulatory limitations and the structure of the REIT or business trust, the holding structure of the REIT or business trust, the arrangement of the material agreements in place, and the specific details of the lease agreements (including, but not limited to, the duration of the lease agreements, the lease guarantees, the furniture, fixtures and equipment reserves, Base Rent and Variable Rent). On the above basis, the Independent Hotel Expert opined, and we concur, that for a fair and reasonable assessment, the Comparables represent an exhaustive list of hospitality REITs and business trusts registered in Hong Kong given the above limitations in scope.

In particular, the Independent Hotel Expert noted that, in principle, the key terms of the Comparables are similar to those of Regal REIT and follow the strict compliance requirements set out by the REIT Code. The common aspects identified include, among other things, (i) regulatory structure of the REIT or business trust; (ii) having material regulatory agreements in place; (iii) the parent entity holding over 50%, controlling or majority interest in the REIT or business trust; (iv) the REIT manager’s objective on providing a stable long term growth of income distribution and capital growth of the investment portfolio for its unitholders and to distribute not less than 90% of distributable income to unitholders; and (v) lease agreements have terms in relation to (a) duration of the lease; (b) base rent; (c) variable rent; (d) furniture, fixtures & equipment reserves; and (e) lessee guarantees. With regards to the aforementioned common aspects of the Comparables identified above, in addition to the further elaboration on the duration of the Lease Agreements and the amount of the security deposits under sections 4.2.1 and 4.2.2 below, we note that the existing terms of the Lease Agreements of Regal REIT, which will also be applicable during the Extended Period, are either in line with the market practice or at no less favourable terms than the Comparables.

4.2 Conclusion of the Independent Hotel Expert

According to the Independent Hotel Expert, two main findings were highlighted, as set out in the sections below.

4.2.1 Duration of the Lease Agreements

Based on the analysis of Regal REIT and the Comparables, the Independent Hotel Expert concludes that the proposed Lease Extension for an additional five years, from 1 January 2016 to 31 December 2020, making the total extended term of the Lease Agreements from 30 March 2007 to 31 December 2020, is on normal commercial terms and consistent with normal business practice for contracts of the relevant type as compared to the Comparables (which have initial lease terms of 14 years and 10 years with an optional 10-year extension, respectively). It was also noted that due to the limited number of hospitality trusts in Hong Kong and the fact that the leases of the Comparables (which were established after Regal REIT) are still ongoing and have not been due for renewal, there are no precedent cases in the market for the extension of lease agreements.

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4.2.2 Amount of Security Deposit

The Lease Amendment, being the revision on the calculation of the security deposit amount from 50% to 25% of both the annual Floor Rent and the annual Base Rent, is consistent with market normal business practice for contracts of the relevant type entered into by other comparable trusts as the calculation makes reference to the Market Rental Package and is determined by the Independent Professional Property Valuer annually. The Independent Hotel Expert opined that the proposed 25% of annual Floor Rent and proposed 25% of annual Base Rent would provide a level deemed to be sufficient, fair and reasonable for such security deposit purposes and on normal commercial terms and is consistent with normal business practice for contracts of the relevant type as compared to the Comparables.

Notwithstanding the above, and with reference to the Independent Hotel Expert's opinion, we note that the interests of Regal REIT will be safeguarded by the fact that the calculation of the security deposit will, in any event, be based on market rates as determined by the Independent Professional Property Valuer. In other words, in the event of changes in market practice which necessitate a higher amount of deposit than the aforesaid 25% of annual Base Rent or annual Floor Rent, Regal REIT will be entitled to such higher amount.

Based on our interview with the Independent Hotel Expert, we understand that they have over 15 years of experience in hotel investment and asset management and a track record of projects across Asia Pacific including Hong Kong, dealing with institutional investors, private equity firms, and high net worth individuals specifically on hospitality investments and assets of a REIT and non-REIT nature. We also note that the Independent Hotel Expert and Savills Valuation and Professional Services Limited (being the Principal Valuer of Regal REIT) are separate entities independent of each other and are operating in different office locations. We are of the view that, given such background, the Independent Hotel Expert is in a position to give a professional view on whether the Lease Extension/Amendment and the Lease Guarantee Amendments are entered into on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts. Having considered the competence and independence of the Independent Hotel Expert mentioned above, we are also of the view that the appointment of the Independent Hotel Expert is acceptable to us.

Based on our discussions with the Independent Hotel Expert, we noted their (i) methodology to analyse the current market practice in relation to terms of hotel leases and security deposits; and (ii) basis for selecting the Comparables, and we are of the view that the Independent Hotel Expert has taken a justifiable approach to arrive at their opinion.

Based on (i) the Independent Hotel Expert's opinion; (ii) our discussions with the Independent Hotel Expert regarding the basis of their opinion; and (iii) the background and expertise of the Independent Hotel Expert, we are of the view that the Lease Extension/Amendment and the Lease Guarantee Amendments are on normal commercial terms and consistent with normal business practice for contracts of the relevant type entered into by other comparable trusts.

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5. The CCPT Waiver Extension

As disclosed in the Offering Circular, the SFC has granted the CCPT Waiver to Regal REIT from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions between Regal REIT, the Regal Connected Persons Group and/or the REIT Manager Group. Pursuant to the CCPT Waiver, the waiver will expire on 31 December 2015 or any earlier date on which the agreements are terminated. In view of the Lease Extension/Amendment, the Manager has consequently submitted to the SFC a request to seek an extension of the CCPT Waiver, being the CCPT Waiver Extension, so that such waiver will only cease on the date of expiry (being 31 December 2020) or termination of such agreements, whichever is earlier. The CCPT Waiver Extension will be subject to the approval of the Independent Unitholders at the EGM and also subject to the conditions as set out in the Circular.

Based on our discussion above where we noted that the Lease Extension/Amendment and the Lease Guarantee Amendments are fair and reasonable and in the interests of the Independent Unitholders as well as the Unitholders as a whole, we are of the view that the CCPT Waiver Extension, which is incidental to the Lease Extension/Amendment, is also fair and reasonable. Details of the CCPT Waiver Extension are set out in the "Letter to the Unitholders". Other than the extension of the period of the CCPT Waiver to 31 December 2020, all other terms and conditions remain unchanged.

Given the above, and in particular that the Manager has undertaken to continue to comply with the various waiver conditions as set out in the section headed "CCPT Waiver Extension" of the Circular, we are of the view that Independent Unitholders' interests are adequately protected and the CCPT Waiver Extension is fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole.

6. The Lease Agreements and the Lease Guarantees

Based on our discussions with the Manager, we note that (i) the terms of the Lease Agreements and Lease Guarantees were agreed upon after arm's length negotiations between the respective Lessors and the Lessee, (ii) the terms of the Lease Agreements and Lease Guarantees are on normal commercial terms, and in particular, the terms regarding rent payable by the Lessee is made with reference to the Market Rental Packages prepared annually by the Independent Professional Property Valuer; and (iii) since the listing of Regal REIT, there has been no material change to the business model of Regal REIT or any major change in the management of the Manager and Hotel Manager.

In addition, we also note the opinion of CB Richard Ellis Limited (being the independent property valuer of Regal REIT at the time of its listing) as set out under the section headed "Opinion of the Independent Property Valuer" in the Offering Circular, that the Lease Agreements together with the HMAs, including without limitation, the duration of their respective terms and the requirements regarding rental deposits and termination, are on normal commercial terms and consistent with normal business practice for contracts of the relevant types.

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Based on the above, as well as the principal factors and reasons which we have taken into account in considering the Lease Extension/Amendment, the Lease Guarantee Amendments and the CCPT Waiver Extension, we believe that whilst the Lease Agreements and the Lease Guarantees would be supplemented and/or amended from time to time, Regal REIT will continue to operate its business under the Lease Agreements and the Lease Guarantees with generally the same key terms, which have been entered in the ordinary and usual course of business of Regal REIT.

In addition to the analysis above, we note that the existing terms of the Lease Agreements and Lease Guarantees will continue to be valid after the Lease Extension/Amendment. Taken as a whole, we are of the view that (i) the Lease Agreements and the Lease Guarantees, as supplemented and/or amended, continue to be conducted in the ordinary and usual course of business of Regal REIT; and (ii) the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended, are at arm's length, on normal commercial terms, are fair and reasonable and are the best available deal for Regal REIT.

RECOMMENDATION

Having considered the above principal factors, we are of the view that:

- (i) the Lease Extension/Amendment and the Lease Guarantee Amendments, (1) are the best available deal for Regal REIT; and (2) are entered into in the ordinary and usual course of business of Regal REIT on normal commercial terms and at arm's length; and (3) are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole, notwithstanding (a) the Extended Period being shorter than the Original Term of the Lease Agreements; (b) the amended formula for calculating the amount of the security deposit during the Extended Period potentially resulting in a lower security deposit in respect of the Lease Agreements; and (c) no specific deals with alternative parties having been sought or considered by the Manager;
- (ii) the CCPT Waiver Extension, and the basis for the CCPT Waiver Extension, is fair and reasonable having regard to the interest of the Independent Unitholders, as well as the Unitholders as a whole; and
- (iii) the Lease Agreements and the Lease Guarantees, as supplemented and/or amended as described in (i) above, continue to be conducted in the ordinary and usual course of business of Regal REIT; and the currently applicable terms of the Lease Agreements and Lease Guarantees, as supplemented and/or amended as described in (i) above, are at arm's length, on normal commercial terms, are fair and reasonable and in the best interests of Independent Unitholders and Regal REIT as a whole.

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Accordingly, we advise the Independent Board Committee to recommend the Independent Unitholders to vote in favour of the Ordinary Resolution to be proposed at the EGM to approve the Lease Matters Requiring Approval.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Chang Sean Pey
Executive Director

Mr. Chang Sean Pey (Mr. Chang) is a Responsible Officer of Altus Capital Limited (Altus) licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.

Pursuant to Rule 13.84 of the Listing Rules as if such provisions were applicable to Regal REIT, Altus Capital Limited is independent of Regal REIT. In particular, Altus Capital Limited has not acted as an independent financial adviser of Regal REIT's other transactions in the last two years from the date of the Circular.

The Manager proposes to seek Unitholders' approval to make the amendments to the Trust Deed of which the full text or extract of the relevant clauses are reproduced in this Appendix I, with the proposed insertions and deletions indicated by, respectively, the underlined text and the strikethrough text below. All capitalised terms in the proposed Trust Deed amendments contained in this Appendix I are terms defined in the Trust Deed which shall have the corresponding meanings ascribed to them in the Trust Deed.

(Please refer to Special Resolution no. 1)

1. A new definition of "Aggregate Development Costs" shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**Aggregate Development Costs**” means the total of the Property Development Costs and the aggregate contract value relating to any acquisition of uncompleted units in a building by the Trust;”

2. The definition of "Authorised Investments" under **Clause 1.1** of the Principal Deed shall be amended as follows:

“**Authorised Investments**” means ... (b) any improvement or extension of or addition to or reconstruction or renovation or other development of any Real Estate including, without limitation, Capital Additions, Property Development and Related Activities; ...”

3. A new definition of "GAV Cap" shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**GAV Cap**” means 10% of the Gross Asset Value of the Deposited Property, being the threshold limit of the Aggregate Development Costs;”

4. A new definition of "Gross Asset Value of the Deposited Property" shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**Gross Asset Value of the Deposited Property**” means, for the purpose of calculating the denominator to be used for the purpose of the GAV Cap [and the Maximum Cap], the total gross asset value of the Deposited Property calculated: (i) by reference to the latest published accounts of the Trust as adjusted for any distribution declared and any published valuation; and (ii) in a manner similar to the determination of the total assets figure in the context of notifiable transactions under the Listing Rules, with necessary changes, but excluding the value of any investments in properties under development (for the avoidance of doubt, the value of existing properties undergoing redevelopment shall not be subject to such exclusion, and will be included in Gross Asset Value of the Deposited Property), as more particularly described in Clause 6.2A of this Deed;”

(Square bracketed language to be deleted if Special Resolution no. 2 is not passed.)

5. A new definition of “Property Development and Related Activities” shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

““Property Development and Related Activities” means the acquisition of uncompleted units in a building by the Trust and property developments (including both new development projects and redevelopment of existing Real Estate held by the Trust), but does not include refurbishments, retrofittings and renovations;”

6. A new definition of “Property Development Costs” shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

““Property Development Costs” means the total project costs borne and to be borne by the Trust in respect of the Property Development and Related Activities;”

7. A new **Clause 6.2A** shall be inserted immediately after Clause 6.2 of the Principal Deed as follows:

“6.2A Gross Asset Value of the Deposited Property

For the purpose of calculating the denominator to be used for the purpose of the GAV Cap [and the Maximum Cap], the Gross Asset Value of the Deposited Property shall be determined in accordance with the following formula:

$$\text{Gross Asset Value of the Deposited Property} = \text{GAV} - \text{D} \pm \text{V} - \text{DRI}$$

Where:

| | | |
|------------|---|--|
| <u>GAV</u> | = | <u>Total assets as shown in the Trust’s latest published accounts;</u> |
| <u>D</u> | = | <u>The amount of any distribution proposed in the Trust’s latest published accounts and any distribution declared since the issuance of the Trust’s latest published accounts;</u> |
| <u>V</u> | = | <u>The change (if any) in the Approved Valuer’s determination of the value of the Trust’s Real Estate, based on its valuation report(s) published subsequent to the issuance of the Trust’s latest published accounts; and</u> |
| <u>DRI</u> | = | <u>The value of any investments in properties under development (for the avoidance of doubt, the value of existing properties undergoing redevelopment shall be disregarded for the purpose of determining DRI).”</u> |

(Square bracketed language to be deleted if Special Resolution no. 2 is not passed.)

8. A new **Clause 10.2.4A** shall be inserted immediately after Clause 10.2.4 of the Principal Deed as follows:

“10.2.4 subject to compliance with the Code, the Listing Rules and the Listing Agreement, the REIT Manager may from time to time change its investment policies/strategy(ies) for the Trust as stated in the relevant Offering Circular provided that (i) it has notified the Holders of the change by way of circular in accordance with the requirements of the Code and (ii) the change has been approved by Holders by Special Resolution at a meeting convened by the REIT Manager in accordance with Schedule 1; and

10.2.4A the REIT Manager may engage or participate in Property Development and Related Activities provided the Aggregate Development Costs of all Property Development and Related Activities shall not exceed the GAV Cap at any time.”

9. **Clause 10.3.3** of the Principal Deed shall be amended as follows:

“10.3.3 the Trust shall not invest in vacant land unless such investment is part-and-parcel of Property Development and Related Activities and within the investment objective or policy of the Trust;~~the Trust shall not invest in vacant land or engage or participate in any property development activities (excluding, for the avoidance of doubt, refurbishment, retrofitting, renovations and the enlargement of the gross floor area of any Deposited Property);~~”

10. **Clause 10.3.6** of the Principal Deed shall be amended as follows:

“10.3.6 the Trust shall hold each Investment (which is in the nature of a particular piece of Real Estate or shares in any Special Purpose Vehicle holding interest in a particular piece of Real Estate) for a period of at least two years, from the date of its acquisition (or if the Trust engages in Property Development and Related Activities, from the date that such Property Development and Related Activities in respect of the Real Estate are completed) unless the REIT Manager has clearly communicated to the Holders the rationale for disposal prior to the expiry of such period and the Holders approve the disposal of such Investment by Special Resolution at a meeting to be convened by the REIT Manager in accordance with Schedule 1; ~~and~~”

11. A new **Clause 10.3.9** shall be inserted immediately after Clause 10.3.8 of the Principal Deed as follows:

“10.3.9 at least 75% of the Gross Asset Value of the Deposited Property shall be invested in Real Estate that generates recurrent rental income at all times. [The combined value of the Relevant Investments, together with other non-real estate assets of the Trust, when aggregated with the Aggregate Development Costs, shall not exceed the Maximum Cap at any time.]”

(Square bracketed language to be deleted if Special Resolution no. 2 is not passed.)

12. **Clause 25.4.1(iii)** of the Principal Deed shall be amended as follows:

“25.4.1(iii) entering into a disposal of Real Estate within a period of less than two years from the date of its acquisition (or if the Trust engages in Property Development and Related Activities, from the date that such Property Development and Related Activities in respect of the Real Estate are completed)~~the Acquisition Date;~~”

The Manager proposes to seek Unitholders' approval to make the amendments to the Trust Deed of which the full text or extract of the relevant clauses are reproduced in this Appendix II, with the proposed insertions and deletions indicated by, respectively, the underlined text and the strikethrough text below. All capitalised terms in the proposed Trust Deed amendments contained in this Appendix II are terms defined in the Trust Deed which shall have the corresponding meanings ascribed to them in the Trust Deed.

(Please refer to Special Resolution no. 2)

1. The definition of "Authorised Investments" under **Clause 1.1** of the Principal Deed shall be amended as follows:

“**Authorised Investments**” means:

... (c) Relevant Investments;

~~(e)~~(d) Real Estate Related Assets;

~~(d)~~(e) Cash and Cash Equivalent Items;

~~(e)~~(f) shares in the issued share capital of, and loans (which may take the form of a promissory note, provided it is discharged in full on or before the Listing Date) to, any Special Purpose Vehicle and any goodwill and other intangible assets acquired in relation to the acquisition of Special Purpose Vehicles; and

~~(f)~~(g) investments in relation to arrangements for the purposes of enhancing the return on, or reducing the risks associated with, the Authorised Investments contemplated by paragraphs (a), (b), (c), (d), ~~and (e)~~ and (f) of this definition, or of other Investments, or in respect of the Trust generally, including investments in the form of derivative instruments for the purposes of hedging only, in each case whether held by the Trustee directly or indirectly through a Special Purpose Vehicle pursuant to this Deed;”

2. A new definition of “Gross Asset Value of the Deposited Property” shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**Gross Asset Value of the Deposited Property**” means, for the purpose of calculating the denominator to be used for the purpose of [the GAV Cap and] the Maximum Cap, the total gross asset value of the Deposited Property calculated: (i) by reference to the latest published accounts of the Trust as adjusted for any distribution declared and any published valuation; and (ii) in a manner similar to the determination of the total assets figure in the context of notifiable transactions under the Listing Rules, with necessary changes, but excluding the value of any investments in properties under development (for the avoidance of doubt, the value of existing properties undergoing redevelopment shall not be subject to such exclusion, and will be included in Gross Asset Value of the Deposited Property), as more particularly described in Clause 6.2A of this Deed;”

(Square bracketed language to be deleted if Special Resolution no. 1 is not passed.)

3. A new definition of “Maximum Cap” shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**Maximum Cap**” means 25% of the Gross Asset Value of the Deposited Property, being the threshold limit for the total sum of the Aggregate Development Costs, the combined value of the Relevant Investments and other non-Real Estate assets of the Trust;”

4. A new definition of “Relevant Investments” shall be inserted in alphabetical order under **Clause 1.1** of the Principal Deed as follows:

“**Relevant Investments**” means:

- (a) securities listed on the SEHK or other internationally recognised stock exchanges;
- (b) unlisted debt securities;
- (c) government and other public securities; and
- (d) local or overseas property funds;”

5. **Clause 6.1.4** of the Principal Deed shall be amended as follows:

“6.1.4 (in the case of Investments falling within any paragraph of the definition of “Authorised Investment” which are Relevant Investments or is in the nature of derivative instruments used for hedging or efficient portfolio management purposes), the Value of such an Investment shall be determined by the REIT Manager, and shall be calculated as follows:

- (i) all calculations of investments quoted, listed, traded or dealt on any stock exchange, commodities exchange, futures exchange or over-the-counter market shall be made by reference to the last traded price on the principal stock exchange for such investments as at the close of business in such place on the day as of which such calculation is to be made; and
- (ii) where there is no stock exchange, commodities exchange, futures exchange or over-the-counter market, all calculations based on the value of investments quoted by any person, firm or institution making a market in such investments (and if there is more than one such market maker, then such market maker as the REIT Manager shall designate) shall be by reference to the mean of the latest bid and offered price quoted thereon provided that the REIT Manager may, with the approval of the Trustee, request a revaluation of any such investments to be made by any such professional person as the REIT Manager may consider, with the approval of the Trustee, to be qualified to value such investments;”

6. A new **Clause 6.2A** shall be inserted immediately after Clause 6.2 of the Principal Deed as follows:

“**6.2A Gross Asset Value of the Deposited Property**

For the purpose of calculating the denominator to be used for the purpose of [the GAV Cap and] the Maximum Cap, the Gross Asset Value of the Deposited Property shall be determined in accordance with the following formula:

$$\text{Gross Asset Value of the Deposited Property} = \text{GAV} - \text{D} \pm \text{V} - \text{DRI}$$

Where:

| | | |
|------------|---|--|
| <u>GAV</u> | = | <u>Total assets as shown in the Trust's latest published accounts;</u> |
| <u>D</u> | = | <u>The amount of any distribution proposed in the Trust's latest published accounts and any distribution declared since the issuance of the Trust's latest published accounts;</u> |
| <u>V</u> | = | <u>The change (if any) in the Approved Valuer's determination of the value of the Trust's Real Estate, based on its valuation report(s) published subsequent to the issuance of the Trust's latest published accounts; and</u> |
| <u>DRI</u> | = | <u>The value of any investments in properties under development for the avoidance of doubt, the value of existing properties undergoing redevelopment shall be disregarded for the purpose of determining DRI.)"</u> |

(Square bracketed language to be deleted if Special Resolution no. 1 is not passed.)

7. A new **Clause 10.3.8** shall be inserted immediately after Clause 10.3.7 of the Principal Deed as follows:

"10.3.7 in the case of Real Estate in the form of a hotel property, such Real Estate must be held indirectly (and not directly by the Trustee), through one or more Special Purpose Vehicles;-

10.3.8 the value of the Trust's holding of the Relevant Investments issued by any single group of companies shall not exceed 5% of the Gross Asset Value of the Deposited Property; and"

8. A new **Clause 10.3.9** shall be inserted immediately after Clause 10.3.8 of the Principal Deed as follows:

"10.3.9 at least 75% of the Gross Asset Value of the Deposited Property shall be invested in Real Estate that generates recurrent rental income at all times. The combined value of the Relevant Investments, together with other non-real estate assets of the Trust[, when aggregated with the Aggregate Development Costs,] shall not exceed the Maximum Cap at any time."

(Square bracketed language to be deleted if Special Resolution no. 1 is not passed.)

The amendments to the Trust Deed of which the full text or extract of the relevant clauses are reproduced in this Appendix III do not require Unitholders' approval. The proposed insertions and deletions are indicated by, respectively, the underlined text and the strikethrough text below. All capitalised terms in the proposed Trust Deed amendments contained in this Appendix III are terms defined in the Trust Deed which shall have the corresponding meanings ascribed to them in the Trust Deed.

PART A. MISCELLANEOUS AMENDMENTS

1. Clause 6.2 of the Principal Deed shall be amended as follows:

“6.2 ... fellows or ~~associate~~-members of the Hong Kong Institute of Surveyors or the Royal Institution of Chartered Surveyors (Hong Kong Branch) ...”

2. Clause 6.4 of the Principal Deed shall be amended as follows:

“6.4 ... International Valuation Standards ~~Committee~~Council ...”

PART B. TRUSTEE ORDINANCE CLARIFICATION AMENDMENTS

The following text shall be added after the last sentence of Clause 1.10 of the Principal Deed:

“For so long as the Trust is authorised by the SFC under section 104 of the SFO, section 410 of the Trustee Ordinance (Cap. 29 of the Laws of Hong Kong) shall not apply to the extent that is inconsistent with Clause 17.14.2(iii) of this Deed reflecting 4.2(a)(iii) of the Code, and shall not in any way operate to exempt or diminish any liability of the Trustee as set out in this clause reflecting 9.5 of the Code.”

APPENDIX IV BIOGRAPHY OF MR. JOHN WILLIAM CRAWFORD, JP

Mr. John William CRAWFORD, JP, aged 72, has been an Independent Non-executive Director of the Manager since 2006.

Mr. Crawford was one of the founders of Ernst & Young, Hong Kong office and vice-chairman of the firm when he retired at the end of 1997. During his 25 years in public practice, he was also the chairman of the audit division of Ernst & Young and was active in a number of large private and public company takeover and/or restructuring exercises.

Mr. Crawford has continued to undertake consultancy/advisory work in a private capacity since retirement, is active in the education sector and is the chairman of International Quality Education Limited.

Mr. Crawford also remains active in various community service areas such as having been a founding member of UNICEF Hong Kong Committee and the Hong Kong Institute of Directors. In 1997, he was appointed a Justice of the Peace in Hong Kong.

Mr. Crawford currently acts as an independent non-executive director and the chairman of the audit committee of e-Kong Group Limited, which is listed on SEHK. He is also an independent non-executive director of Entertainment Gaming Asia Inc. which is listed on the NASDAQ. He was an independent non-executive director of Titan Petrochemicals Group Limited, which is listed on SEHK, and ceased to act in that capacity on 27 February 2014.

All director's fees payable to Mr. Crawford will be paid and borne by the Manager out of its own resources. Save as disclosed above, Mr. Crawford has not held any directorships in other public companies, the securities of which are listed in Hong Kong or overseas, in the past three years preceding the date of this Circular. Save as disclosed above, Mr. Crawford does not have any relationships with any other directors, senior management or substantial or controlling Unitholders of Regal REIT. As at the date of this Circular, Mr. Crawford does not have any interests in Regal REIT within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other matter in connection with Mr. Crawford's re-election that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Regal REIT.

APPENDIX V BIOGRAPHY OF MR. ALVIN LESLIE LAM KWING WAI

Mr. Alvin Leslie LAM Kwing Wai, aged 70, has been an Independent Non-executive Director of the Manager since 2006.

Mr. Lam is the chairman and an executive director of Golden Resources Development International Limited, which is listed on SEHK.

Mr. Lam holds a Master of Business Administration degree from the University of California, Berkeley, U.S.A..

Mr. Lam has extensive experience in financial management and investment planning.

All director's fees payable to Mr. Lam will be paid and borne by the Manager out of its own resources. Save as disclosed above, Mr. Lam has not held any directorships in other public companies, the securities of which are listed in Hong Kong or overseas, in the past three years preceding the date of this Circular. Save as disclosed above, Mr. Lam does not have any relationships with any other directors, senior management or substantial or controlling Unitholders of Regal REIT. As at the date of this Circular, Mr. Lam does not have any interests in Regal REIT within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other matter in connection with Mr. Lam's re-election that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Regal REIT.

Mr. Kai Ole RINGENSON, aged 65, was re-designated as an Independent Non-executive Director of the Manager with effect from 24 September 2012.

Mr. Ringenson was the Chief Executive Officer and Executive Director of the Manager in 2006 and a responsible officer of the Manager in 2007 until he became a Non-executive Director on 1 March 2010.

Mr. Ringenson has extensive experience in international hotel management and asset management. He has managed hotels in Asia, Europe and the United States and has managed numerous hotel turn-around situations.

Mr. Ringenson obtained a Bachelor of Science (Hotel) degree from Cornell University, New York, U.S.A.. He joined the Regal Hotels group in 2001 and was an executive director of Regal Hotels and the chief operating officer of Regal Hotels International Limited, a wholly-owned subsidiary of Regal Hotels, from 2002 until he became a non-executive director of Regal Hotels in January 2004. He resigned as a non-executive director of Regal Hotels in 2006 to become the sole Executive Director and Chief Executive Officer of the Manager in 2006.

All director's fees payable to Mr. Ringenson will be paid and borne by the Manager out of its own resources. Save as disclosed above, Mr. Ringenson has not held any directorships in other public companies, the securities of which are listed in Hong Kong or overseas, in the past three years preceding the date of this Circular. Save as disclosed above, Mr. Ringenson does not have any relationships with any other directors, senior management or substantial or controlling Unitholders of Regal REIT. As at the date of this Circular, Mr. Ringenson does not have any interests in Regal REIT within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other matter in connection with Mr. Ringenson's re-election that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Regal REIT.

APPENDIX VII BIOGRAPHY OF HON. ABRAHAM SHEK LAI HIM, GBS, JP

Hon. Abraham SHEK Lai Him, GBS, JP, aged 69, has been an Independent Non-executive Director of the Manager since 2006.

Mr. Shek holds a Bachelor of Arts degree from the University of Sydney.

Mr. Shek is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He is also a member of the Court of The Hong Kong University of Science & Technology, a member of both of the Court and the Council of The University of Hong Kong, a director of The Hong Kong Mortgage Corporation Limited.

Mr. Shek is the vice chairman, independent non-executive director and audit committee member of ITC Properties Group Limited and an independent non-executive director and a member of the audit committee of China Resources Cement Holdings Limited, Chuang's Consortium International Limited, Cosmopolitan International Holdings Limited, Country Garden Holdings Company Limited, Dorsett Hospitality International Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited, Paliburg Holdings Limited and SJM Holdings Limited and the chairman and independent non-executive director of Chuang's China Investments Limited, all of which are companies listed on SEHK.

Mr. Shek also currently acts as an independent non-executive director of Hop Hing Group Holdings Limited, Lai Fung Holdings Limited and MTR Corporation Limited, which are listed on SEHK.

Mr. Shek is an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust, the units of which are listed on SEHK. He was an independent non-executive director of Titan Petrochemicals Group Limited and Hsin Chong Construction Group Limited, which are listed on SEHK, and ceased to act as an independent non-executive director on 27 February 2014 and 12 May 2014, respectively.

All director's fees payable to Mr. Shek will be paid and borne by the Manager out of its own resources. Save as disclosed above, Mr. Shek has not held any directorships in other public companies, the securities of which are listed in Hong Kong or overseas, in the past three years preceding the date of this Circular. Save as disclosed above, Mr. Shek does not have any relationships with any other directors, senior management or substantial or controlling Unitholders of Regal REIT. As at the date of this Circular, Mr. Shek does not have any interests in Regal REIT within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other matter in connection with Mr. Shek's re-election that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Regal REIT.

1. FINANCIAL INFORMATION OF REGAL REIT

The financial information of Regal REIT for the past three financial years and six months has been published in the reports as follows:

- (1) the financial information of Regal REIT for the six months ended 30 June 2014 is disclosed in the 2014 interim report of Regal REIT published on 28 August 2014, from pages 31 to 60;
- (2) the financial information of Regal REIT for the year ended 31 December 2013 is disclosed in the 2013 annual report of Regal REIT published on 10 April 2014, from pages 55 to 104;
- (3) the financial information of Regal REIT for the year ended 31 December 2012 is disclosed in the 2012 annual report of Regal REIT published on 11 April 2013, from pages 49 to 94; and
- (4) the financial information of Regal REIT for the year ended 31 December 2011 is disclosed in the 2011 annual report of Regal REIT published on 11 April 2012, from pages 48 to 100.

All of the above annual and interim reports of Regal REIT have been published on the website of the SEHK (www.hkex.com.hk) and the website of Regal REIT (www.regalreit.com).

2. 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 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 | 2,443,033,102 | 74.99% |
| Regal Portfolio Management Limited ⁽²⁾ | Beneficial owner | 120,381,598 | 3.70% |

Notes:

(1) The interests in 2,443,033,102 Units were the same parcel of Units held through Century City in which Mr. Lo held approximately 58.42% 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 | 2,443,033,102 | 74.99% |
| Century City BVI Holdings Limited (“CCBVI”) ^(1 and 2) | Interest in a controlled corporation | 2,443,033,102 | 74.99% |
| Paliburg ^(3 and 4) | Interest in a controlled corporation | 2,440,346,102 | 74.92% |
| Paliburg Development BVI Holdings Limited (“PDBVI”) ^(3 and 5) | Interest in a controlled corporation | 2,440,346,102 | 74.92% |
| Regal Hotels ^(6 and 7) | Interest in a controlled corporation | 2,439,613,739 | 74.89% |
| Regal International (BVI) Holdings Limited (“RBVI”) ^(6 and 8) | Interest in a controlled corporation | 2,439,613,739 | 74.89% |
| Complete Success Investments Limited ⁽⁹⁾ | Beneficial owner | 1,817,012,702 | 55.78% |
| Great Prestige Investments Limited ⁽⁹⁾ | Beneficial owner | 373,134,326 | 11.45% |

Notes:

- (1) The interests in 2,443,033,102 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, RBVI and Cosmopolitan International Holdings Limited (“Cosmo”), 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 2,440,346,102 Units held by each of Paliburg and PDBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of PDBVI, RBVI and Cosmo, respectively.
- (4) Paliburg is a listed subsidiary of CCBVI, which held approximately 62.23% shareholding interest in Paliburg as at the Latest Practicable Date, and its interests in Units are deemed to be the same interests held by CCBVI.
- (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 2,439,613,739 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 and Cosmo, respectively.
- (7) Regal Hotels is a listed subsidiary of PDBVI, which held approximately 65.38% 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, who were interested (or deemed to be interested) in Units as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors or chief executive officers of the Manager:

- (i) none of the Directors and Unitholders with an interest in more than 5% of all Units in issue has an interest, direct or indirect in the matters requiring approval by the Independent Unitholders or the Unitholders (as the case may be) under the EGM Resolutions;
- (ii) no person (other than a Director) is interested (or deemed to be interested) in Units, or holds any short position in Units which were required to be disclosed to the Manager and the SEHK pursuant to Divisions 2, 3 and 4 of Part XV of the SFO;
- (iii) none of the Manager, Directors or chief executives officers of the Manager had any interests or short positions in the Units or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Manager and the SEHK pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO),

which the Trust Deed, subject to certain exceptions, deems to apply to the Directors and chief executive officers of the Manager, the Manager and each Unitholder and all persons claiming through or under them.

3. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND COMPETING BUSINESS

Save as disclosed in this Circular, as at the Latest Practicable Date:

- (a) none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since the date that the latest published audited accounts of Regal REIT were prepared, acquired or disposed of by (or leased to) or are proposed to be acquired or disposed of by (or leased to) Regal REIT;

- (b) none of the Directors or proposed Directors was materially interested in any contract or arrangement entered into by Regal REIT and subsisting at the date of this Circular which was significant in relation to Regal REIT's business; and
- (c) none of the Directors or proposed Directors or any of their Associates had interests in a business which competes or is likely to compete, either directly or indirectly, with Regal REIT's business.

4. STATEMENT IN RELATION TO FINANCIAL POSITION

The Manager confirms that, as at the Latest Practicable Date, there had not been any material adverse change in the financial or trading position of Regal REIT since the date that the latest published audited accounts of Regal REIT were prepared.

5. WORKING CAPITAL

Taking into consideration the financial resources available to Regal REIT, including its internally generated funds and available financing facilities, the Manager believes that Regal REIT has sufficient liquid assets to meet its working capital and operating requirements for the 12 month period commencing from the date of this Circular. To the extent that Regal REIT makes any acquisitions, it may be required to rely on external borrowings and/or equity or debt securities offerings to finance such acquisitions. The issue of additional equity or equity-linked securities may result in dilution to Unitholders.

6. INDEBTEDNESS

As at 31 December 2014 (being the year-end date of Regal REIT for the financial year 2014), Regal REIT Group had total borrowings of approximately HK\$8,792.8 million, of which (i) bank loan facilities of up to HK\$6,855.0 million were secured by the Regal REIT Group's investment properties, plant and equipment and shares of certain subsidiaries of the Regal REIT Group; and (ii) other borrowings of approximately HK\$1,937.8 million, which were unsecured notes due in 2018.

Save as disclosed above and apart from the intra-group liabilities, the Regal REIT Group did not have any loan capital issued and outstanding, nor had the Regal REIT Group agreed to issue any loan capital, bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, in each case as at the close of business on 31 December 2014.

7. EXPERTS AND CONSENTS

Each of the Independent Financial Adviser and the Independent Hotel Expert has given and has not withdrawn its written consent to the inclusion of its name in this Circular. Each of the parties above where relevant has also given their consent to the inclusion of its name in this Circular and/or its Appendices and all references thereto, in the form and context in which they are included in this Circular.

The following are the qualifications of the experts who have been named in this Circular or have given opinion or advice which are contained in this Circular.

| | |
|-----------------------------|---|
| Altus Capital Limited | A licensed corporation under the SFO licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities |
| Savills (Hong Kong) Limited | A real estate consultant having over 15 years of experience in hotel investment, asset management and operations, and a track record of projects across Asia Pacific including Hong Kong, dealing with institutional investors, private equity firms, and high net worth individuals specifically on hospitality investments and assets of REIT and non-REIT nature |

As at the Latest Practicable Date, none of the experts had any interest in Regal REIT or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in Regal REIT.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of Regal REIT were prepared (being 31 December 2013), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to Regal REIT.

8. LITIGATION

As at the Latest Practicable Date, none of Regal REIT and its subsidiaries, the Manager and the Trustee (in its capacity as the trustee of Regal REIT) was involved in any litigation or claims of material importance and no litigation or claims of material importance, by or against Regal REIT or its subsidiaries, the Manager or the Trustee was pending or threatened.

9. MATERIAL CONTRACTS

Save as disclosed in Regal REIT's previous announcements and circulars published on the SEHK website, and save for the documents referred to in paragraphs 10(e) and (f) below, Regal REIT has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date in this Circular. For further details on the documents referred to in paragraphs 10(e) and (f) below, please refer to section 3 of the Letter to the Unitholders contained in the circular published by the Manager dated 29 June 2013 headed "Key Documentation".

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 this Circular, up to and including the date of the EGM:

- (a) the Lease Agreements and the Supplemental Lease Agreements;
- (b) the Lease Guarantees and the Supplemental Lease Guarantees;
- (c) the proposed draft form of the supplemental deed to effect the Property Development Amendments, the Relevant Investments Amendments, the Miscellaneous Amendments and the Trustee Ordinance Clarification Amendments;
- (d) the circular published by the Manager dated 29 June 2013;
- (e) the sale and purchase agreement in respect of acquisition of the iclub Sheung Wan Hotel, and the lease agreement, lease guarantee, hotel management agreement, deed of tax indemnity and interior fit out agency deed in connection therewith;
- (f) the option agreement in respect of the grant of the option to acquire the iclub Fortress Hill Hotel, and the lease agreement, lease guarantee, hotel management agreement, deed of tax indemnity and interior fit out agency deed in connection therewith;
- (g) the interim and annual reports of Regal REIT referred to in paragraph 1 of this Appendix VIII headed “Financial Information of Regal REIT”;
- (h) the Letter from the Independent Board Committee;
- (i) the Letter from the Independent Financial Adviser;
- (j) the Independent Hotel Expert’s memorandum; and
- (k) the written consents referred to in the section headed “Experts and Consents” of this Appendix VIII.

A copy of 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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



NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the unitholders (the “**Unitholders**”) of Regal Real Estate Investment Trust (“**Regal REIT**”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 14 April 2015 at 11:00 a.m. (“**EGM**”) for the purpose of considering and, if thought fit, passing (with or without amendments) the resolutions below.

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular of Regal REIT dated 13 March 2015 (the “**Circular**”).

SPECIAL RESOLUTIONS

1. “**THAT:**

- (a) pursuant to Clauses 18.1.4(xxiv) and 26 of the Trust Deed, approval be and is hereby given for (i) the Expanded Investment Scope regarding Property Development, as more fully described in the Circular and (ii) the Property Development Amendments as set out in Appendix I to the Circular; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **“THAT:**

- (a) pursuant to Clauses 18.1.4(xxiv) and 26 of the Trust Deed, approval be and is hereby given for (i) the Expanded Investment Scope regarding Relevant Investments, as more fully described in the Circular and (ii) the Relevant Investments Amendments as set out in Appendix II to the Circular; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) approval (which, where relevant, shall include approval by way of ratification) be and is hereby given for the Lease Matters Requiring Approval (being, collectively, the Lease Extension/Amendment, the Lease Guarantee Amendments and the CCPT Waiver Extension); and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters in relation to any of the Lease Matters Requiring Approval generally.”

2. **“THAT:**

- (a) approval be and is hereby given for the re-election of Mr. John William CRAWFORD, JP as an Independent Non-executive Director of the Manager; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. **“THAT:**

- (a) approval be and is hereby given for the re-election of Mr. Alvin Leslie LAM Kwing Wai as an Independent Non-executive Director of the Manager; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

4. **“THAT:**

- (a) approval be and is hereby given for the re-election of Mr. Kai Ole RINGENSON as an Independent Non-executive Director of the Manager; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

5. **“THAT:**

- (a) approval be and is hereby given for the re-election of Hon. Abraham SHEK Lai Him, GBS, JP as an Independent Non-executive Director of the Manager; and
- (b) authorisation be granted to the Manager, any Director of the Manager and the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the Manager, such Director of the Manager or, as the case may be, such duly authorised signatory of the Trustee may consider expedient or necessary or in the interest of Regal REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

By Order of the Board
Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)
Peony CHOI Ka Ka
Secretary

Hong Kong, 13 March 2015

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:

Unit No. 2001, 20th Floor
68 Yee Wo Street
Causeway Bay
Hong Kong

Notes:

1. A Unitholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and vote on a poll in his/her stead. The person appointed to act as a proxy need not be a Unitholder.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Unit Registrar of Regal REIT, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
3. Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders are present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the register of Unitholders of Regal REIT (the "**Register of Unitholders**") in respect of such Unit shall alone be entitled to vote in respect thereof.
4. The Register of Unitholders will be closed from 10 April 2015 to 14 April 2015, both days inclusive, during which period no transfers of Units will be effected. In order to qualify to attend and vote at the Extraordinary General Meeting, all Unit certificates accompanied by the duly completed transfer documents must be lodged with the Unit Registrar of Regal REIT not later than 4:30 p.m. on 9 April 2015.

As at the date of this notice, the Board comprises Mr. LO Yuk Sui as Chairman and Non-executive Director; Miss LO Po Man as Vice Chairman and Non-executive Director; Mr. Johnny CHEN Sing Hung and Mr. Simon LAM Man Lim as Executive Directors; Mr. Donald FAN Tung, Mr. Jimmy LO Chun To 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, GBS, JP as Independent Non-executive Directors.