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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



CONNECTED PARTY TRANSACTIONS

The Board is pleased to announce that on 31 May 2010, the Company, a 75% owned subsidiary of Regal REIT, entered into the Development Consultant Agreement and the Registered Contractor Agreement with PDCL and Chatwin, respectively, for the implementation of the Conversion Project.

The total consideration payable under the Agreements is approximately HK\$4.35 million, which represents approximately 0.05% of the net asset value of Regal REIT as at 31 December 2009 (as adjusted for the 2009 final distribution made in 2010).

The consideration payable under the Agreements will be funded by the existing bank loan facility of the Company.

As at the date of this announcement, PDCL and Chatwin are both wholly-owned subsidiaries of PHL, and PHL is the effective controlling shareholder (holding approximately 48.97% of the total issued shares) of Regal Hotels International Holdings Limited, a significant Unitholder holding approximately 74.32% of the outstanding Units. Therefore, PDCL and Chatwin are regarded as connected persons of Regal REIT under the REIT Code.

The Agreements constitute connected party transactions for Regal REIT. Pursuant to paragraph 8.9 of the REIT Code, as the total consideration under the Agreements when aggregated with the total value of the Acquisition will be less than 5% of the latest net asset value of Regal REIT (as disclosed in the latest published audited accounts of Regal REIT and adjusted for the 2009 final distributions made in 2010), the connected party transactions contemplated under the Agreements are only subject to the reporting and announcement requirements but exempt from the Unitholders' approval requirements under Chapters 8 and 10 of the REIT Code.

THE TRANSACTIONS

The Board is pleased to announce that on 31 May 2010, the Company, a 75% owned subsidiary of Regal REIT, entered into the Development Consultant Agreement and the Registered Contractor Agreement with PDCL and Chatwin, respectively, for the implementation of the Conversion Project.

A. THE AGREEMENTS

1. The Development Consultant Agreement

Set out below are the key terms of the Development Consultant Agreement entered into between PDCL and the Company, pursuant to which PDCL has agreed to provide development consultancy services to the Company in relation to the Conversion Project, including architectural and interior consultancy, contract administration and site supervision:

Date: 31 May 2010.

Parties: Paliburg Development Consultants Limited, a wholly-owned subsidiary of PHL, as development consultant.

Sonnix Limited, a 75% owned subsidiary of Regal REIT, as employer.

Consideration: HK\$0.85 million.

- Principal scope of services:
- (a) To act as the authorized person for the Conversion Project.
 - (b) To prepare architectural design drawings, general building plans, interior design drawings, other details and calculations for the Conversion Project.
 - (c) To submit the necessary building plans and calculations for the Conversion Project to the Buildings Department and other relevant authorities for approval.
 - (d) To issue the necessary tender documents and handle contract administration.
 - (e) To provide periodic supervision of the alteration and addition works, interior works and electrical and mechanical works of the Building.
- Term: Up to the issue of the final certificate for the main contract, subject to the right of early termination by either party by no less than one month's prior written notice.

2. The Registered Contractor Agreement

Set out below are the key terms of the Registered Contractor Agreement entered into between Chatwin and the Company, pursuant to which Chatwin has agreed to undertake construction works to comply with the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) and to co-ordinate with other contractors in relation to the Conversion Project:

Date: 31 May 2010.

Parties: Chatwin Engineering Limited, a wholly-owned subsidiary of PHL, as project contractor.

Sonnix Limited, a 75% owned subsidiary of Regal REIT, as employer.

Consideration: HK\$3.50 million.

- Principal scope of services:
- (a) To carry out the demolition works, builders' works and partitioning works in relation to the Conversion Project.
 - (b) To provide attendances to the direct contractors engaged by the Company for the Conversion Project with all reasonable facilities for the execution of their works.

Term: To complete the contract works for the Conversion Project within 120 calendar days from commencement. An amount of HK\$20,000 per calendar day is deductible by the employer for liquidated and ascertained damages in the event that the contract works are not completed by the date for completion or such extended date as certified by the architect under the contract conditions.

The Company will also engage independent third party contractors for the Conversion Project, the contract costs of which are estimated to be approximately HK\$20 million in the aggregate. These costs, and the total consideration payable under the Agreements in the amount of HK\$4.35 million, will be funded by the existing bank loan facility of the Company.

B. REASONS FOR ENTERING INTO THE TRANSACTIONS

Reference is made to the announcement issued by Regal REIT dated 10 September 2009 in relation to, among other things, the Acquisition and the AEP. The AEP was completed in December 2009, ahead of schedule, and Regal iClub Hotel became operative on 25 December 2009. Since the commencement of operations, Regal iClub Hotel, which includes the hotel rooms located from the 5th to the 15th floors of the Building, has received positive feedback from customers, and maintained a relatively high level of average occupancy rate. Having regard to the following factors and potential benefits to Regal REIT, the REIT Manager considers that it would be in the interests of Unitholders to also convert the floors currently consisting of the 10-storey office space from the 16th to the 26th floors (there is no 24th floor) of the Building into hotel rooms and suites:-

- (a) to leverage on an improved asset utilisation and augmented revenue generating power of various hotel room types so as to enhance the property yield;

- (b) to create synergistic effect for Regal REIT's investment portfolio in terms of economies of scale in hotel planning, monitoring and profitability management, and savings on administrative costs; and
- (c) to benefit from the potential increase in market value of the property after the Conversion Project is completed.

The Conversion Project is permissible under the supplemental deed of mutual covenant and management agreement of the Building, and the REIT Manager has obtained the building plans approval to convert the 10-storey office space into 49 hotel rooms and suites (with a total gross floor area of 25,611 square feet). The 49 hotel rooms and suites will form part of Regal iClub Hotel after the conversion. After the completion of the Conversion Project, the room inventory of Regal iClub Hotel will be increased from 50 to 99 (with an increase in gross floor area of 24,851 square feet). It is intended that, upon completion of the Conversion Project and before the end of the current lease of the Building, the 49 rooms converted will be operated by the same hotel manager. The conversion of the 49 rooms will not affect the terms of the current lease nor the current lease rental amount.

The REIT Manager has chosen to procure the Company to appoint PDCL and Chatwin to be the development consultant and registered contractor, respectively, for the Conversion Project because of their specialized knowledge and skills gained as a result of their previous roles in relation to the AEP. Such prior knowledge and skills will help to ensure a smooth implementation of the Conversion Project and shorten the lead time required for the design and contract work.

In selecting PDCL and Chatwin, the Company had considered the following factors:-

With respect to the appointment of PDCL:

- (a) due to its previous roles as authorized person, architect and interior designer of the AEP, PDCL is already familiar with and possesses all the design drawings, documents and the patent rights with respect to the AEP of the Building, and has an in-depth knowledge of the project which can be used as reference for the Conversion Project; and
- (b) the fees to be charged by PDCL for its professional services under the Development Consultant Agreement are, in the view of the REIT Manager, within the range of market rates.

With respect to the appointment of Chatwin:

- (a) due to its previous role as project management contractor of the AEP, Chatwin is already familiar with the site conditions and various site issues; and
- (b) the contract sum tendered by Chatwin was the lowest quote in a competitive tender for the position and represents approximately 14.4% of the overall construction costs of the Conversion Project, which the REIT Manager believes is within the range of market rates.

C. OPINION OF THE BOARD

The Board (including all independent non-executive directors of the REIT Manager) confirms that the Agreements have been entered into on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of the Unitholders as a whole.

D. TRUSTEE'S OPINION

After taking into consideration the reasons for, terms of and other information provided to the Trustee by the REIT Manager in relation to the Agreements, the Trustee confirms that the Agreements comply with the relevant provisions under the Trust Deed and are consistent with Regal REIT's established investment policy and has given its consent for the REIT Manager to proceed with the Agreements. The Trustee further confirms that no Unitholder's approval is required to approve the transactions contemplated under the Agreements.

E. IMPLICATIONS UNDER THE REIT CODE

Under paragraph 8.1 of the REIT Code, connected persons of Regal REIT include, amongst others, a significant holder (that is, a holder of 10% or more of the outstanding Units) and its controlling entities, holding companies, subsidiaries or associated companies. As at the date of this announcement, PDCL and Chatwin are both wholly-owned subsidiaries of PHL and PHL is the effective controlling shareholder (holding approximately 48.97% of the total issued shares) of Regal Hotels International Holdings Limited, a significant Unitholder holding approximately 74.32% of the outstanding Units. Therefore, PDCL and Chatwin are regarded as connected persons of Regal REIT under the REIT Code.

The Agreements constitute connected party transactions for Regal REIT. Pursuant to paragraph 8.9 of the REIT Code, as the total consideration under the Agreements when aggregated with the total value of the Acquisition will be less than 5% of the latest net asset value of Regal REIT (as disclosed in the latest published audited accounts of Regal REIT and adjusted for the 2009 final distributions made in 2010), the REIT Manager considers that the connected party transactions contemplated under the Agreements are only subject to the reporting and announcement requirements but exempt from the Unitholders' approval requirements under Chapters 8 and 10 of the REIT Code. Regal REIT will comply with all reporting and disclosure requirements applicable to the Agreements under the REIT Code, and will also disclose particulars of the connected party transactions and include a summary disclosure of the brief details of the connected party transactions in Regal REIT's next published semi-annual and annual reports, as required by paragraphs 8.14, 8.15 and 8.16 of the REIT Code.

In view of the fact that certain directors of the REIT Manager are also members of the board of PHL and/or PDCL and/or Chatwin, the REIT Manager will take steps to ensure compliance at all times with the provisions of the REIT Code, the Trust Deed and the compliance manual of Regal REIT relating to corporate governance and avoidance of conflicts of interest in connection with the deliberations and decisions of the Board in relation to the Agreements entered into in connection with the Conversion Project and the on-going implementation of the terms thereof.

In addition, Regal REIT will notify the Unitholders by way of an announcement if and when (i) completion of the Agreements has taken place, and/or (ii) there is any material variation or delay in the completion of the Agreements. Upon any material variation of, or waiver or release by or on behalf of Regal REIT any of its rights and any obligations of the connected persons under the terms and conditions of the Agreements, Regal REIT will comply in full with all applicable reporting, disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code.

The auditors of Regal REIT are required to perform certain review procedures, on an annual basis at the end of each financial year, in respect of all connected party transactions of Regal REIT for the relevant financial period. Such auditors' review procedures will apply to the connected party transactions entered into in connection with the Agreements. For details of the auditors' review procedures,

please refer to the section headed “Structure and Management — Connected Party Transactions — Waivers for Certain Transactions and Persons — Waiver Conditions — (vi) Auditors’ review procedures” in the offering circular of Regal REIT dated 19 March 2007.

The independent non-executive directors of the REIT Manager are required to review, on an annual basis, all the connected party transactions of Regal REIT, and give their confirmation in Regal REIT’s annual report for the relevant financial period. This review will apply to the connected party transactions entered into in connection with the Agreements. For details of the review by the independent non-executive directors, please refer to the section headed “Structure and Management — Connected Party Transactions — Waivers for Certain Transactions and Persons — Waiver Conditions — (vii) Review by the INEDs” in the offering circular of Regal REIT dated 19 March 2007.

F. INFORMATION ON REGAL REIT, PHL, PDCL AND CHATWIN

Regal REIT

Regal REIT is a collective investment scheme authorised by the SFC and listed on the main board of The Stock Exchange of Hong Kong Limited. Regal REIT is a real estate investment trust with DB Trustees (Hong Kong) Limited as its trustee. It invests primarily in real estate that wholly or primarily comprises hotel or other hospitality related properties and uses the income arising from such properties to provide stable returns to its Unitholders. As at 31 December 2009, the value of Regal REIT’s total investment property portfolio was approximately HK\$14,290 million. As at the date of this announcement, Regal REIT owns a total of six properties (five wholly-owned and one majority-owned) which are located across different districts in Hong Kong.

PHL, PDCL and Chatwin

PHL is a company incorporated in Bermuda with limited liability, whose shares are listed and traded on the main board of The Stock Exchange of Hong Kong Limited (stock code: 0617). The principal activity of PHL is that of a holding company. The principal activities of the PHL and its subsidiaries are property development and investment, construction and building related businesses and other investments. PDCL and Chatwin are both wholly-owned subsidiaries of PHL.

DEFINITIONS

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

- “Acquisition”** means the acquisition by Regal REIT of a 75% equity interest in Twentyfold Investments Limited, a then wholly-owned subsidiary of PHL and the owner of the shares in the Company, completion of which took place on 20 October 2009;
- “Agreements”** means the Development Consultant Agreement and the Registered Contractor Agreement;
- “AEP”** means the asset enhancement programme in relation to certain portions of the Building as more fully described under the paragraphs A.1.(viii) and B.2 of the announcement issued by Regal REIT dated 10 September 2009, completion of which took place in December 2009;
- “Board”** means the board of directors of the REIT Manager;
- “Building”** means a building situated at No. 211 Johnston Road, Wanchai, Hong Kong, erected on the Remaining Portion of Section F of Inland Lot No. 2769, Subsection 1 of Section F of Inland Lot No. 2769, the Remaining Portion of Section G of Inland Lot No. 2769 and Subsection 1 of Section G of Inland Lot No. 2769;
- “Chatwin”** means Chatwin Engineering Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of PHL;
- “Company”** means Sonnix Limited, a company incorporated in Hong Kong with limited liability, an indirect 75% owned subsidiary of Regal REIT and the holding company of the property in the Building;
- “Conversion Project”** means the conversion by Regal REIT of part of the ground floor, 3rd floor, 10 floors of office space from the 16th to the 26th floors (there is no 24th floor) and roof of the Building into 49 hotel rooms and suites;

“Development Consultant Agreement”	means the development consultant contract dated 31 May 2010 entered into between the Company and PDCL with respect to the Conversion Project;
“Directors”	means the directors of the REIT Manager;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“PDCL”	means Paliburg Development Consultants Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of PHL;
“PHL”	means Paliburg Holdings Limited, a company incorporated in Bermuda, whose shares are listed and traded on The Stock Exchange of Hong Kong Limited (stock code: 0617) and a connected party of Regal REIT;
“Regal iClub Hotel”	means the portion of the Building after the AEP was completed, comprising 50 hotel rooms from the 5th to the 15th floors, and a restaurant, in the Building;
“Regal REIT”	means Regal Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) subject to applicable conditions from time to time;
“Registered Contractor Agreement”	means the registered contractor agreement dated 31 May 2010 entered into between the Company and Chatwin with respect to the Conversion Project;
“REIT Code”	means The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being;
“REIT Manager”	means Regal Portfolio Management Limited, the manager of Regal REIT;
“SFC”	means the Securities and Futures Commission of Hong Kong;

- “Trust Deed”** means the trust deed constituting Regal REIT dated 11 December 2006, as supplemented by a first supplemental deed dated 2 March 2007, a second supplemental deed dated 15 May 2008 and a third supplemental deed dated 8 May 2009, entered into between the Trustee and the REIT Manager, as the same may be supplemented or amended from time to time;
- “Trustee”** means DB Trustees (Hong Kong) Limited, the trustee of Regal REIT;
- “Unit”** means a unit of Regal REIT; and
- “Unitholder”** means any person registered as holding a Unit.

By order of the Board
Regal Portfolio Management Limited
as manager of Regal Real Estate Investment Trust
Eric MAN Wai Kong
Executive Director

Hong Kong, 31 May 2010

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