

The Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitations.



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



**SUMMARY OF MARKET RENTAL PACKAGE
AND INCREASE IN BASE RENT RECEIVABLE
IN RESPECT OF FISCAL YEAR OF 2013**

Reference is made to the announcements dated 29 October 2010 and 9 September 2011 issued by Regal REIT. In accordance with the Lease Agreements, the Valuer has been jointly appointed by the Lessors and the Lessee and instructed to conduct a rent review to determine the Market Rental Package for 2013, which includes the amount of market rents (including base rent, variable rent and the Lessee's contribution to FF&E Reserve) for each of the Initial Hotel Properties and the amount of the security deposit.

According to the 2013 Market Rental Package Determination, the aggregate amount payable by the Lessee as Base Rent is HK\$734 million for the Fiscal Year of 2013 (an increase of approximately 13.8% as compared with the Base Rent of HK\$645 million in the 2012 Market Rental Package). In addition, the Variable Rent will be calculated at 50% of the Collective NPI Excess in respect of the Fiscal Year 2013 (the percentage sharing being the same as in respect of the Variable Rent calculation under the 2012 Market Rental Package). The Security Deposit comprised within the 2013 Market Rental Package Determination is HK\$367 million (as compared with the Security Deposit of HK\$322.5 million comprised within the 2012 Market Rental Package). Summaries of the 2013 Market Rental Package Determination and the valuation methodologies are set out in this announcement. The manner of payment of each component of the 2013 Market Rental Package Determination will be consistent with the corresponding manners of payment in the 2012 Market Rental Package. The existing Security Deposit will expire on 31 December 2012, and a replacement Security Deposit shall be procured by delivery to the Lessors, within 60 days after the determination of the 2013 Market Rental Package, that is, on or before 16 October 2012, of an extended or replacement third party guarantee (or standby letter of credit or other equivalent form of security) issued by a licensed bank in Hong Kong effective on 1 January 2013.

The Total Distributable Income available for distribution to unitholders of Regal REIT for each financial year is affected by various factors, including the Base Rent and Variable Rent receivable by Regal REIT for such financial year. Pursuant to the 2013 Market Rental Package Determination, there will be an increase of HK\$89 million in the Base Rent for the Fiscal Year of 2013 as compared to that in the 2012 Market Rental Package. Under the 2012 Market Rental Package, the Variable Rent receivable for the six months ended 30 June 2012 amounted to approximately HK\$41.8 million, based on 50% of the Collective NPI Excess for such period. Likewise, pursuant to the 2013 Market Rental Package Determination, the Variable Rent receivable for the Fiscal Year of 2013 will be based on the same 50% sharing, in respect of the Collective NPI Excess for the Fiscal Year of 2013. A higher Base Rent together with Variable Rent based on same percentage sharing will have a positive impact on the Total Distributable Income in respect of the Fiscal Year of 2013.

Given that there are variables involved in the determination of the Base Rent and the Variable Rent from year to year, investors should exercise caution in dealing in the units of Regal REIT.

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the Market Rental Package for 2013 is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

The INEDs confirm that the rent review in respect of the Market Rental Package for 2013 has been conducted in accordance with the terms of the Lease Agreements.

A. BACKGROUND INFORMATION TO LEASE TERM AND RENTAL INCOME STRUCTURE

Reference is made to the announcements dated 29 October 2010 and 9 September 2011 issued by Regal REIT . Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings ascribed to them in the announcement dated 9 September 2011 (the “**Announcement**”).

B. APPOINTMENT OF VALUER

In accordance with the Lease Agreements, Mr. David Faulkner was jointly appointed as an independent professional property valuer (the “**Valuer**”) and was instructed on 29 June 2012 to conduct a rent review to determine the Market Rental Package in respect of the Fiscal Year of 2013 (the “**Market Rental Package for 2013**”), based on the assumptions and disregards provided in the Lease Agreements. Mr. Faulkner is the Valuer who was jointly appointed to determine the Market Rental Package in respect of the Fiscal Years of 2011 and 2012. Mr. Faulkner is a Chartered Surveyor with over 30 years' experience in the valuation of properties of this magnitude and nature and over 25 years' experience in Hong Kong and China, and is currently an Executive Director at Colliers International (Hong Kong) Limited, which is the current principal valuer of Regal REIT.

Mr. Faulkner issued his report (the “**Report**”) on the determination of the Market Rental Package for 2013 (the “**2013 Market Rental Package Determination**”) on 17 August 2012.

C. THE 2013 MARKET RENTAL PACKAGE DETERMINATION

1. Summary of the 2013 Market Rental Package Determination

A summary of the 2013 Market Rental Package Determination, together with the corresponding components in respect of the Fiscal Year of 2012, is as follows:

<u>Market Rental Package component</u>	<u>Market Rental Package for 2013</u>	<u>Market Rental Package for 2012</u>
(a) Base Rent for Regal Airport Hotel ⁽¹⁾	HK\$212 million	HK\$190 million
(b) Base Rent for Regal Hongkong Hotel ⁽¹⁾	HK\$146 million	HK\$129 million
(c) Base Rent for Regal Kowloon Hotel ⁽¹⁾	HK\$150 million	HK\$130 million
(d) Base Rent for Regal Oriental Hotel ⁽¹⁾	HK\$76 million	HK\$65 million
(e) Base Rent for Regal Riverside Hotel ⁽¹⁾	<u>HK\$150 million</u>	<u>HK\$131 million</u>
Aggregate amount payable by Lessee as Base Rent ⁽²⁾	<u>HK\$734 million</u>	<u>HK\$645 million</u>
Variable Rent for the Initial Hotel Properties (receivable by the Relevant Lessors) ⁽³⁾	50% of Collective NPI Excess	50% of Collective NPI Excess
Lessee's contribution to the FF&E Reserve ⁽⁴⁾	No contribution required by the Lessee	No contribution required by the Lessee
Amount of security deposit ⁽⁵⁾	HK\$367 million	HK\$322.5 million

Notes:

- (1) According to the Lease Agreements, during the Second Lease Period, the Floor Rent will be HK\$400 million per annum, such amount being an aggregate of the respective minimum annual rental payments in respect of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, and Regal Riverside Hotel, which are, respectively, HK\$175 million, HK\$60 million, HK\$65 million, HK\$30 million and HK\$70 million.

- (2) According to the Lease Agreements, during the Second Lease Period, the Lessee will pay to the Lessors, on a monthly basis, the higher of one-twelfth of the Floor Rent of HK\$400 million and the monthly base rent comprised within the 2013 Market Rental Package Determination, in such manner that the monthly lease income of the Lessors will not be less than one-twelfth of the Floor Rent. The base rent of the Initial Hotel Properties comprised within the 2013 Market Rental Package Determination is HK\$734 million, being the aggregate of the base rents set out in the table above which, in each case, is higher than the respective minimum annual rental payments in respect of each of the Initial Hotel Properties as stated in Note (1). The aggregate amount payable by the Lessee as Base Rent for the Fiscal Year of 2013 is an increase of approximately 13.8% as compared with the Base Rent of HK\$645 million for the Fiscal Year of 2012.
- (3) For the six months ended 30 June 2012, the NPI from hotel operations of the Initial Hotel Properties amounted to approximately HK\$406.1 million. The Variable Rent receivable by Regal REIT for such period therefore amounted to approximately HK\$41.8 million, based on 50% of the Collective NPI Excess for such period in accordance with the 2012 Market Rental Package. Likewise, pursuant to the 2013 Market Rental Package Determination, the Variable Rent receivable for the Fiscal Year 2013 will be based on the same 50% sharing, in respect of the Collective NPI Excess for the Fiscal Year of 2013.
- (4) According to the Lease Agreements, the Lessee was required to contribute monthly to the FF&E Reserve an amount equal to 2% of the Total Hotel Revenue for each Fiscal Year in the First Lease Period. According to the Report, as a general practice of the hotel industry in Hong Kong, the owner of the hotel (equivalent to the Lessor in each Lease Agreement) is responsible for contributing to funds which are set aside and applied to meet the costs of investments in the replacement of furniture, fixtures and equipment at the relevant hotel premises, for the purposes of maintaining such premises at the applicable operating standards and operating capacity. The Valuer is, therefore, of the opinion that the obligation to contribute to the FF&E Reserve could be transferred from the Lessee to the Lessors based on local practice and, consistent with the 2012 Market Rental Package Determination, concluded in the 2013 Market Rental Package Determination that none of the Total Hotel Revenue shall be contributed by the Lessee to the FF&E Reserve for the Fiscal Year of 2013.
- (5) Pursuant to the Lease Guarantees, Regal, as guarantor, procured the Initial Security Deposit 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. Regal has further undertaken that, unless the Lease Agreements are terminated, the same or other equivalent arrangement (the “**Security Deposit**”, as further described in paragraph C.2 of the Announcement) shall, at the sole cost and expense of Regal, remain in place and effective until the end of the term of the Lease Agreements, upon the same terms as the Initial Security Deposit, and at an amount equal to the highest of: (a) the amount which the Valuer determines to be the market rate of security deposit, (b) 50% of the annual base rent as determined by the Valuer upon each annual rent review, and (c) 50% of the Floor Rent. Regal is required, within 60 days after the determination of an annual rent review, to arrange for such bank guarantee to be topped up or adjusted or replaced to an amount equal to such resulting highest amount. According to the 2013 Market Rental Package Determination, the security deposit payable for renting an en bloc hotel of comparable scale

to the Initial Hotel Properties is normally six months base rent, which in the case of the Initial Hotel Properties is HK\$367 million, equivalent to six months base rent comprised within the 2013 Market Rental Package Determination, such amount being the highest of (a), (b) and (c).

2. Manner of Payment

The manner of payment of the 2013 Market Rental Package Determination (including in relation to the Base Rent, Variable Rent, Security Deposit and the Lessee's contribution to the FF&E Reserve according to the 2013 Market Rental Package Determination) will be consistent with the corresponding manners of payment in the 2012 Market Rental Package Determination. The existing Security Deposit will expire on 31 December 2012, and a replacement Security Deposit shall be procured by delivery to the Lessors, within 60 days after the determination of the 2013 Market Rental Package, that is, on or before 16 October 2012, of an extended or replacement third party guarantee (or standby letter of credit or other equivalent form of security) issued by a licensed bank in Hong Kong effective on 1 January 2013.

D. SUMMARY OF ASSUMPTIONS AND OUTLINE OF VALUATION METHODOLOGIES

1. Assumptions Contained in the 2013 Market Rental Package Determination

The 2013 Market Rental Package Determination was based on the assumptions and disregards set out in the Lease Agreements, including the following:

- (a) that the rental payable by the Lessee shall be exclusive of rates, government rent, utility charges and all other outgoings payable by the Lessee;
- (b) that each of the Initial Hotel Properties is available to let on the open market by a willing landlord to a willing tenant without a premium and with vacant possession having regard to similar premises having similar characteristics and attributes;
- (c) that the length of the lease would be in line with other leases in the market of similar nature;
- (d) that each of the Initial Hotel Properties is fit for immediate occupation and uses and incorporates fixtures and fittings which are of a standard and description commensurate with the nature of the premises and which are suitable for the use and occupation of the willing tenant;

- (e) that in case any part of the Initial Hotel Properties has been damaged or destroyed, it has been fully restored;
- (f) that no reduction is to be made to take account of any inducements;
- (g) disregarding any effect on rent of the fact that the Lessee has been or is in occupation of the Initial Hotel Properties or any part thereof; and
- (h) disregarding any goodwill attributable to the Lessee's business carried on at the Initial Hotel Properties.

2. Outline of Valuation Methodologies

The Valuer adopted a reasonable percentage of gross revenue as his primary approach in his valuation to determine the Base Rent comprised within the 2013 Market Rental Package Determination. The Valuer also analysed similar sales transactions in Hong Kong to assess the market value of the Initial Hotel Properties, and Base Rent was then derived from the adoption of what the Valuer determined to be appropriate yields on such market values. As the Valuer was of the view that rental transactions of hotels are rare in Hong Kong, rental transactions of upper commercial premises were also analysed as a cross-check and benchmark for the purposes of the 2013 Market Rental Package Determination.

E. CONSIDERATIONS IN RESPECT OF THE MARKET RENTAL PACKAGE FOR 2013

1. General Hotel Market Conditions

As previously highlighted in the Announcement, the hotel business is cyclical and sensitive to changes in the global, regional or local economy generally; and since demand for hotel services in Hong Kong is affected by economic growth, a global, regional or local change could affect the hotel industry.

During the first half of 2012, the global economy remains uncertain and has shown signs of further weakness. Towards the end of the second quarter, the sovereign debt crisis in the Euro zone was still unresolved and continued to cast uncertainty on the international financial markets.

Under these global economic factors, the total number of visitor arrivals to Hong Kong during the first half of 2012 still climbed to 22.3 million or a year-on-year increase of 15.5% with the Mainland China market registering the strongest growth at 22.7% to reach 15.6 million, which accounted for 69.8% of total visitor arrivals to Hong Kong in the same period.

Other factors have continued to attract visitors from Mainland China to Hong Kong for shopping and entertainment, including Hong Kong's sustained economic growth and the positioning of Hong Kong as an offshore Renminbi center. In addition, the improved tourism infrastructure in Hong Kong (including the construction of a new cruise terminal in Kai Tak), the connectivity with Pearl River Delta and the strong market demand in hotel lodging would likely continue to benefit the utilization rate of the assets of Regal REIT, contributing to their occupancy rates and the average room rates in 2013.

2. Performance of Initial Hotel Properties for the six months ended 30 June 2012

For the six months ended 30 June 2012, the average room rate of the Initial Hotel Properties was HK\$1,001.17 (representing an increase of 15.5% from HK\$866.58 as compared to the same period in the Fiscal Year of 2011) and the average occupancy rate was 87.5% (representing a decrease of 1.8% from 89.1% as compared to the same period in the Fiscal Year of 2011), resulting in an increase of 13.4% in the RevPAR as compared to the same period in the Fiscal Year of 2011.

In respect of the Variable Rent, for the six months ended 30 June 2012, the NPI from hotel operations of the Initial Hotel Properties amounted to approximately HK\$406.1 million. The Variable Rent receivable by Regal REIT for such period therefore amounted to approximately HK\$41.8 million, based on 50% sharing of the Collective NPI Excess for such period in accordance with the 2012 Market Rental Package.

3. Market Rental Package for 2013

As was also highlighted in the Announcement, rent levels will principally depend on the prevailing market conditions at the time.

In respect of the Market Rental Package for 2013, the aggregate amount of HK\$734 million payable by the Lessee as Base Rent for the Fiscal Year of 2013 represents an increase of approximately 13.8% as compared with the Base Rent of HK\$645 million for the Fiscal Year of 2012. The Base Rents comprised within the 2013 Market Rental Package Determination have been determined based on the Valuer's professional opinion on the market status for 2013 (including the assumptions and disregards set out in paragraph D.1 above) and on certain factors relating to each of the Initial Hotel Properties, and with reference to the current market conditions of the hotel and tourism industry in Hong Kong.

Pursuant to the 2013 Market Rental Determination, the Variable Rent receivable for the Fiscal Year of 2013 will be based on the same 50% sharing, in respect of the Collective NPI Excess for the Fiscal Year of 2013.

4. Impact on Total Distributable Income

The Total Distributable Income available for distribution to unitholders of Regal REIT for each financial year is affected by various factors, including the Base Rent and Variable Rent receivable by Regal REIT for such financial year. Pursuant to the 2013 Market Rental Package Determination, there will be an increase of HK\$89 million in the Base Rent for the Fiscal Year of 2013 as compared to that comprised in the 2012 Market Rental Package. Under the 2012 Market Rental Package, the Variable Rent receivable for the six months ended 30 June 2012 amounted to approximately HK\$41.8 million, based on 50% sharing of the Collective NPI Excess for such period. Likewise, pursuant to the 2013 Market Rental Package Determination, the Variable Rent receivable for the Fiscal Year of 2013 will be based on the same 50% sharing, in respect of the Collective NPI Excess for the Fiscal Year of 2013. A higher Base Rent together with Variable Rent based on same percentage sharing will have a positive impact on the Total Distributable Income in respect of the Fiscal Year of 2013.

Given that there are variables involved in the determination of the Base Rent and the Variable Rent from year to year, investors should exercise caution in dealing in the units of Regal REIT.

F. INSPECTION OF VALUER'S REPORT

Pursuant to 5.2(f) of the REIT Code, the Valuer's report on the Market Rental Package for 2013 is available for inspection by the public during normal office hours at the REIT Manager's place of business at Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

G. CONFIRMATION BY THE INEDS

The INEDs confirm the following:

- (a) the Board (with the approval of all of the independent non-executive directors) at the time of the IPO, had confirmed that the terms of the agreements/deed (including tenure of the Lease Agreements together with the Hotel Management Agreements) referred to in the section headed "Connected Party Transactions" of the Offering Circular were in line with normal business practice for contracts of the relevant type, and that for transactions which are to be entered into after the Listing Date, each such

transaction shall be entered into in the ordinary and usual course of business of Regal REIT group, and on terms which are normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole; and

- (b) the rent review in respect of the Market Rental Package for 2013 has been conducted in accordance with the terms of the Lease Agreements.

This announcement is made pursuant to Chapter 10 of the REIT Code.

DEFINITIONS

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

- “FF&E Reserve” means those funds set aside and applied pursuant to the Hotel Management Agreements (as defined in the Offering Circular) to meet the cost of all investments in the replacement of furniture, fixtures and equipment at the Initial Hotel Properties which are required to maintain the Initial Hotel Properties at the operating standards as prescribed in the Hotel Management Agreements and at the operating capacity of the Initial Hotel Properties, and for the purpose of this definition:
- (a) “furniture” includes all loose furniture, furnishings, decorations and appliances in restaurants, bars, hotel rooms, offices, kitchens and workshops, throughout the Initial Hotel Properties,
 - (b) “fixtures” includes all fixed furniture such as stationary bar counters and reception desks, fixed carpets, marble and hardwood floors, wall coverings and walk-in freezers and fridges,
 - (c) “equipment” includes kitchen equipment, ranges, workshop machinery, cleaning equipment, telecommunications equipment, computer equipment and vehicles;

but the term “FF&E” shall exclude (i) items which are included as part of the fixtures of the building in which the Initial Hotel Properties are located; and (ii) Operating Equipment (as defined in the Offering Circular) except for those Operating Equipment owned by the Lessors on the date of the Hotel Management Agreements and any additional Operating Equipment capitalized under the circumstances of a capital addition;

“Fiscal Year”	means the period from 1st January to 31st December (both days inclusive) in each year and the last Fiscal Year shall be the period from 1st January in the last year of the term of the Lease Agreements to the date of expiration or earlier determination of the term of the Lease Agreements (both days inclusive);
“INEDs”	means the independent non-executive directors of the REIT Manager;
“IPO”	means the initial public offering of the units of Regal REIT in Hong Kong;
“Lease Agreements”	means Lease Agreement No. 1, Lease Agreement No. 2, Lease Agreement No. 3, Lease Agreement No. 4 and Lease Agreement No. 5, as respectively amended by: (a) the amendment agreement to Lease Agreement No. 1 for Regal Airport Hotel entered into between Bauhinia Hotels Limited and the Lessee on 12 February 2010, (b) the amendment agreement to Lease Agreement No. 2 for Regal Hongkong Hotel entered into between Cityability Limited and the Lessee on 12 February 2010, (c) the amendment agreement to Lease Agreement No. 3 for Regal Kowloon Hotel entered into between Ricobem Limited and the Lessee on 12 February 2010, (d) the amendment agreement to Lease Agreement No. 4 for Regal Oriental Hotel entered into between Gala Hotels Limited and the Lessee on 12 February 2010, and (e) the amendment agreement to Lease Agreement No. 5 for Regal Riverside Hotel entered into between Regal Riverside Hotel Limited and the Lessee on 12 February 2010;

“Lessee”	means Favour Link International Limited, a wholly-owned subsidiary of Regal;
“Lessors”	means the respective direct owners of the Initial Hotel Properties (being (a) Bauhinia Hotels Limited, in relation to Regal Airport Hotel, (b) Cityability Limited, in relation to Regal Hongkong Hotel, (c) Ricobem Limited, in relation to Regal Kowloon Hotel, (d) Gala Hotels Limited, in relation to Regal Oriental Hotel, and (e) Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel) and “Lessor” means any one of them;
“NPI Excess”	means NPI or Net Property Income (as defined in the Offering Circular) in excess of Base Rent in respect of each of the Initial Hotel Properties for any relevant period, and “Collective NPI Excess” means the aggregate of the NPI Excess of the Initial Hotel Properties for any relevant period, and any negative NPI shall also be taken into account; and
“Regal”	means Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 78).

By order of the Board
Regal Portfolio Management Limited
as manager of Regal Real Estate Investment Trust
Francis CHIU
Executive Director

Hong Kong, 27 August 2012

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. Simon LAM Man Lim 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.