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DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
THE REGAL CAPITAL REORGANISATION

Independent financial adviser to the Independent Board Committee



A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee containing its recommendation regarding the Stanley Transfer is set out on page 16 of this circular. A letter from Dao Heng Securities, containing its advice to the Independent Board Committee regarding the Stanley Transfer, is set out on pages 17 to 28 of this circular.

A notice dated 26th August, 2002 convening a special general meeting of Regal to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:00 a.m. on Wednesday, 18th September, 2002, is set out on pages 47 and 48 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Regal's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

26th August, 2002

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DEFINITIONS

In this circular the following expressions bear the following meanings, unless the context otherwise requires:

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| “Adjusted Regal Ordinary Share(s)” | adjusted ordinary share(s) of par value HK\$0.01 each in the share capital of Regal upon the Regal Capital Reorganisation becoming effective |
| “Announcement” | the joint announcement dated 2nd August, 2002 made by Century City, Paliburg and Regal |
| “associate(s)” | as defined in the Listing Rules |
| “Board” | the board of Directors |
| “Century City” | Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange |
| “CCASS” | the Central Clearing and Settlement System established and operated by Hongkong Clearing |
| “Chest Gain” | Chest Gain Development Limited, a company incorporated in Hong Kong and the owner and developer of the Stanley Project |
| “Companies Act” | the Companies Act 1981 of Bermuda |
| “Consideration Shares” | 1,958,333,333 Regal Ordinary Shares to be issued and allotted at a price of HK\$0.24 per share under the Stanley Transfer |
| “Continuing Several Guarantee” | the several guarantee which Paliburg has agreed to provide, after completion of the Stanley Transfer, in respect of 40% of the bank borrowings of Chest Gain for the Stanley Project pursuant to the Stanley Transfer Agreement |
| “Dao Heng Securities” | Dao Heng Securities Limited, an investment adviser and securities dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong and the independent financial adviser to the Independent Board Committee in relation to all transactions contemplated under the Stanley Transfer Agreement |
| “Director(s)” | the director(s) of Regal |
| “Effective Date” | the effective date of the Regal Capital Reorganisation |
| “FPDSavills” | FPDSavills (Hong Kong) Limited, an independent property valuer in Hong Kong for the valuation of the Stanley Project |

DEFINITIONS

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| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hongkong Clearing” | Hong Kong Securities Clearing Company Limited |
| “Independent Board Committee” | an independent committee of the Board comprising Mr. Dominic Lai and Mr. Thomas Ng Wai Hung, the independent non-executive Directors, for the purpose of considering and advising the Independent Shareholders in respect of all transactions contemplated under the Stanley Transfer Agreement |
| “Independent Shareholders” | shareholders of Regal other than Mr. Lo, Paliburg and their respective associates |
| “Latest Practicable Date” | 22nd August, 2002, being the latest practicable date prior to the printing of this circular for ascertaining information contained in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Lo” | Mr. Lo Yuk Sui, the chairman of the boards of directors of Century City, Paliburg and Regal |
| “Nice Tex” | Nice Tex Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Paliburg |
| “Paliburg” | Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange |
| “Paliburg Group” | Paliburg and its subsidiaries and associated companies (excluding the Regal Group) |
| “PDBVI” | Paliburg Development BVI Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Paliburg |
| “PDFL” | Paliburg Development Finance Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Paliburg |
| “PRC” | the People’s Republic of China |
| “Regal” | Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange |

DEFINITIONS

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| “Regal Accumulated Losses” | the entire balance in the accumulated losses account of Regal as at the Effective Date |
| “Regal Capital Reduction” | the proposed adjustment of nominal value of each issued Regal Ordinary Share from HK\$0.10 to HK\$0.01 by the cancellation of paid-up capital of HK\$0.09 in respect of each issued Regal Ordinary Share |
| “Regal Capital Reorganisation” | the proposed share capital reorganisation of Regal as more fully set out under the section headed “Proposed Regal Capital Reorganisation” in the Letter from the Board contained in this circular |
| “Regal Contributed Surplus Account” | the contributed surplus account of Regal |
| “Regal Convertible Preference Share(s)” | 5¼% convertible cumulative redeemable preference share(s) of par value US\$10 each in the share capital of Regal |
| “Regal Group” | Regal and its subsidiaries and associated companies |
| “Regal Ordinary Share(s)” | ordinary share(s) of par value HK\$0.10 each in the share capital of Regal or in other nominal value after the relevant capital reduction of Regal |
| “Regal Share Premium Account” | the share premium account of Regal as at the Effective Date |
| “SDI Ordinance” | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| “SGM” | a special general meeting of Regal to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:00 a.m. on Wednesday, 18th September, 2002 to approve the Stanley Transfer and the Regal Capital Reorganisation, a notice of which is set out on pages 47 and 48 of this circular |
| “Shareholder’s Loan” | the shareholder’s loan from PDDL to Chest Gain (the principal amount of which is estimated to be approximately HK\$1,503 million) together with all interest accrued thereon outstanding as at the date of completion of the Stanley Transfer |
| “SPC” | a special purpose vehicle to be set up by the Paliburg Group for the purpose of holding initially 1,896.5 million Regal Ordinary Shares to be issued by Regal under the Stanley Transfer with a view to facilitating a settlement proposal of the outstanding bonds of the Paliburg Group |

DEFINITIONS

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| “Stanley Project” | the luxury residential property development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong |
| “Stanley Transfer” | the transfer from the Paliburg Group to Regal of the entire issued share capital of Nice Tex, which in turn effectively owns a 40% interest in Chest Gain, and the assignment of the Paliburg Group’s interest in the Shareholder’s Loan pursuant to the Stanley Transfer Agreement |
| “Stanley Transfer Agreement” | the conditional sale and purchase agreement dated 2nd August, 2002 entered into between Paliburg, PDBVI and Regal in respect of, among other things, the Stanley Transfer |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “US\$” | United States dollars, the lawful currency of the United States of America |

Unless otherwise specified in this circular, US\$1.00 = HK\$7.8. No representation is made that any amounts in US\$ or HK\$ could have been or could be converted at such a rate or at any other rates or at all.

LETTER FROM THE BOARD



Directors:

Mr. LO Yuk Sui (*Chairman and Managing Director*)
Mr. Daniel BONG Shu Yin
Mr. Donald FAN Tung
Mr. Tommy LAM Chi Chung
Mrs. Kitty LO LEE Kit Tai
Mr. Jimmy LO Chun To
Mr. Kenneth NG Kwai Kai
Mr. Kai Ole RINGENSON
Ms. Belinda YEUNG Bik Yiu

Independent non-executive Directors:

Mr. Dominic LAI
Mr. Thomas NG Wai Hung

Registered Office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

*Head office and principal
place of business:*

18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

26th August, 2002

To the shareholders of Regal,

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
THE REGAL CAPITAL REORGANISATION**

INTRODUCTION

Regal refers to the Announcement jointly issued with Century City and Paliburg in respect of, among other things, the Stanley Transfer and the Regal Capital Reorganisation. On 2nd August, 2002, Regal entered into the Stanley Transfer Agreement with Paliburg and its wholly-owned subsidiary, PDBVI. Pursuant to the Stanley Transfer Agreement, the Paliburg Group has agreed to sell and Regal has agreed to purchase the Paliburg Group's 40% interest in the Stanley Project and the Shareholder's Loan in consideration for the Consideration Shares subject to, among other things, Century City, Paliburg and Regal obtaining approvals of their respective independent shareholders. Under the terms of the Stanley Transfer Agreement, Paliburg will provide the Continuing Several Guarantee after completion of the Stanley Transfer. Paliburg is the controlling shareholder of Regal. The Stanley Transfer constitutes a connected transaction for Regal and approval of the Independent Shareholders is required. Mr. Lo, Paliburg and their respective associates will abstain from voting in the SGM for approving the Stanley Transfer.

LETTER FROM THE BOARD

The Board has also proposed the Regal Capital Reorganisation which involves, among other things, the reduction of the nominal value of all the issued and unissued Regal Ordinary Shares from HK\$0.10 to HK\$0.01 each.

The purposes of this circular are (i) to provide you with information relating to, among other things, the Stanley Transfer and the Regal Capital Reorganisation; (ii) to set out the letter from Dao Heng Securities, the independent financial adviser, containing its advice to the Independent Board Committee in relation to the Stanley Transfer; (iii) to set out the recommendation of the Independent Board Committee in relation to the Stanley Transfer; and (iv) to convene the SGM with a view to seeking your approval of the resolutions in relation to the Stanley Transfer and the Regal Capital Reorganisation.

THE STANLEY TRANSFER

The Stanley Transfer Agreement

| | |
|------------------------------------|---|
| Date: | 2nd August, 2002 |
| Vendor: | PDBVI, a wholly-owned subsidiary of Paliburg |
| Purchaser: | Regal |
| Guarantor: | Paliburg, which has agreed to guarantee the due performance and observance of all the obligations of PDBVI under the Stanley Transfer Agreement |
| Assets to be transferred/assigned: | the transfer of the entire issued share capital of Nice Tex and the assignment of all the rights, title and interest of PDFL in the Shareholder's Loan |
| Consideration: | HK\$470 million, which shall be satisfied by Regal issuing and allotting 1,958,333,333 new Regal Ordinary Shares to PDBVI (or such other person(s) as PDBVI may direct) at HK\$0.24 per share |

Nice Tex

Nice Tex, an indirect wholly-owned subsidiary of Paliburg, is the sole owner of a 40% interest in the issued share capital of Chest Gain which, in turn, owns and develops the Stanley Project. 30% of the issued share capital of Chest Gain is held by Extra Gain Limited, a subsidiary of Regal, and the remaining 30% of the issued share capital is held by an independent third party not connected with any of the directors, chief executive and substantial shareholders of Regal, its subsidiaries and any of their respective associates.

Based on the audited consolidated financial statements of Paliburg as at 31st December, 2001, the carrying value of the Paliburg Group's 40% interest in Chest Gain was approximately HK\$547.2 million, and the operating losses of Chest Gain (principally being bank loan interest expenses) attributable to the Paliburg Group in respect of the Paliburg Group's 40% interest in Chest Gain for the years ended 31st December, 2000 and 31st December, 2001 were approximately HK\$81.3 million and approximately HK\$51.9 million respectively.

LETTER FROM THE BOARD

Paliburg currently provides a several guarantee for 40% of the bank borrowings of Chest Gain for the Stanley Project, which amounted to approximately HK\$1,004 million as at 31st December, 2001. Under the terms of the Stanley Transfer Agreement, Paliburg has agreed to provide the Continuing Several Guarantee after completion of the Stanley Transfer. However, Paliburg's obligation under such guarantee will be limited to the security provided by Paliburg which currently comprises approximately 1,384.2 million Regal Ordinary Shares (of which the bank creditors of the Stanley Project are the major beneficiaries). Such Regal Ordinary Shares were worth approximately HK\$112.1 million and approximately HK\$116.3 million respectively based on the closing prices per Regal Ordinary Share of HK\$0.081 as at the date of the Announcement and HK\$0.084 as at the Latest Practicable Date. Paliburg has also warranted to Regal under the Stanley Transfer Agreement that the bank creditors of the Stanley Project will have first priority sharing of not less than 75% over such security. No counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee provided by Paliburg.

After completion of the Stanley Transfer, Regal will not be required to fund the interest servicing cost of the bank borrowings of Chest Gain attributable to the 40% interest of Chest Gain acquired under the Stanley Transfer Agreement, and such payment obligation of Regal will be deferred until the loan repayment date. As part of the terms under the Stanley Transfer Agreement, Regal will provide an additional several guarantee in respect of the 40% of the bank borrowings of Chest Gain which will only be called upon in the event of any default in Chest Gain's bank borrowings for the Stanley Project, and after the Continuing Several Guarantee has been pursued. Regal's obligations under the aforesaid additional guarantee will be subordinated to the existing bank loans of the Regal Group.

According to the development plan of the Stanley Project, the proposed development is expected to comprise a total of 139 luxury three-storey houses with sizes ranging from approximately 2,800 sq.ft. to 4,000 sq.ft. each. Each house will be attached with a private garden and a carport. The gross floor area of these 139 houses are approximately 39,840 sq.m. (equivalent to approximately 428,870 sq.ft). The deluxe recreational complex is complemented with a landscaped deck of approximately 60,000 sq.ft. and elegantly decorated clubhouse of approximately 26,300 sq.ft. with ample recreational facilities including a swimming pool and sunbath deck, a gymnasium, a multi-purpose hall and a children play area.

The Stanley Project commenced in 1997. It has a site area of approximately 571,848 sq.ft. and comprises two phases which are scheduled to be completed around the second quarter and the fourth quarter of 2003 respectively. The superstructure works of the Stanley Project are under way and its construction progress is on schedule.

After completion of the Stanley Transfer, the Regal Group's interest in Chest Gain will increase from 30% to 70% and Chest Gain will continue to be treated as a jointly controlled entity of Regal.

Basis of consideration

The consideration for the Stanley Transfer was determined after arm's length negotiations between Paliburg and Regal with reference to 40% of the valuation of the Stanley Project as at 31st May, 2002 by FPD Savills of approximately HK\$2,112.8 million, the external liabilities (including outstanding interest in arrears and estimated construction and financing costs of the Stanley Project to be incurred) attributable to the 40% interest in the Stanley Project of approximately HK\$1,590.7 million and a discount of approximately 10.0%. The valuation report of the Stanley Project is set out in Appendix I to this circular.

LETTER FROM THE BOARD

The Consideration Shares

The Consideration Shares represent (i) approximately 48.6% of the issued ordinary share capital of Regal as at the Latest Practicable Date; and (ii) approximately 32.7% of the enlarged issued ordinary share capital of Regal upon completion of the Stanley Transfer, assuming that there will be no change in the shareholding structure of Regal before completion of the Stanley Transfer Agreement.

The issue price of the Consideration Shares was determined after arm's length negotiations between Regal and Paliburg with reference to the trading prices of the Regal Ordinary Shares and the net asset value per Regal Ordinary Share. The issue price of the Consideration Shares of HK\$0.24 per Regal Ordinary Share represents a premium of approximately 185.7% over the closing price of HK\$0.084 per Regal Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date, a premium of approximately 196.3% over the closing price of HK\$0.081 per Regal Ordinary Share as quoted on the Stock Exchange on 2nd August, 2002, being the date on which the Stanley Transfer Agreement was entered into, and a premium of approximately 174.3% over the average closing price as quoted on the Stock Exchange for the 10 trading days up to and including 2nd August, 2002, being approximately HK\$0.0875 per Regal Ordinary Share. As at 31st December, 2001, the consolidated net tangible asset value of Regal was approximately HK\$4,540.5 million and the net tangible asset value attributable to each Regal Ordinary Share, based on the total number of Regal Ordinary Shares then in issue, was approximately HK\$1.12. The issue price of the Consideration Shares represents a discount of approximately 78.6% to the net tangible asset value per Regal Ordinary Share as at 31st December, 2001.

The Consideration Shares shall on the date of issue rank *pari passu* in all respects with the Regal Ordinary Shares then in issue.

Regal understands that Paliburg will procure that out of the Consideration Shares, 1,896.5 million Regal Ordinary Shares will be issued and allotted to the SPC upon completion of the Stanley Transfer for the implementation of the settlement proposal of the outstanding bonds of the Paliburg Group. The 1,896.5 million Regal Ordinary Shares represent (i) approximately 47.1% of the issued ordinary share capital of Regal as at the Latest Practicable Date; and (ii) approximately 31.7% of the then enlarged issued ordinary share capital of Regal upon completion of the Stanley Transfer.

Conditions

The completion of the Stanley Transfer Agreement is subject to certain conditions being satisfied on or before 31st October, 2002 or such later date as shall be agreed by the parties to the Stanley Transfer Agreement. The conditions include the following:

- approvals from the Independent Shareholders for the Stanley Transfer;
- approvals from the shareholders of Century City and Paliburg, other than Mr. Lo and his associates, for the Stanley Transfer and the Continuing Several Guarantee;
- approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares;

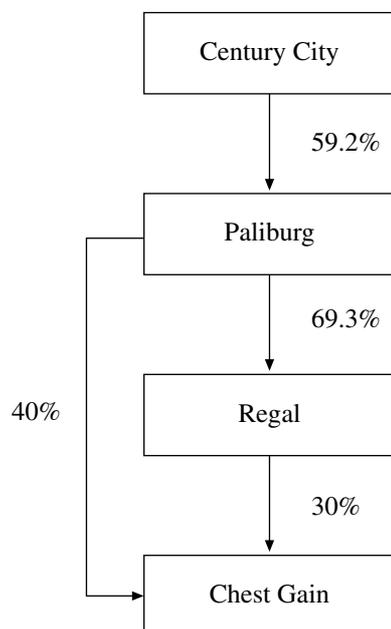
LETTER FROM THE BOARD

- the Stock Exchange granting to Regal a waiver from strict compliance with the minimum public float requirement under the Listing Rules for a period commencing from the completion of the Stanley Transfer to one month after completion of the Stanley Transfer;
- consents from the bank creditors of the Stanley Project and (if required) certain creditors of Paliburg and Regal for the Stanley Transfer having been duly obtained; and
- consent from the remaining 30% shareholder of Chest Gain for the Stanley Transfer having been duly obtained.

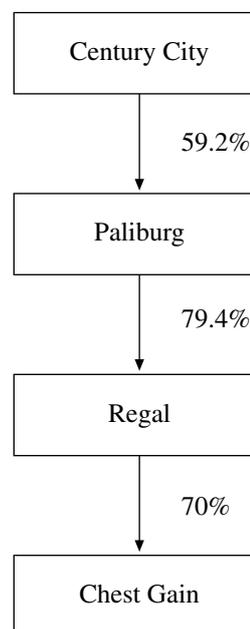
Shareholding structures of Regal and Chest Gain

The following charts illustrate, among other things, Century City's and Paliburg's shareholdings in Regal and Chest Gain as at the Latest Practicable Date and immediately upon completion of the Stanley Transfer assuming that there is no change to the shareholding structures of Paliburg and Regal before the completion of the Stanley Transfer:

Percentage shareholdings of Century City and Paliburg in Regal and Chest Gain as at the Latest Practicable Date



Percentage shareholdings of Century City and Paliburg in Regal and Chest Gain immediately upon completion of Stanley Transfer



Reasons for the Stanley Transfer

The Regal Group is principally engaged in hotel ownership and management, property investment and other investments, including investment and trading in marketable securities, in Hong Kong, the PRC and Canada.

LETTER FROM THE BOARD

The Directors are of the view that the Stanley Transfer is in the commercial interest of the Regal Group. Regal expects that the 40% additional interest in the Stanley Project to be acquired under the Stanley Transfer should generate cash inflow to the Regal Group, particularly after taking into consideration the independent valuation of the Stanley Project and the financing arrangements of the Stanley Transfer.

The maintenance by Paliburg of a controlling interest in Regal is crucial to Regal. Mr. Lo, through his direct and indirect interest in Century City and Paliburg, being the ultimate controlling shareholder of Regal, (together with his immediate family members and any trust under which they are beneficiaries) should maintain control of Regal or an event of default would occur under certain loan obligations of Regal. The implementation of the Stanley Transfer can reduce the likelihood of such an event of default occurring.

Listing Rules requirements

Paliburg is the controlling shareholder of Regal and therefore a connected person of Regal. The Stanley Transfer constitutes a discloseable and connected transaction for Regal. Approval of the Independent Shareholders is required for the Stanley Transfer under the Listing Rules and the SGM will be convened by Regal to obtain such approval from the Independent Shareholders in respect of the Stanley Transfer. Mr. Lo, Paliburg and their respective associates will abstain from voting at the SGM in respect of the resolution approving the Stanley Transfer.

Regal has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Based on the shareholding structure of Regal as at the Latest Practicable Date, the percentage of the issued Regal Ordinary Shares held by the public will drop to approximately 20.6% of the then enlarged issued ordinary share capital of Regal after completion of the Stanley Transfer, which falls below the minimum 25% as required by Rule 8.08 of the Listing Rules. Regal has applied for a waiver from the Stock Exchange of strict compliance with the minimum public float requirement under the Listing Rules for a period commencing from the date of completion of the Stanley Transfer and ending on one month thereafter. Completion of the Stanley Transfer Agreement shall take place on or before 31st October, 2002 (or such later date as shall be agreed by the parties to the Stanley Transfer Agreement, and accordingly the waiver period shall be ended on or before 30th November, 2002 (or the date falling one month after such other agreed completion date)). If market circumstances are appropriate, Regal may carry out equity issues, including but not limited to placing and open offer, which may assist Regal in restoring the required minimum public float by the end of the waiver period. Among the Consideration Shares, 1,896.5 million Regal Ordinary Shares will be issued to the SPC with a view to facilitating a settlement proposal of the outstanding bonds of the Paliburg Group. The SPC will be set up by the Paliburg Group as a wholly-owned subsidiary prior to closing of the said settlement proposal. An arrangement will be put in place allowing the Paliburg Group to release, at any time prior to 30 days after the completion of the Stanley Transfer, a sufficient number of the Regal Ordinary Shares held by the SPC to an entity involved in the said settlement proposal which will be wholly-owned by a charitable trust and the relevant trustee of such trust will be unconnected with Regal and Paliburg, any of their respective subsidiaries, directors, chief executive and substantial shareholders, and any of their respective associates with a view to restoring the required minimum

LETTER FROM THE BOARD

public float of the Regal Ordinary Shares on or before the end of the waiver period. Based on the shareholding structure of Regal as at the Latest Practicable Date and assuming, save for the issue of the Consideration Shares, there is no change to such shareholding structure, approximately 265.8 million Regal Ordinary Shares would have to be released from the SPC to that entity or to person(s) not considered to be connected persons (as defined in the Listing Rules) of Regal by the end of the waiver period in order to restore the required minimum public float of the Regal Ordinary Shares. Regal understands from Paliburg that in the absence of other factors, it is not expected that the aforesaid entity will become a substantial shareholder of Regal under the present structure of the bonds settlement proposal of the Paliburg Group.

EFFECT OF THE STANLEY TRANSFER ON THE SHAREHOLDING STRUCTURE OF REGAL

The following table illustrates the effect of the Stanley Transfer upon the shareholding structure of Regal assuming that there will be no change to the shareholding structure of Regal before completion of the Stanley Transfer:

| | As at the Latest Practicable Date | | Upon completion of the Stanley Transfer | | After release of all the Regal Ordinary Shares held by the SPC | |
|---------------------------|---|--------------|---|--------------|--|--------------|
| | Number of Regal Ordinary Shares <i>million</i> | % | Number of Regal Ordinary Shares <i>million</i> | % | Number of Regal Ordinary Shares <i>million</i> | % |
| Paliburg | 2,793.7 | 69.3 | 2,855.5 | 47.7 | 2,855.5 | 47.7 |
| SPC | — | — | 1,896.5 | 31.7 | — | — |
| Mr. Lo and his associates | 2.6 | 0.1 | 2.6 | 0.0 | 2.6 | 0.0 |
| Other directors of Regal | 1.5 | 0.0 | 1.5 | 0.0 | 1.5 | 0.0 |
| Public | 1,231.0 | 30.6 | 1,231.0 | 20.6 | 3,127.5 | 52.3 |
| Total | <u>4,028.8</u> | <u>100.0</u> | <u>5,987.1</u> | <u>100.0</u> | <u>5,987.1</u> | <u>100.0</u> |

PROPOSED REGAL CAPITAL REORGANISATION

The Board has proposed to put forward for approval by the shareholders of Regal at the SGM, the Regal Capital Reorganisation which comprises the following:

1. the nominal value of each issued Regal Ordinary Share as at the Effective Date will be reduced from HK\$0.10 to HK\$0.01 by the cancellation of HK\$0.09 of the paid-up capital on each then issued Regal Ordinary Share;
2. the credit created in 1. above will be used to eliminate part of the Regal Accumulated Losses;

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3. the entire amount standing to the credit of the Regal Share Premium Account will be cancelled;
4. the credit created in 3. above will be used to eliminate the remaining balance of the Regal Accumulated Losses, and the balance of such credit, if any, will be transferred to the Regal Contributed Surplus Account; and
5. the existing authorised but unissued share capital of Regal will be cancelled and the authorised ordinary share capital of Regal will be subsequently increased to HK\$100,000,000 by the creation of an additional 5,971,227,497 (or such other amount which will make up the total number of authorised Adjusted Regal Ordinary Shares to 10,000,000,000) Adjusted Regal Ordinary Shares.

Effects of the Regal Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of Regal was approximately HK\$623.2 million divided into 6,000 million Regal Ordinary Shares of par value HK\$0.10 each and 300,000 Regal Convertible Preference Shares of US\$10 (equivalent to approximately HK\$77.30 based on the predetermined exchange rate) each. 4,028,772,503 Regal Ordinary Shares and 16,748 Regal Convertible Preference Shares were in issue and fully paid or credited as fully paid, and there was an aggregate amount of approximately HK\$1,657.2 million standing to the credit of the share premium account of Regal as at the Latest Practicable Date. As at 31st December, 2001, Regal had an audited accumulated losses of approximately HK\$2,551.2 million.

Upon the Regal Capital Reorganisation becoming effective, the issued and paid-up share capital of Regal will be reduced by approximately HK\$362.6 million and the entire balance of HK\$1,657.2 million (or such other amounts should there be any change in the share capital of Regal taking place subsequent to the Latest Practicable Date but before the Effective Date) standing to the credit of the Regal Share Premium Account will be cancelled. The credit arising as a result of the Regal Capital Reduction and the cancellation of the entire amount in the Regal Share Premium Account will be used to eliminate the Regal Accumulated Losses, and the balance of such credit, if any, will be transferred to the Regal Contributed Surplus Account.

The then existing authorised but unissued share capital of Regal will be cancelled and the authorised share capital of Regal will be subsequently increased to HK\$101,294,663 comprising (i) HK\$100,000,000 divided into 10,000,000,000 Adjusted Regal Ordinary Shares of HK\$0.01 each and (ii) HK\$1,294,663 divided into 16,748 Regal Convertible Preference Shares of US\$10 (equivalent to approximately HK\$77.30 based on a predetermined exchange rate) each upon the Regal Capital Reorganisation becoming effective.

The Directors consider that, other than the expenses relating to the Regal Capital Reorganisation, implementation of the Regal Capital Reorganisation will not, of itself, affect Regal's underlying assets, business operations and financial position or the interests of the shareholders of Regal.

LETTER FROM THE BOARD

Conditions of the Regal Capital Reorganisation

The Regal Capital Reorganisation is subject to, among other things, the following conditions:

- the passing of the special resolution by the shareholders of Regal to approve the Regal Capital Reorganisation;
- the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Regal Ordinary Shares; and
- the publication of a notice in relation to the Regal Capital Reorganisation in Bermuda in accordance with the Companies Act.

Regal will issue a further announcement in respect of the Regal Capital Reorganisation when it has determined when the Effective Date shall be.

Paliburg and its associates, together beneficially holding approximately 69.3% of the Regal Ordinary Shares in issue as at the Latest Practicable Date, have indicated to the Board that they will vote in favour of the relevant resolution in relation to the Regal Capital Reorganisation at the SGM.

Reasons for the Regal Capital Reorganisation

The Directors are of the view that, since the Regal Capital Reorganisation will reduce the par value of the Regal Ordinary Shares, this can enhance Regal's future fund raising capability. By offsetting all or part of its accumulated losses under the Regal Capital Reorganisation, Regal will be able to declare dividends to its shareholders at an earlier opportunity than by generating future profits to offset its accumulated losses. Therefore, the Regal Capital Reorganisation is in the interests of Regal and the shareholders of Regal as a whole.

Listing application

Regal has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and permission to deal in, the Adjusted Regal Ordinary Shares.

Subject to the granting of listing of, and permission to deal in, the Adjusted Regal Ordinary Shares on the Stock Exchange, the Adjusted Regal Ordinary Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Regal Ordinary Shares on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

PROPOSED LOAN RESCHEDULING AND POSSIBLE EQUITY ISSUES OF THE REGAL GROUP

As mentioned in the 2001 annual report of Regal, the Regal Group is in discussions with the lenders of its outstanding bank loans with a view to rescheduling or extending the principal repayments of such loans. Such discussions may result in an agreement under which members of the Regal Group grant security to the lenders and/or agree to reductions in the amounts outstanding on specified dates.

With a view to improving its working capital position, Regal may undertake equity issues, including but not limited to placing and open offer of Regal Ordinary Shares, and/or the issues of other securities convertible into Regal Ordinary Shares.

Further announcement regarding the progress on such rescheduling discussions and the equity issues, if any, will be made by Regal in due course as and when required.

RECOMMENDATIONS

The Directors consider that the terms and conditions of the Stanley Transfer Agreement and the Regal Capital Reorganisation are in the interest of Regal.

Dao Heng Securities is appointed as independent financial adviser to the Independent Board Committee in respect of the Stanley Transfer. The Independent Board Committee has considered the terms and conditions of the Stanley Transfer Agreement and the advice given by Dao Heng Securities, and is of the opinion that the Stanley Transfer is fair and reasonable as far as the interests of the Independent Shareholders are concerned.

The Directors recommend the shareholders of Regal to vote in favour of the resolution to be proposed at the SGM to approve the Regal Capital Reorganisation. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Stanley Transfer.

THE SGM

You will find on pages 47 and 48 a notice convening the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:00 a.m. on Wednesday, 18th September, 2002, at which resolutions will be proposed to approve the Stanley Transfer (including the issue of the Consideration Shares to the Paliburg Group) by the Independent Shareholders and the Regal Capital Reorganisation by the shareholders of Regal. Mr. Lo, Paliburg and their respective associates will abstain from voting at the SGM in respect of the resolution for approving the Stanley Transfer.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Regal's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

Regal understands that Century City and Paliburg will hold their respective special general meetings on 18th September, 2002 with a view to seeking approval from their respective shareholders for, among other things, the Stanley Transfer and the Continuing Several Guarantee.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendation regarding the resolution to be proposed at the SGM to approve the Stanley Transfer; (ii) the letter from Dao Heng Securities containing its advice to the Independent Board Committee in respect of the Stanley Transfer; and (iii) the further information set out in the appendices to this circular including the valuation on the Stanley Project.

Yours faithfully,
By Order of the Board
Lo Yuk Sui
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



26th August, 2002

To the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL**

We refer to the circular issued by Regal to its shareholders dated 26th August, 2002 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms and conditions of the Stanley Transfer, and to advise you in connection therewith. Dao Heng Securities has been appointed as the independent financial adviser to advise us in this regard.

We wish to draw your attention to the “Letter from the Board”, as set out on pages 5 to 15 of the Circular, which sets out, among other things, information relating to and the reasons for the Stanley Transfer, and the letter from Dao Heng Securities to the Independent Board Committee which contains its advice to us in respect of the Stanley Transfer as set out on pages 17 to 28 of the Circular.

We have considered the principal factors taken into account by Dao Heng Securities in arriving at its opinion regarding the Stanley Transfer as set out in its letter. We consider that the Stanley Transfer is fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders to vote in favour of the resolution in relation to the Stanley Transfer as set out in the notice of the SGM on pages 47 and 48 of this Circular.

Yours faithfully,
The Independent Board Committee
Dominic Lai and Thomas Ng Wai Hung
Independent non-executive Directors

LETTER FROM DAO HENG SECURITIES

Set out below is the text of the letter of advice from Dao Heng Securities to the Independent Board Committee in connection with the terms of the Stanley Transfer Agreement prepared for inclusion in this circular.



26th August, 2002

To the Independent Board Committee of
Regal Hotels International Holdings Limited
18/F., Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL

INTRODUCTION

We refer to our engagement by Regal as independent financial adviser to advise the Independent Board Committee with respect to the terms of the Stanley Transfer Agreement, details of which are set out in the circular to the shareholders of Regal dated 26th August, 2002 (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 2nd August, 2002, Regal entered into the Stanley Transfer Agreement with Paliburg and PDBVI, a wholly-owned subsidiary of Paliburg, pursuant to which Regal conditionally agreed to acquire from the Paliburg Group (i) its entire equity interests of Nice Tex; and (ii) the Shareholder’s Loan. Nice Tex is interested in 40% of the issued share capital of Chest Gain which, in turn, is the owner of the Stanley Project, while Regal is currently interested in 30% of the issued share capital of Chest Gain. Paliburg is currently the major shareholder of Regal holding approximately 70% of the total issued ordinary share capital of Regal. As such, the entering into of the Stanley Transfer Agreement will constitute a connected transaction of Regal under the Listing Rules and is subject to, among other things, the approval of the Independent Shareholders at the SGM which will be held on 18th September, 2002. Mr. Lo, Paliburg and their respective associates (as defined in the Listing Rules) will abstain from voting at the SGM in respect of the resolution approving the Stanley Transfer.

LETTER FROM DAO HENG SECURITIES

Our role as the independent financial adviser to the Independent Board Committee is to give our opinion as to whether the terms of the Stanley Transfer Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors and have assumed that all information and representations made or referred to in the Circular are true and accurate in all material respects and that all opinions and intentions of Regal or the Directors have been made or expressed after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Regal Group or Nice Tex or Chest Gain or the Stanley Project.

BACKGROUND

A. Stanley Transfer Agreement

Pursuant to the Stanley Transfer Agreement, Regal has conditionally agreed to acquire and PDBVI has conditionally agreed to sell the entire interests in Nice Tex and to procure the assignment of all the rights, title and interest of PDDL in the Shareholder's Loan for an aggregate consideration of HK\$470.0 million which will be satisfied by way of issuance of 1,958,333,333 new Regal Ordinary Shares to PDBVI (or as it may direct) at an issue price of HK\$0.24 each (the "Issue Price").

Completion of the Stanley Transfer Agreement is subject to certain conditions being satisfied on or before 31st October, 2002 or such later date as shall be agreed by the parties to the Stanley Transfer Agreement. The conditions include the following:

- (i) approvals from the Independent Shareholders for the Stanley Transfer;
- (ii) approvals from the shareholders of Century City and Paliburg, other than Mr. Lo and his associates, for the Stanley Transfer and the Continuing Several Guarantee;
- (iii) approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares;
- (iv) the Stock Exchange granting to Regal a waiver from strict compliance with the minimum public float requirement under the Listing Rules for a period commencing from the completion of the Stanley Transfer to one month after completion of the Stanley Transfer;

LETTER FROM DAO HENG SECURITIES

- (v) consents from the bank creditors of the Stanley Project and (if required) certain creditors of Paliburg and Regal for the Stanley Transfer having been duly obtained; and
- (vi) consent from the remaining 30% shareholder of Chest Gain for the Stanley Transfer having been duly obtained.

B. Information on Nice Tex

As stated in the letter from the Board in the Circular, Nice Tex is an indirect wholly-owned subsidiary of Paliburg which is interested in 40% of the issued share capital of Chest Gain. In respect of the remaining 60% equity interests of Chest Gain, 30% is effectively owned by Regal and 30% is owned by an independent third party not connected with any of the directors, chief executive and substantial shareholders of Regal, its subsidiaries and any of their respective associates. Based on the audited consolidated financial statements of Paliburg as at 31st December, 2001, the carrying value of the Paliburg Group's 40% interest in Chest Gain was approximately HK\$547.2 million as at 31st December, 2001, and as stated in the letter from the Board in the Circular, the operating losses of Chest Gain (principally being bank loan interest expenses) attributable to the Paliburg Group in respect of the Paliburg Group's 40% interest in Chest Gain for the years ended 31st December, 2000 and 31st December, 2001 were approximately HK\$81.3 million and HK\$51.9 million respectively.

The Stanley Project with a site area of approximately 571,848 sq.ft. commenced in 1997. As advised by the Directors, the Stanley Project involves the development of a residential project at the western coast of Stanley Peninsula along Wong Ma Kok Road in Stanley district on the Hong Kong Island, which locality is a prestigious residential area with relatively low density and panoramic view.

According to the development plan of the Stanley Project, the proposed development is expected to comprise a total of 139 luxury three-storey houses with sizes ranging from approximately 2,800 sq.ft. to 4,000 sq.ft. each. Each house will be attached with a private garden and a carport. The gross floor area of these 139 houses are approximately 39,840 sq.m. (equivalent to approximately 428,870 sq.ft.). As advised by the Directors, the deluxe recreational complex is complemented with a landscaped deck of approximately 60,000 sq.ft. and elegantly decorated clubhouse of approximately 26,300 sq.ft. with ample recreational facilities including a swimming pool and sunbath deck, a gymnasium, a multi-purpose hall and a children play area.

The Stanley Project comprises two phases, Phase I and Phase II. Phase I, comprising 84 houses, together with club house facilities are scheduled to be completed around the second quarter of 2003, while Phase II, comprising the remaining 55 houses, is scheduled for completion around the fourth quarter of 2003. As stated in the letter from the Board in the Circular, the superstructure works of the Stanley Project are under way and its construction progress is on schedule.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice in respect of the Stanley Transfer, we have considered the following principal factors and reasons.

A. Reasons for and benefits of the Stanley Transfer

- (1) *Settlement proposal of Paliburg and loan covenant by Regal*

As stated in the Announcement, in order to settle all indebtedness in relation to the existing bonds of Paliburg, Paliburg sets out a settlement proposal to its existing bondholders which

LETTER FROM DAO HENG SECURITIES

involves, among other things, the phased release to such existing bondholders of approximately 1,896.5 million Regal Ordinary Shares by Paliburg. Shareholders of Regal are advised to refer to the Announcement for details of the settlement proposal of Paliburg. The settlement of the Stanley Transfer by the issuance of the Consideration Shares enables Paliburg to obtain sufficient Regal Ordinary Shares to facilitate the implementation of the settlement proposal and to maintain an effective controlling interest in Regal even after the phased release of the Regal Ordinary Shares to its existing bondholders mentioned above.

The letter from the Board in the Circular also stated that the maintenance by Paliburg of a controlling interest in Regal is crucial to Regal. Mr. Lo, the controlling shareholder of Century City, (together with his immediate family members and trust under which they are beneficiaries) should maintain control of Regal or an event of default would occur under certain loan obligations of Regal. As advised by Regal, such loan covenants refer to two syndicated loan facilities provided to the Regal Group and such loans amounted to approximately HK\$4.9 billion as at 31st December, 2001. As such, the Stanley Transfer and the settlement by way of the Consideration Shares can reduce the likelihood of such an event of default occurring.

(2) Majority stake in the Stanley Project

As stated in the letter from the Board in the Circular, the principal activities of the Regal Group are hotel ownership and management, property investment and other investments, including investment and trading in marketable securities in Hong Kong, the PRC and Canada. Immediately before the Stanley Transfer, Chest Gain is held by (i) Regal indirectly as to 30%; (ii) Paliburg, Regal's major shareholder, indirectly as to 40%; and (iii) an independent third party as to the remaining 30%. After completion of the Stanley Transfer, the Regal Group's interest in Chest Gain will increase from 30% to 70% and Chest Gain will continue to be treated as a jointly controlled entity of Regal. The Directors consider that the disposal of the 40% stake in Chest Gain by Paliburg would eliminate the uncertainties over the Stanley Project in the event that there is any unresolved settlement proposal in respect of the indebtedness of the Paliburg Group, which may post possible hindrance on the progress of the Stanley Project, in which the Regal Group already holds 30%. Having said that, Regal will become a controlling shareholder holding 70% equity interest in Chest Gain upon completion of the Stanley Transfer. With the increased equity interests in Chest Gain, we concur with the Directors' view that Regal will be able to exercise increased influence over the determination and implementation of marketing strategy and scheme to pre-sell the units and the property management of the Stanley Project, which are crucial for the Stanley Project.

LETTER FROM DAO HENG SECURITIES

(3) *Financial performance of the Regal Group*

The following table summarises the financial performance of the Regal Group for the three financial years ended 31st December, 2001:

| | For the financial year ended 31st December, | | |
|--|--|-----------------------|-----------------------|
| | 1999 | 2000 | 2001 |
| | (“Year 1999”) | (“Year 2000”) | (“Year 2001”) |
| | <i>(HK\$ million)</i> | <i>(HK\$ million)</i> | <i>(HK\$ million)</i> |
| Profit/ (loss) from operating activities | (298.2) | 93.4 | (173.3) |
| Net loss from ordinary activities attributable to shareholders of Regal | <u>(1,085.7)</u> | <u>(347.9)</u> | <u>(514.2)</u> |

The net loss from ordinary activities attributable to shareholders of Regal for Year 2000 decreased by approximately 68.0% as compared to Year 1999, while that of Year 2001 increased by approximately 47.8% as compared to Year 2000.

As stated in the annual report of Regal for Year 2001, due to the realisation of securities investments and certain other non-core assets under a relatively depressed market condition, the Regal Group incurred one-time losses and provisions in an aggregate of over HK\$260 million, which adversely affected the operating results of the Regal Group for Year 2001. The Regal Group has borne relatively heavy finance costs of approximately HK\$702.2 million, HK\$369.4 million and HK\$300.2 million for the three years ended 31st December, 2001 respectively.

In view of the unsatisfactory performance of the Regal Group in the past three financial years, the Directors have been exploring different means to improve the financial position of the Regal Group. The Directors are of the view that the property market in Hong Kong has stabilised and in particular, the luxury residential property market, which the Stanley Project caters to, should have bottomed out. If the Stanley Project is fully sold at an average selling price based on the property valuation by FPD Savills as at 31st May, 2002, the Directors estimate that the Regal Group will be able to derive a profit of approximately HK\$52.1 million and generate a cash inflow of approximately HK\$522.1 million from the 40% additional interests acquired in the Stanley Project under the Stanley Transfer.

In respect of the financing for the Stanley Project, as stated in the letter from the Board in the Circular, Paliburg will provide after completion of the Stanley Transfer the Continuing Several Guarantee for 40% of the bank borrowings of Chest Gain, which amounted to approximately HK\$1,004 million as at 31st December, 2001. Paliburg's obligation under the Continuing Several Guarantee will be limited to the security provided by Paliburg, which currently comprises approximately 1,384.2 million Regal Ordinary Shares. Although the bank creditors of Chest Gain are not the sole beneficiaries of the aforesaid standstill security, Paliburg has warranted to Regal under the Stanley Transfer Agreement that such security will not be less

LETTER FROM DAO HENG SECURITIES

than 1,384.2 million Regal Ordinary Shares and that the first priority sharing percentage of the bank creditors of Chest Gain therein will not be less than 75%. No counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee provided by Paliburg. As stated in the letter from the Board in the Circular, after completion of the Stanley Transfer, Regal will not be required to fund the interest servicing cost of the bank borrowings of Chest Gain attributable to the 40% interest of Chest Gain acquired under the Stanley Transfer Agreement, and such payment obligation of Regal will be deferred until the loan repayment date. As part of the terms under the Stanley Transfer, Regal will provide an additional several guarantee in respect of the 40% of the bank borrowings of Chest Gain, but this additional guarantee will only be called upon in the event of any default in Chest Gain's bank borrowings for the Stanley Project, and after the Continuing Several Guarantee provided by Paliburg has been pursued. Regal's obligations under the aforesaid additional guarantee will be subordinated to the existing bank loans of the Regal Group. We consider that such arrangements with respect to the acquisition of the 40% interest under the Stanley Transfer, including deferred interest serving obligations of Regal and the provision of the Continuing Several Guarantee by Paliburg which will be first called upon in the event of any default in Chest Gain's bank borrowings for the Stanley Project, will not post any negative effect on the current cashflow of the Regal Group, will provide downside protection to Regal in the event of any default in the bank borrowings by Chest Gain and is in the interest of Regal so far as the shareholders of Regal are concerned.

Having considered the reasons and benefits of the Stanley Transfer as discussed above, we concur with the Directors' view that the Stanley Transfer is in the interest of Regal so far as the shareholders of Regal are concerned.

B. Consideration

(1) Basis of the consideration

As stated in the letter from the Board in the Circular, the consideration of HK\$470.0 million for the Stanley Transfer was determined after arm's length negotiation between Paliburg and Regal with reference to the trading prices of the Regal Ordinary Shares and the net asset value per Regal Ordinary Share, which represents a discount of approximately 10.0% to the adjusted value of the 40% of the Stanley Project of approximately HK\$522.1 million after taking into account (i) the 40% of the independent valuation as at 31st May, 2002 of the Stanley Project by FPD Savills of approximately HK\$2,112.8 million; and (ii) the external liabilities (including outstanding interest in arrears and estimated construction and financing costs of the Stanley Project to be incurred) attributable to the 40% interest in the Stanley Project of approximately HK\$1,590.7 million.

Based on the information provided by Regal, Chest Gain provided a building covenant to the Lands Department that the Stanley Project should be completed and made fit for occupation on or before 30th June, 2001 when it purchased Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong. Such building covenant has been extended to 31st December, 2002 at nil premium. Nevertheless, there is no assurance that further free extension will be obtained by Chest Gain during the period from 1st January, 2003 to completion of the Stanley Project in

LETTER FROM DAO HENG SECURITIES

satisfaction of the building covenant. Hence, the abovementioned external liabilities of approximately HK\$1,590.7 million, as advised by the Directors, included estimated contingency provisions for any premium payable in respect of the further extension of such building covenant.

(2) *Consideration Shares*

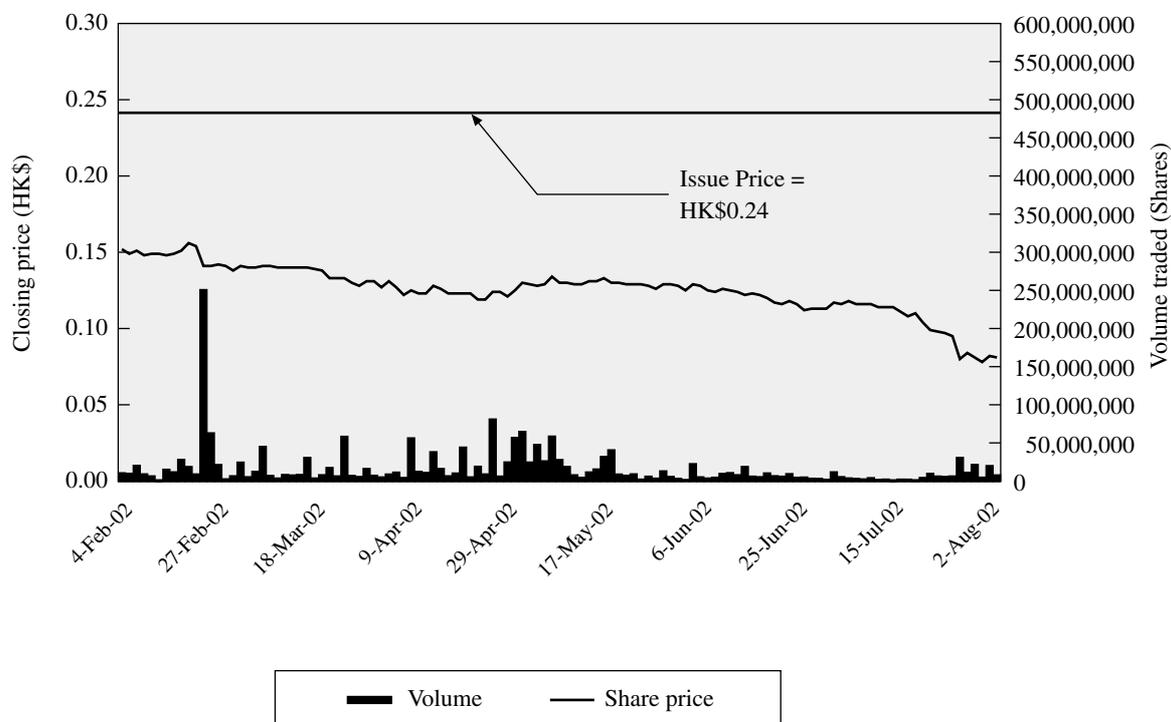
The Consideration of HK\$470.0 million will be satisfied by way of the issuance and allotment of 1,958,333,333 new Regal Ordinary Shares at HK\$0.24 per share by Regal. The issue price represents an approximately 196.3% premium over the closing of HK\$0.081 per Regal Ordinary Share quoted on the Stock Exchange on 2nd August, 2002 (being the date of the Announcement). The Consideration Shares to be issued and allotted represent approximately 48.6% of the existing issued ordinary share capital of Regal as at the Latest Practicable Date and approximately 32.7% of Regal's issued ordinary share capital as enlarged by the issue of the Consideration Shares.

The Issue Price represents premiums to the Regal Ordinary Share prices during different periods ended 2nd August, 2002, being the date of the Stanley Transfer Agreement, and details of such premiums are set out below:

| | Regal Ordinary Share price | Premium of the Issue Price over the Regal Ordinary Share price |
|---|---------------------------------------|---|
| As at 2nd August, 2002, being the date of the Announcement | HK\$0.081 | 196.3% |
| Ten-day average up to and including 22nd July, 2002 | HK\$0.088 | 172.7% |
| One-month average up to and including 3rd July, 2002 | HK\$0.102 | 135.3% |
| Three-month average up to and including 3rd May, 2002 | HK\$0.117 | 105.1% |
| Six-month average up to and including 4th February, 2002 | HK\$0.125 | 92.0% |

LETTER FROM DAO HENG SECURITIES

The following chart shows the price movement and trading volume of the Regal Ordinary Shares in the six months since 4th February, 2002 up to and including 2nd August, 2002, being the date of the Announcement:



The table below summarises the average daily trading volume of the Regal Ordinary Shares of each month since February 2002 and the respective percentage to the total issued ordinary share capital of Regal.

| Month | Average daily trading volume (million Regal Ordinary Shares) | Percentage to total number of Regal Ordinary Shares in issue as at the Latest Practicable Date |
|--------------------------|---|--|
| <i>2002</i> | | |
| February | 30.04 | 0.75% |
| March | 13.89 | 0.34% |
| April | 21.88 | 0.54% |
| May | 20.20 | 0.50% |
| June | 6.83 | 0.17% |
| July | 5.99 | 0.15% |
| 1st August to 2nd August | 13.28 | 0.33% |

LETTER FROM DAO HENG SECURITIES

As illustrated in the chart and table above, the trading volume of the Regal Ordinary Shares during the six-month period up to and including 2nd August, 2002 is relatively low except for a single-day boost on 25th February 2002, which represented approximately 6.21% to the total number of Regal Ordinary Shares then in issue, after Regal announced a top-up placing of Regal Ordinary Shares on 22nd February, 2002. The placing price of that top-up placing exercise was set at a discount of approximately 9.09% to the closing price of Regal Ordinary Shares immediately prior to such relevant announcement. Nevertheless, the trading volume of the Regal Ordinary Shares remained relatively thin during the six months ended 2nd August, 2002 with percentages of average daily trading volume to total number of Regal Ordinary Shares in issue ranging from approximately 0.15% to 0.75%.

Shareholders of Regal should note that, based on the number of Regal Ordinary Shares in issue as at the Latest Practicable Date, the Issue Price also represents a discount of approximately 78.8% to the audited consolidated net asset value per Regal Ordinary Share of approximately HK\$1.13 as at 31st December, 2001. We have reviewed 10 companies (the “Comparative Companies”) which are principally engaged in similar businesses to the Group, i.e. hotel ownership, operation and management, with their shares listed on the main board of the Stock Exchange. These 10 Comparative Companies are traded at discounts to their respective latest audited net asset value ranging from approximately 51.4% to 96.9% with an average discount of approximately 68.1%. Based on the above results, we consider that the Issue Price, which represents a discount of approximately 78.8% to the latest audited consolidated net asset value per Regal Ordinary Share, is generally in line with those traded in the market.

Given (i) that the Issue Price represents relatively large premiums to the Regal Ordinary Share prices during different periods ended 2nd August, 2002; (ii) the relatively low trading volume of the Regal Ordinary Shares during the six months ended 2nd August, 2002; and (iii) that the discount of approximately 78.8% to the latest audited consolidated net asset value per Regal Ordinary Share is generally in line with those of the Comparable Companies, we consider that the Issue Price of HK\$0.24 is acceptable.

C. Alternative way of financing

(1) *Equity fund raising*

Other than the issuance of new Regal Ordinary Shares to Paliburg in settlement for the consideration under the Stanley Transfer, alternatively, Regal has considered raising the cash funding for the settlement of the consideration of the Stanley Transfer by way of placing of new Regal Ordinary Shares to independent third parties on the market or rights issue to the existing shareholders of Regal. However, the Directors are of the opinion that, given the relatively thin trading of the Regal Ordinary Shares as discussed in the sub-paragraph headed “Consideration Shares” under the paragraph headed “Consideration” above, and the current market sentiment, it would be very difficult to implement an equity fund raising exercise for the size required, and even if feasible, the subscription price would have to be fixed at a relatively large discount to the prevailing market price, resulting in a heavier dilution effect on the existing shareholders of Regal.

LETTER FROM DAO HENG SECURITIES

(2) *Bank facilities*

It was stated in the annual report for Year 2001 that the Regal Group has commenced preliminary discussions with its lending banks to secure their ongoing support to a proposed rescheduling of banking facilities. Based on the net asset value of the Regal Group as at 31st December, 2001 of approximately HK\$4,563.5 million and the total borrowings of HK\$5,097.5 million, the gearing ratio as at 31st December, 2001 was approximately 111.7%. Given the relatively high gearing ratio of the Regal Group and that the Regal Group at present has limited unencumbered assets, the Directors consider that it is difficult for the Regal Group to obtain new bank facilities for the Stanley Transfer and nevertheless, it will not be in the interest of the Regal Group to settle the consideration of the Stanley Transfer by way of bank borrowings.

Given that the settlement of the consideration of the Stanley Transfer in the form of Regal Ordinary Shares will not draw on the financial resources and affect the cashflow position of the Regal Group, we consider that the issuance of the Consideration Shares is in the interest of the Regal Group so far as the shareholders of Regal are concerned.

D. Effect on the net tangible asset value of the Regal Group

As at 31st December, 2001, the audited consolidated net tangible asset value of the Regal Group amounted to approximately HK\$4,540.5 million (while the consolidated net tangible asset value attributable to ordinary shareholders of Regal amounted to approximately HK\$4,411.0 million). After placing of new Regal Ordinary Shares by Regal in March 2002 and upon completion of the Stanley Transfer, which involves the issue of new Regal Ordinary Shares as consideration, the consolidated net tangible assets of the Regal Group will significantly increase to approximately HK\$5,074.9 million (while the consolidated net tangible assets attributable to ordinary shareholders of Regal will increase to approximately HK\$4,945.4 million). Such increase in the consolidated net tangible asset value of the Regal Group will accordingly increase the asset base of the Regal Group as a whole.

Based on the 4,028,772,503 Regal Ordinary Shares in issue as at the Latest Practicable Date, the Regal Group had a consolidated net tangible assets of approximately HK\$1.09 attributable to each Regal Ordinary Share. Upon completion of the Stanley Transfer, the consolidated net tangible assets per Regal Ordinary Share would decrease to approximately HK\$0.83, representing a drop of approximately 23.9%. However, given (i) the expected profit of approximately HK\$52.1 million derived from the 40% additional interest acquired in the Stanley Project based on the assumption that the Stanley Project is fully sold at an average selling price based on the property valuation by FPDSavills as at 31st May, 2002 as illustrated in the above paragraph headed "Financial performance of the Regal Group" under this section, and (ii) that a substantial discount of subscription price to the prevailing market price of Regal Ordinary Share might be required if placing of Regal Ordinary Shares or rights issue is sought instead of issuance of the Consideration Shares, we consider that the reduction of consolidated net tangible assets per Regal Ordinary Share of approximately 23.9% as a result of the issuance of the Consideration Shares is acceptable.

LETTER FROM DAO HENG SECURITIES

E. Dilution effect to the Independent Shareholders

As referred to in the letter from the Board in the Circular, the consideration payable by Regal pursuant to the Stanley Transfer Agreement will be settled by way of issuance of the Consideration Shares. Upon completion of the Stanley Transfer, a total of 1,958,333,333 Regal Ordinary Shares will be issued and allotted to PDBVI (or as it directs). In this regard, we would like to draw the attention of the Independent Shareholders to the shareholding structures of Regal before and after the Stanley Transfer.

The table below shows the shareholding structure of Regal before and immediately after completion of the Stanley Transfer:

| | Before the completion of the Stanley Transfer | | Immediately after completion of the Stanley Transfer | |
|---------------------------|--|----------------------|---|----------------------|
| | Regal Ordinary Shares | % | Regal Ordinary Shares | % |
| | <i>(million)</i> | | <i>(million)</i> | |
| Paliburg | 2,793.7 | 69.3 | 2,855.5 | 47.7 |
| SPC | — | — | 1,896.5 | 31.7 |
| Mr. Lo and his associates | 2.6 | 0.1 | 2.6 | 0.0 |
| Other directors of Regal | 1.5 | 0.0 | 1.5 | 0.0 |
| Public | <u>1,231.0</u> | <u>30.6</u> | <u>1,231.0</u> | <u>20.6</u> |
| Total | <u>4,028.8</u> | <u>100.00</u> | <u>5,987.1</u> | <u>100.00</u> |

Upon completion of the Stanley Transfer, the shareholding of Paliburg and its associates in Regal will increase to approximately 79.4%, while that of the public shareholders of Regal will accordingly decrease to approximately 20.6%, resulting in an insufficiency of public float pursuant to Rule 8.08 of the Listing Rules. In this regard, Regal has applied for a waiver from the Stock Exchange in respect of the public float requirement under the Listing Rules for a period commencing from the completion of the Stanley Transfer to a date ending one month after the Stanley Transfer, which is expected to be on or before 30th November, 2002 or such later date falling one month after other agreed completion date of the Stanley Transfer Agreement (as hereinafter mentioned). Completion of the Stanley Transfer Agreement shall take place on or before 31st October, 2002 (or such later date as shall be agreed by the parties to the Stanley Transfer Agreement). As stated in the letter from the Board contained in the Circular, if market circumstances are appropriate, Regal may carry out equity issue(s), including but not limited to placing and open offer, which may assist Regal in restoring the required minimum public float of 25% by the end of the waiver period. Among the Consideration Shares, approximately 1,896.5 million Regal Ordinary Shares will be issued to the SPC with a view to facilitate the settlement proposal of the outstanding bonds of the Paliburg Group. The SPC will be set up by the Paliburg Group as a wholly-owned subsidiary prior to closing of the said settlement proposal. An arrangement will be put in place under the settlement proposal allowing the Paliburg Group to release, at any time prior

LETTER FROM DAO HENG SECURITIES

to 30 days after the completion of the Stanley Transfer, a sufficient number of the Regal Ordinary Shares held by the SPC to an entity involved the said settlement proposal which will be wholly-owned by a charitable trust and the relevant trustee of such trust will be unconnected with any of the directors, chief executive and substantial shareholders of Regal and Paliburg, and their respective subsidiaries, and any of their respective associates with a view to restoring the required minimum public float of the Regal Ordinary Shares on or before the end of the waiver period. Following the full release of the 1,896.5 million Regal Ordinary Shares by Paliburg to its existing bondholders and assuming no other change in the shareholding structure of Regal, the shareholding of Paliburg in Regal may decrease to approximately 47.7%, while the shareholding of the public shareholders of Regal, including the Paliburg's existing bondholders, will increase to approximately 52.3%. Shareholders of Regal are advised to refer to the Announcement for details of the phased release of the Regal Ordinary Shares.

Having considered (i) the possible gain of approximately HK\$52.1 million and cash inflow of approximately HK\$522.1 million from the Stanley Transfer as illustrated in the paragraph headed "Financial performance of the Regal Group" under this section, (ii) that a substantial discount of subscription price to the prevailing market price of Regal Ordinary Share might be required if placing of Regal Ordinary Shares or rights issue is sought instead of issuance of the Consideration Shares which may result in heavier dilution to the shareholders of Regal, and (iii) the loan covenant provided by Regal that it has to be in the control of Mr. Lo; (iv) that the Stanley Transfer enables Regal to increase its influence over the Stanley Project and eliminate uncertainties over the Stanley Project due to unresolved settlement proposal of Paliburg's indebtedness; and (v) that the Stanley Transfer will not post any negative effect on the current cashflow of the Regal Group and will provide downside protection to Regal in the event of any default in the bank borrowings by Chest Gain, we consider that the dilution effects on the shareholding of the Independent Shareholders is acceptable.

RECOMMENDATION

Having taken into account the above factors and reasons, we consider that the terms of the Stanley Transfer Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote at the SGM in favour of the resolution relating to the Stanley Transfer Agreement.

Yours faithfully,
For and on behalf of

Dao Heng Securities Limited

Stella Fung
Executive Director and General Manager

Venus Choi
Director

The following is the text of a letter with valuation certificate, prepared for the purpose of inclusion in this circular, received from FPD Savills, an independent property valuer, in connection with its valuation as at 31st May, 2002 on the Stanley Project.



26th August, 2002

The Directors
Paliburg Holdings Limited
Regal Hotels International Holdings Limited
18/F Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

FPDSavills (Hong Kong) Limited
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Central, Hong Kong

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 International

Dear Sirs,

Re : The Proposed Residential Development, Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong (“the Property”)

In accordance with your instructions for us to prepare a report on open market value of the Gross Development Value of the Property as at 31st May, 2002 assuming it has been completed and ready for immediate occupation, we confirm that we have inspected the property, caused land searches at the Land Registry, made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the value of the Property as at 31st May, 2002.

For the purpose of this valuation, we would define “open market value” as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:-

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Gross Development Value is the open market value of the proposed development on the subject site, assuming that it has been completed today according to the details of the proposed development provided to us.

Our valuation is made in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors.

Our valuation has been made on the assumption that the owner sells the Property in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the Property.

We have relied to a very considerable extent on information provided by the owner of the Property and have accepted advice given to us on such matters as statutory notices, occupancy details, easements, floor area and other relevant matters.

All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the owner of the Property and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the owner of the Property. We have also been advised by the owner of the Property that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Other special assumptions of the Property have been stated in the footnotes of the valuation certificate for the Property.

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

No structural or site survey has been made nor were any tests carried out on any of the services provided in the Property. We are, therefore, unable to report whether the Property is free from rot, infestation or any other structural defects. We have not carried out any investigation on site to determine the suitability of the ground conditions and services, etc. Our valuation has been prepared on the assumption that these aspects are satisfactory.

We have not verified and make no representation that the Property, including any plant and equipment therein, is millennium compliant, or that the value of the Property is not adversely affected in any way by any part of it not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

Our valuation certificate is attached hereto.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited

Daniel Y M Mak
MSc, BSc, MRICS, AHKIS, RPS(GP)
Director
Valuation and Consultancy

Gilbert C H Chan
BSc (Hons), AHKIS, MRICS, RPS(GP)
Associate Director
Valuation and Consultancy

Notes: Both Mr Daniel Y M Mak and Mr Gilbert C H Chan are chartered surveyors with over 9 years' valuation experience on all landed properties in Hong Kong.

VALUATION CERTIFICATE

| Property | Description and Tenure | Particulars of Occupancy | Gross Development Value as at 31st May, 2002 |
|---|---|--|---|
| <p>The Proposed Residential Development, Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong</p> <p>Rural Building Lot No. 1138</p> | <p>The property comprises a proposed residential development on a site having a registered site area of approximately 53,126 sq.m. (571,848 sq.ft.).</p> <p>Upon completion, the proposed development in two phases (i.e. Phase I and Phase II) will comprise a total of 139 luxury 3-storey houses with sizes ranging from about 2,800 sq.ft. to 4,000 sq.ft. each (building plan calculations).</p> <p>According to the information provided to us, the total approved Gross Floor Area (GFA) of the Property under building plans is approximately 39,844 sq.m. (428,877 sq.ft.) whilst the total Non-accountable GFA of the property is approximately 40,055 sq.m. (431,148 sq.ft.).</p> <p>The property is held under Conditions of Sale No. 12461 for a lease term commencing on 3 June, 1997 to 30 June, 2047.</p> | <p>The proposed development is currently under construction. We have been advised that 80% of the foundation works had been completed. The scheduled completion dates of the Phase I and II are:</p> <p>Phase I — 2nd Quarter 2003 Phase II — 4th Quarter 2003</p> | <p>HK\$5,282,000,000 <i>(refer Note 6)</i></p> |

Notes:

1. The current registered owner of the property is Chest Gain Development Limited (“Chest Gain”) vide Conditions of Sale No. 12461 dated 3 June, 1997.
2. The property is subject to the following encumbrances:
 - (i) Debenture incorporating Building Mortgage and Floating Charge in favour of Bank of China, Hong Kong Branch (now known as Bank of China (Hong Kong) Limited), Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, The Bank of East Asia, Limited and Bank of China, Macau Branch (“Lenders”), Hang Seng Finance Limited (as “Agent”) vide Memorial No. 7336567 dated 28th October, 1997.
 - (ii) Modification Letter vide Memorial No. 8348530 dated 22nd March, 2001.
 - (iii) Supplemental to Debenture of Memorial No. 7336567 in favour of Bank of China, Hong Kong Branch (now known as Bank of China (Hong Kong) Limited), Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, The Bank of East Asia, Limited and Bank of China, Macau Branch (“Lenders”), Hang Seng Finance Limited (as “Agent”) vide Memorial No. 8552966 dated 27th November, 2001.

3. The salient development conditions as contained in the Conditions of Sale No. 12461 as modified by a Modification Letter (vide Memorial No. 8348530) include, inter alia, the followings:

SC (8) “The Purchaser [Chest Gain] shall develop the lot by the erection thereon of a building or buildings ... to be completed and made fit for occupation on or before the 30th day of June, 2001.”

SC (9) “the lot or any part thereof or any building or part of any building erected or to be erected thereon shall not be used for any purpose other than for private residential (excluding service apartments) purposes.”

SC (11) “the total gross floor area of any building or buildings erected or to be erected on the lot shall not be less than 23,900 square metres and shall not exceed 39,844 square metres;”

SC (11) “the total site coverage of any building or buildings erected or to be erected on the lot shall not exceed 25% of the area of the lot; ... and ... as may be approved by the Director [of Lands] shall not be taken into account for the purpose of calculating the total site coverage hereinafter stipulated:-

(a) cantilevered/elevated open landscaped decks/areas (excluding those over driveway and carpark);

(b) elevated open areas and stairs outside the domestic building lines;

(c) elevated passageways/stairs connecting the 4 rows of houses; and

(d) elevated open yards/courtyards;”

SC (11) “any building or buildings erected or to be erected thereon shall not exceed three storeys (including any floor or space below the level of the ground) ... and ... as may be approved by the Director shall not be taken into account for the purpose of calculating the number of storeys hereinafter stipulated:-

(a) E&M floor in House Types B, B4 and H;

(b) One storey covered landscaped area, two storeys E&M facilities and one storey refuse storage chamber underneath the club house open foyer;”

SC (11) “no building or buildings or other structure or structures of any description resting upon supporting columns of the type commonly known as “stilts” shall be erected, constructed, or maintained on the lot unless the Purchaser satisfies the Director that no other form of construction is suitable”

SC (12) “[Chest Gain] ... may erect, construct and provide within the lot such recreational facilities and facilities ancillary thereto ... as may be approved in writing by the Director.”

SC (19) “No building or structure or support for any building or structure may be erected or constructed on, over, under, above, below or within the areas shown coloured pink hatched black on the plan annexed hereto except”

SC (20) “Spaces or car ports or both shall be provided within the lot to the satisfaction of the Director for the parking of private motor vehicles at the rate of not less than 1.5 spaces or car ports for every residential unit in the building or buildings erected or to be erected on the lot and at the rate of not less than 2 spaces or car ports for every house with single residence erected or to be erected on the lot.”

SC (22) “[Chest Gain] ... shall have no right of ingress or egress to or from the lot for the passage of motor vehicles except between the points X and Y through Z shown and marked on the plan annexed hereto”

4. According to the information provided by the owner of the Property, the approved Gross Floor Area (GFA) as per the building plans and the Non-accountable GFA of the proposed development are as follows:

| House Type | No. of House | Total GFA | Total Non- | Total GFA | Common Area | Slope Area |
|------------|--------------|-----------------------------------|--|--|-------------------|-------------------|
| | | (Building Plan) (sq.m.) (A) | accountable GFA (Building Plan) (sq.m.) (B) | and Non-accountable GFA (Building Plan) (sq.m.) (A+B) | | |
| Phase I | 84 | 24,148.434 | 24,477.587 | 48,626.021 | 13,401.866 | 32,231.149 |
| Phase II | <u>55</u> | <u>15,695.121</u> | <u>15,577.509</u> | <u>31,272.630</u> | <u>2,228.807</u> | <u>11,998.172</u> |
| Total | <u>139</u> | <u>39,843.555</u> | <u>40,055.096</u> | <u>79,898.651</u> | <u>15,630.673</u> | <u>44,229.321</u> |

5. With reference to Note 3 above, we noted that the building covenant (i.e. to complete and make fit for occupation on or before 30th June, 2001) has not been complied with by Chest Gain. Nevertheless, our valuation has been conducted on the basis that the property is free from any encumbrances of onerous nature affecting its value.
6. The Gross Development Value is the open market value of the proposed development on the subject site assuming it had been completed today in accordance with the floor areas, house type, master layout, and other details of the proposed development that have been provided to us. We have assumed that the property had been finished and fitted to a high quality standard commensurate with other luxurious houses in the locality. We have also assumed that all outstanding construction costs and other associated development costs would have been fully paid and settled when they fell due.
7. In arriving at our opinion of Gross Development Value, comparison method has been adopted. Recent sales transactions of similar properties in the locality are obtained and analysed. Necessary adjustments have been made to reflect the inherent characteristics, such as size, location and other factors between the subject property and the comparables.
8. We have made reference to the development scheme and the architectural plans furnished to us and have assumed that the proposed property will be sold with the benefit of vacant possession. Furthermore, we have valued each of the houses individually and have not allowed for any bulk discount for selling the whole of, or portfolio(s) of houses in the development.

1. Responsibility statement

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Regal. The Directors collectively and individually accept full responsibility for the accuracy of the information contained 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 herein misleading.

2. Disclosure of interests

- (a) As at the Latest Practicable Date, the interests of the Directors in the equity or debt securities of Regal and its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Regal and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including the interests which they are taken or deemed to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:

(i) *Interests in shares*

| | Name of Director | Class of shares held | Number of shares held | | | Total |
|-----------------|--------------------------------|----------------------|-----------------------|------------------|---------------------|---------------|
| | | | Personal interests | Family interests | Corporate interests | |
| 1. Regal | Mr. Lo | Ordinary | 220,000 | — | 2,793,736,944 | 2,793,956,944 |
| | | Preference | — | — | 3,440 | 3,440 |
| | Mr. Daniel Bong Shu Yin | Ordinary | 1,440,000 | — | — | 1,440,000 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 2,370,000 | — | — | 2,370,000 |
| | Name of associated corporation | | | | | |
| 2. Century City | Mr. Lo | Ordinary | 543,344,843 | — | 1,395,994,246 | 1,939,339,089 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 2,510,000 | — | — | 2,510,000 |
| | Mr. Jimmy Lo Chun To | Ordinary | 1,659,800 | — | — | 1,659,800 |
| | Ms. Belinda Yeung Bik Yiu | Ordinary | 2,000 | — | — | 2,000 |

APPENDIX II
GENERAL INFORMATION

| | Name of associated corporation | Name of Director | Class of shares held | Number of shares held | | | Total |
|-----|---|---------------------------|----------------------|-----------------------|------------------|---|-----------------|
| | | | | Personal interests | Family interests | Corporate interests | |
| 3. | Paliburg | Mr. Lo | Ordinary | 222,765 | — | 1,373,024,977 <i>(Notes a & b)</i> | 1,373,247,742 |
| | | Mr. Daniel Bong Shu Yin | Ordinary | 1,025,390 | — | — | 1,025,390 |
| | | Mr. Donald Fan Tung | Ordinary | 2,718 | — | — | 2,718 |
| | | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 100,000 | — | — | 100,000 |
| | | Mr. Jimmy Lo Chun To | Ordinary | 284,000 | — | — | 284,000 |
| 4. | 8D International (BVI) Limited (“8D-BVI”) | Mr. Lo | Ordinary | — | — | 1,000 <i>(Note d)</i> | 1,000 |
| 5. | 8D Matrix Limited (“8D Matrix”) | Mr. Lo | Ordinary | — | — | 2,000,000 <i>(Note e)</i> | 2,000,000 |
| 6. | 8D International Limited (“8D”) | Mr. Lo | Ordinary | — | — | 10,000 <i>(Note f)</i> | 10,000 |
| 7. | Argosy Capital Corporation | Mr. Lo | Ordinary | — | — | 1,130,349 <i>(Note a)</i> | 1,130,349 |
| 8. | Century Win Investment Limited | Mr. Lo | Ordinary | — | — | 9,000 <i>(Note a)</i> | 9,000 |
| 9. | Cheerjoy Development Limited (“Cheerjoy”) | Mr. Lo | Ordinary | — | — | <i>(Note g)</i> | <i>(Note g)</i> |
| 10. | Chest Gain | Mr. Lo | Ordinary | — | — | 7,000 <i>(Note a)</i> | 7,000 |
| 11. | Chinatrend (Holdings) Limited | Mr. Lo | Ordinary | — | — | 7,500 <i>(Note a)</i> | 7,500 |
| 12. | Chinatrend (Nankai) Limited | Mr. Lo | Ordinary | — | — | 85 <i>(Note a)</i> | 85 |
| 13. | Hanoi President Hotel Company Limited | Mr. Lo | Ordinary | — | — | 75 <i>(Note a)</i> | 75 |
| 14. | Rapid Growth Holdings Limited | Mr. Lo | Ordinary | — | — | 25,000 <i>(Note a)</i> | 25,000 |

| Name of associated corporation | Name of Director | Class of shares held | Number of shares held | | | Total |
|-------------------------------------|------------------|----------------------|-----------------------|------------------|-----------------------|-------|
| | | | Personal interests | Family interests | Corporate interests | |
| 15. Talent Faith Investments Ltd. | Mr. Lo | Ordinary | — | — | 50 <i>(Note a)</i> | 50 |
| 16. Villawood Developments Limited | Mr. Lo | Ordinary | — | — | 65 <i>(Note a)</i> | 65 |
| 17. Wealth Link Investments Limited | Mr. Lo | Ordinary | — | — | 1 <i>(Note a)</i> | 1 |

Notes:

- (a) The shares were held through companies controlled by Century City, of which Mr. Lo is the Chairman and controlling shareholder.
- (b) Including the retained balance, i.e. 6,444,444 shares, (the “Retained Shares”) of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly-owned subsidiary of Century City from a wholly-owned subsidiary of The New China Hong Kong Group Limited (the “NCHK Company”) pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the “Completion Date”). The Retained Shares are retained by the Century City group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) A total of 494,707,200 shares were charged by a wholly-owned subsidiary of Paliburg in favour of a trustee, covering the exchange rights of the holders of the 3½% exchangeable guaranteed bonds due 2001 issued by another wholly-owned subsidiary of Paliburg. The exchangeable bonds are exchangeable into those existing Regal Ordinary Shares during the period from 6th April, 1996 to 23rd April, 2001 (which period was extended by 90 days from 23rd January, 2001) at an adjusted effective exchange price of HK\$2.0144 per share (cum entitlements as provided in the relevant trust deed).
- (d) 400 shares were held through companies controlled by Century City and 600 shares were held through a company controlled by Mr. Lo.
- (e) 800,000 shares were held through companies controlled by Century City and 1,200,000 shares were held through companies controlled by Mr. Lo (including 8D-BVI).
- (f) 8D is a wholly-owned subsidiary of 8D Matrix.
- (g) A wholly-owned subsidiary of Paliburg holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited (“Point Perfect”) which is a 30% owned associate of such subsidiary. Point Perfect holds all the issued shares of Cheerjoy, i.e. 2 shares.

(ii) *Interests in share options granted by Regal*

| | Terms of option | Grantee | No. of ordinary shares under the share options | |
|-----|--------------------------------------|---------------------------|--|------------------------------|
| | | | (I) Vested | (II) Unvested |
| (A) | Date of grant: 5/8/1993 | Mr. Donald Fan Tung | (I) | 1,080,000 |
| | Exercise price per share: HK\$1.1083 | | (II) | 120,000 (<i>Note 1(b)</i>) |
| | Vesting period: (<i>Note 1</i>) | Ms. Belinda Yeung Bik Yiu | (I) | 150,000 |
| | Exercise period: (<i>Note 1</i>) | | (II) | 30,000 (<i>Note 1(b)</i>) |
| (B) | Date of grant: 22/2/1997 | Ms. Belinda Yeung Bik Yiu | (I) | 540,000 |
| | Exercise price per share: HK\$2.1083 | | (II) | 540,000 (<i>Note 1(b)</i>) |
| | Vesting period: (<i>Note 1</i>) | | | |
| | Exercise period: (<i>Note 1</i>) | | | |

Note:

1. Vesting/Exercise periods of options:

| | On completion of continuous service of | Initial/Cumulative percentage vesting | Initial/Cumulative percentage exercisable |
|-----|--|--|---|
| (a) | 2 years after date of grant | Initial 20% | Initial 20% upon vesting (exercisable until 10 years after date of grant) |
| (b) | 3 years to 9 years after date of grant | Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant)) | Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant)) |
| (c) | 9½ years after date of grant | 100% | 100% (exercisable until 10 years after date of grant) |

(iii) *Interests in share options granted by Paliburg*

| | Terms of option | Grantee | No. of ordinary shares under the share options | |
|-----|---|-------------------------|--|-----------------------------------|
| | | | (I) Vested | (II) Unvested |
| (A) | Date of grant: 22/2/1994 | Mr. Lo | (I) 3,650,000 | (II) 912,500 (<i>Note 1(b)</i>) |
| | Exercise price per share: HK\$10.40 | | | |
| | Vesting period: (<i>Note 1</i>) | Mr. Daniel Bong | (I) 500,000 | (II) 125,000 (<i>Note 1(b)</i>) |
| | Exercise period: (<i>Note 1</i>) | Shu Yin | | |
| | | Mr. Donald Fan Tung | (I) 1,500,000 | (II) 375,000 (<i>Note 1(b)</i>) |
| | | Mr. Kenneth Ng Kwai Kai | (I) 800,000 | (II) 200,000 (<i>Note 1(b)</i>) |
| (B) | Date of grant: 15/9/1995 | Mr. Donald Fan | (I) 1,582,030 | (II) 175,782 (<i>Note 3(c)</i>) |
| | (Original grant date (<i>Note 2</i>): (22/2/1993) | Tung | | |
| | Exercise price per share: HK\$1.1571 | | | |
| | Vesting period: (<i>Note 3</i>) | | | |
| | Exercise period: (<i>Note 3</i>) | | | |
| (C) | Date of grant: 15/9/1995 | Mr. Donald Fan | (I) 2,500,000 | (II) 625,000 (<i>Note 4(b)</i>) |
| | (Original grant date (<i>Note 2</i>): (22/2/1994) | Tung | | |
| | Exercise price per share: HK\$3.5392 | | | |
| | Vesting period: (<i>Note 4</i>) | | | |
| | Exercise period: (<i>Note 4</i>) | | | |

Notes:

1. Vesting/Exercise periods of options:

| | On completion of continuous service of | Initial/Cumulative percentage vesting | Initial/Cumulative percentage exercisable |
|-----|---|--|---|
| (a) | 2 years after date of grant | Initial 20% | Initial 20% upon vesting (exercisable until 10 years after date of grant) |
| (b) | 3 years to 9 years after date of grant | Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant)) | Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant)) |
| (c) | 9½ years after date of grant | 100% | 100% (exercisable until 10 years after date of grant) |

2. Consequent upon the group reorganisation resulting in the effective merger of Paliburg International Holdings Limited (“PIHL”) and Paliburg on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL (“PIHL Option Scheme”), the outstanding options held under the PIHL Option Scheme (“PIHL Options”) lapsed on 17th August, 1995 and in conjunction therewith, Paliburg granted the same number of options (“PHL Options”) to subscribe for the new consolidated shares of HK\$1.00 each of Paliburg under the executive share option scheme of Paliburg (“PHL Option Scheme”) at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above original grant dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.

3. Vesting/Exercise periods of options:

| | On completion of continuous service of | Initial/Cumulative percentage vesting | Initial/Cumulative percentage exercisable |
|-----|---|---|--|
| (a) | Exercisable at any time | PHL Options were granted as vested options under the PHL Option Scheme for those PIHL Options already vested under the PIHL Option Scheme (see Note 2) | Exercisable until 10 years after original grant date |
| (b) | 3 years after original grant date | 1/8 x 100% | 1/8 x 100% upon vesting (exercisable until 10 years after original grant date) |
| (c) | 4 years to 9 years after original grant date | Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year (commencing from 4 years after original grant date)) | Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year (commencing from 4 years after original grant date) upon vesting (exercisable until 10 years after original grant date)) |
| (d) | 9½ years after original grant date | 100% | 100% (exercisable until 10 years after original grant date) |

4. Vesting/Exercise periods of options:

| | On completion of continuous service of | Initial/Cumulative percentage vesting | Initial/Cumulative percentage exercisable |
|-----|---|--|---|
| (a) | 2 years after original grant date | Initial 20% | Initial 20% upon vesting (exercisable until 10 years after original grant date) |
| (b) | 3 years to 9 years after original grant date | Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after original grant date)) | Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after original grant date) upon vesting (exercisable until 10 years after original grant date)) |
| (c) | 9½ years after original grant date | 100% | 100% (exercisable until 10 years after original grant date) |

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interest in the securities of Regal or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Regal and the Stock Exchange pursuant to section 28 of that Ordinance (including interests which they are taken or deemed to have under section 31 or Part I of the Schedule to that Ordinance) or which are required, pursuant to section 29 of that Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to Regal and the Stock Exchange.

- (b) As at the Latest Practicable Date, the following persons (not being a Director or chief executive of Regal), so far as are known to any Director, were directly or indirectly interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of Regal:

| Name of shareholder | Number of ordinary shares held | Approximate percentage of the issued ordinary shares in Regal as at the Latest Practicable Date |
|---|---|--|
| Century City (<i>Notes i & iii</i>) | 2,793,736,944 | 69.34 |
| Century City BVI Holdings Limited (<i>Notes ii & iii</i>) | 2,793,736,944 | 69.34 |
| Century City Holdings Limited (<i>Notes ii & iii</i>) | 2,793,736,944 | 69.34 |
| Paliburg (<i>Notes ii & iii</i>) | 2,793,736,944 | 69.34 |
| PDBVI (<i>Notes ii & iii</i>) | 2,793,736,944 | 69.34 |
| PIHL (<i>Notes ii & iii</i>) | 2,390,392,820 | 59.33 |
| Paliburg BVI Holdings Limited (<i>Notes ii & iii</i>) | 2,390,392,820 | 59.33 |
| Taylor Investments Ltd. (<i>Note ii</i>) | 1,402,111,870 | 34.80 |
| Glaser Holdings Limited (“Glaser”) (<i>Notes ii & iii</i>) | 533,480,286 | 13.24 |

Notes:

- (i) These shares were shown as the corporate interests of Mr. Lo in Regal as disclosed under paragraph headed “Interests in shares” of the section entitled “Disclosure of interests” in this appendix.
- (ii) These companies are subsidiaries of Century City and their interests in the shares of Regal are included in the interests held by Century City in this appendix.
- (iii) 494,707,200 shares were charged by Glaser in favour of a trustee, covering the exchange rights of the holders of the of the exchangeable bonds as disclosed under paragraph headed “Interests in shares” of the section entitled “Disclosure of interests” in this appendix.

Save as disclosed herein, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of Regal or had any options in respect of such capital.

- (c) As at the Latest Practicable Date, none of the Directors has any service contracts with any member of the Regal Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).
- (d) As at the Latest Practicable Date, neither Dao Heng Securities, the independent financial adviser to the Independent Board Committee, nor FPD Savills, the property valuer of the Stanley Project, is interested either beneficially or non-beneficially in the securities of any member of the Regal Group and has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any members of the Regal Group.
- (e) The Regal Group is leasing various commercial spaces in Paliburg Plaza from the Paliburg Group at aggregate rentals of approximately HK\$0.64 million per month. Mr. Lo is deemed to be interested in Paliburg Plaza by virtue of his indirect interests, through Century City, in Paliburg.

Save as disclosed above, none of the Directors nor Dao Heng Securities nor FPD Savills is interested, directly or indirectly, in any assets which have been, since 31st December, 2001, being the date to which the latest published audited financial statements of Regal were made up, acquired or disposed of by or leased to any member of the Regal Group or are proposed to be acquired or disposed of by or leased to any member of the Regal Group.

- (f) Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement entered into by any member of the Regal Group subsisting at the date of this circular which is significant in relation to the business of the Regal Group.

3. Material change

The Directors are not aware of any material adverse change in the financial or trading positions of the Regal Group since 31st December, 2001 (the date to which the latest published audited consolidated accounts of the Regal Group were made up).

4. Qualification of experts

The following are the qualifications of the experts who have given an opinion or advice which is contained in this circular:

| Name | Qualification |
|---------------------|---|
| Dao Heng Securities | Registered Investment Adviser and Securities Dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| FPDSavills | Registered Professional Surveyor |

5. Consents of experts

Each of Dao Heng Securities and FPDSavills has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear.

6. Litigation

- (a) Pursuant to the terms of the securities purchase agreement dated 18th November, 1999 (the “SP Agreement”) entered into between the Regal Group and the purchaser (the “Purchaser”) in connection with the disposal by the Regal Group of its hotel interests in the United States of America (the “Disposal”), a deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the “Deferred Consideration”) and interest accrued thereon at 7% per annum (collectively, the “Consideration Receivable”) was due to be paid by the Purchaser on the second anniversary of the completion date of the Disposal, i.e. on 17th December, 2001.

The SP Agreement contained certain indemnifications given by the Regal Group which cover, inter alia, liabilities arising from third party claims relating to events/conditions which existed prior to the completion of the Disposal (the “Pre-closing Liabilities”). The Regal Group has been notified by the Purchaser of certain indemnity claims, allegedly related to Pre-closing Liabilities for third party legal claims, indemnifiable by the Regal Group under the SP Agreement. The Purchaser also alleged that the aggregate amount of these potential claims exceeds the Deferred Consideration and has withheld payment of the Consideration Receivable to the Regal Group. The Regal Group has retained an independent law firm to review the litigation cases in respect of the third party claims and the related indemnity claims made by the Purchaser. Based on the advice obtained from the independent law firm, the Regal Group is strongly refuting the basis of the indemnity claims made by the Purchaser. While certain major underlying legal claims are being resolved or settled for amounts considerably less than the amounts originally claimed by the plaintiffs in the litigation cases, the Regal Group is currently consulting with its legal advisers to initiate appropriate recovery action against the Purchaser.

- (b) Bauhinia Hotels Limited (“Bauhinia”), a wholly-owned subsidiary of Regal and the owner of the Regal Airport Hotel at Chek Lap Kok held under the Agreement for Sub-Lease with the Airport Authority, is in dispute with the Airport Authority relating to the design and construction of the Regal Airport Hotel. Bauhinia claims compensation for loss and damage caused by misrepresentations made by the Airport Authority and/or failure of the Airport Authority to properly carry out their duties owed to Bauhinia.

The parties have agreed to a moratorium period to allow the parties an opportunity to consider and discuss their differences with the view to amicably settling the same. In the event that the settlement discussions cannot be satisfactorily concluded, Bauhinia may proceed arbitration proceedings with the Airport Authority.

Save as disclosed above, neither Regal nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim known to the Directors to be pending or threatened by any member of the Regal Group which in the opinion of the Directors would be or is likely to be of material importance.

7. General

- (a) The head office and principal place of business of Regal is located at 18th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong. The registered office of Regal is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The branch share registrar of Regal in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (c) The secretary of Regal is Ms. Eliza Lam Sau Fun, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text.

8. Documents available for inspection

Copies of the following documents will be available for inspection at the office of the solicitors of Regal, Linklaters at 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 18th September, 2002:

- (a) the memorandum of association and bye-laws of Regal;
- (b) the Stanley Transfer Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;

- (d) the letter from Dao Heng Securities, the text of which is set out on pages 17 to 28 of this circular;
- (e) the letter and valuation certificate from FPDSavills, the text of which is set out in appendix I to this circular; and
- (f) the written consents of Dao Heng Securities and FPDSavills referred to in the section headed “Consents of experts” in this appendix.

NOTICE OF THE SGM



NOTICE IS HEREBY GIVEN that a special general meeting of Regal Hotels International Holdings Limited (the “Company”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 18th September, 2002 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as an ordinary resolution and a special resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the Stanley Transfer (as defined and described in the circular to the shareholders of the Company dated 26th August, 2002 (the “Circular”)) and the Stanley Transfer Agreement (as defined and described in the Circular, a copy of which has been produced to this meeting and signed by the Chairman of this meeting for the purpose of identification) be approved, rectified and/or confirmed; and
- (b) any two directors of the Company be authorised to execute all such documents and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Stanley Transfer or the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Stanley Transfer Agreement.”

SPECIAL RESOLUTION

“**THAT,** on the day falling 21 days after the satisfaction of all the prerequisite and necessary conditions required for the implementation of the Regal Capital Reorganisation (as defined below) (the “Effective Date”):

- (a) the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK\$0.09 on each of the ordinary shares of HK\$0.10 in issue on the Effective Date (the “Share Capital Reduction”) so that each issued ordinary share in the capital of the Company shall be treated as one fully-paid up ordinary share of HK\$0.01 each in the capital of the Company (the “Adjusted Regal Ordinary Share”) and any liability of the holders of Adjusted Regal Ordinary Shares to make any further contribution to the capital of the Company on each such Adjusted Regal Ordinary Share shall be treated as satisfied;
- (b) the entire amount standing to the credit of the share premium account of the Company on the Effective Date be cancelled (the “Share Premium Reduction”);

NOTICE OF THE SGM

- (c) all of the authorised but unissued share capital of the Company be cancelled (the “Diminution”) and forthwith upon the Diminution, the authorised ordinary share capital of the Company be increased to HK\$100,000,000 by the creation of an additional 5,971,227,497 (or such other amount which will make up the total number of authorised Adjusted Regal Ordinary Shares to 10,000,000,000) Adjusted Regal Ordinary Shares in the Company (the “Increase”);
- (d) the entire credit amount (the “Credit Amount”) arising from the Share Capital Reduction and the Share Premium Reduction be applied to eliminate an amount equal to the Credit Amount from the accumulated losses account of the Company as at the Effective Date (the “Application of Credit”), and the balance of such credit, if any, be transferred to the contributed surplus account of the Company; and
- (e) the directors of the Company be and are hereby authorised generally to do or execute all such acts, matters and things as they may consider necessary or appropriate to effect and implement the Share Capital Reduction, the Share Premium Reduction, the Diminution, the Increase and the Application of Credit (collectively, the “Regal Capital Reorganisation”).”

By Order of the Board
Eliza Lam Sau Fun
Company Secretary

Hong Kong, 26th August, 2002

Head office and principal place of business:

18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Notes:

1. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person at the meeting in order to represent the member.
2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude members from attending and voting at the meeting if members so desire.



**FORM OF PROXY FOR THE SPECIAL GENERAL MEETING
 TO BE HELD ON 18TH SEPTEMBER, 2002**

| | |
|--|--|
| No. of ordinary shares to which this Proxy relates <i>(Note 1)</i> | |
|--|--|

I/We, *(Note 2)* _____
 of _____
 shareholder(s) of **REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED** (the "Company") hereby appoint *(Note 3)* the Chairman of the Meeting or _____
 of _____
 as my/our proxy to attend and act for me/us at the Special General Meeting of the Company to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, on Wednesday, 18th September, 2002, at 11:00 a.m. and at any adjournment thereof for the purpose of considering and, if thought fit, passing the Ordinary Resolution and the Special Resolution as set out in the Notice convening the Meeting and at the Meeting and at any adjournment thereof to vote for me/us and in my/our name(s) in respect of the Resolutions as hereunder indicated and, if no such indication is given, as my/our voting proxy thinks fit.

| ORDINARY RESOLUTION | For <i>(Note 4)</i> | Against <i>(Note 4)</i> |
|---|----------------------------|--------------------------------|
| To approve, rectify and/or confirm the Stanley Transfer and the Stanley Transfer Agreement as set out in the Ordinary Resolution contained in the Notice convening the Special General Meeting. | | |
| SPECIAL RESOLUTION | For <i>(Note 4)</i> | Against <i>(Note 4)</i> |
| To approve, rectify and/or confirm the Regal Capital Reorganisation as set out in the Special Resolution contained in the Notice convening the Special General Meeting. | | |

Dated this _____ day of _____ 2002

Signature(s) *(Note 5)*: _____

Notes:

- Please insert the number of ordinary shares registered in your name(s) to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the ordinary shares in the capital of the Company registered in your name(s).
- Please insert your full name(s) and address(es) in BLOCK CAPITALS.
- If any proxy other than the Chairman of the Meeting is preferred, delete the words "the Chairman of the Meeting or" and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE DULY INITIALLED BY THE PERSON WHO SIGNS IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE TICK IN THE BOX BELOW THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE TICK IN THE BOX BELOW THE BOX MARKED "AGAINST".** If you do not indicate how you wish your proxy to vote, your proxy will be entitled to cast your vote at his discretion or abstain. Your proxy will also be entitled to vote or abstain at his discretion on any resolutions properly put to the Meeting other than those referred to in the Notice convening the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be executed either under its common seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
- Where there are joint holders of a share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the Meeting personally or by proxy, then one of the holders so present whose name stands first on the Register of Members in respect of such share shall alone be entitled to vote in respect thereof.
- To be valid, this form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of that power of authority or other attorney, must be deposited at the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.
- Completion and return of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish. In the event that you attend the Meeting after having lodged this form of proxy as indicated above, this form of proxy will be deemed to have been revoked.