
THIS SUPPLEMENTAL CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Regal Hotels International Holdings Limited, you should at once hand this supplemental circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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**SUPPLEMENTAL CIRCULAR TO THE
CIRCULAR TO THE SHAREHOLDERS
DATED NOVEMBER 23, 2006
IN RESPECT OF THE VERY SUBSTANTIAL
DISPOSAL IN RELATION TO
THE PROPOSED SPIN-OFF OF
REGAL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Financial Adviser to Regal Hotels International Holdings Limited



Merrill Lynch Far East Limited

**Independent Financial Adviser to the Independent Board Committee
and the Shareholders**



This supplemental circular should be read in conjunction with the Circular to Shareholders dated November 23, 2006.

A letter from Platinum Securities, the independent financial adviser to the Independent Board Committee and the Shareholders, and its revised letter of advice, are contained on pages 9 to 11 and pages 12 to 47, respectively, of this supplemental circular.

A notice of postponement of SGM is set out in this supplemental circular. Whether or not you are able to attend the Postponed SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding of the meeting (or any adjourned meeting). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Postponed SGM or any adjournment thereof should you so wish.

December 2, 2006

EXPECTED TIMETABLE

2006

Dispatch date of the Circular	Thursday, November 23
Dispatch date of this supplemental circular	Saturday, December 2
Last day for dealing in Shares cum-entitlement to the Preferential Offering	Tuesday, December 12
First day for dealing in Shares ex-entitlement to the Preferential Offering	Wednesday, December 13
Latest time for lodging transfers of Shares cum-entitlement to the Preferential Offering	4:00 p.m. on Thursday, December 14
Register of members of the Company closes	Friday, December 15 to Monday, December 18
Latest time for return of proxy forms in respect of the Postponed SGM	11:00 a.m. on Saturday, December 16
Record Date for determining the entitlement to the Preferential Offering	Monday, December 18
Postponed SGM	11:00 a.m. on Monday, December 18
Register of members of the Company re-opens	Tuesday, December 19

All times refer to Hong Kong local time.

Please note that the above timetable is subject to change. If there are changes to the above timetable, the Company will publish an announcement as soon as possible.

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LETTER FROM THE BOARD



(Stock Code: 78)

Directors:

LO Yuk Sui (Chairman and Managing Director)
Francis CHOI Chee Ming, JP (Vice Chairman)[#]
Donald FAN Tung
Alice KAN Lai Kuen*
Jimmy LO Chun To
LO Po Man
Kenneth NG Kwai Kai
NG Siu Chan*
WONG Chi Keung*
Belinda YEUNG Bik Yiu

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

*Head office and principal place
of business:*

11th Floor, 68 Yee Wo Street
Causeway Bay
Hong Kong

* *Independent Non-Executive Directors*

[#] *Non-Executive Director*

December 2, 2006

*To the shareholders of the Company, and for information only,
to the holders of the warrants of the Company*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE PROPOSED SPIN-OFF OF
REGAL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

INTRODUCTION

On November 23, 2006, Regal Hotels International Holdings Limited (the “**Company**”) dispatched to the Shareholders a circular in respect of the Proposed Spin-off (the “**Circular**”). Unless otherwise stated or the context requires otherwise, capitalized terms used in this supplemental circular shall have the same meanings as those defined in the Circular.

LETTER FROM THE BOARD

Pursuant to the announcement of the Company dated November 30, 2006, the Board announced that (i) Platinum Securities has drawn to the attention of the Company and the Independent Board Committee inadvertent mistakes and typographical errors relating to certain information in the “Letter of advice from Platinum Securities” as contained in the Circular which are more particularly described below, (ii) there will be a postponement of the SGM and changes to the expected timetable of the Proposed Spin-off, including the revised Record Date for determining the entitlement to the Preferential Offering, and (iii) certain consequential changes to the Circular due to the postponement of SGM.

The purpose of this supplemental circular is to clarify the incorrect information in the “Letter of advice from Platinum Securities” as contained in the Circular, to provide a “Revised letter of advice from Platinum Securities”, and to give you notice of the postponement of the SGM to Monday, December 18, 2006 (the “**Postponed SGM**”) for the Shareholders to consider and, if thought fit, to pass an ordinary resolution to approve the Proposed Spin-off and other related matters by way of poll.

Shareholders are advised to refer to the information in the Circular as supplemented by this supplemental circular prior to voting at the Postponed SGM.

CHANGES TO THE “LETTER OF ADVICE FROM PLATINUM SECURITIES”

Platinum Securities has drawn to the attention of the Company and the Independent Board Committee inadvertent mistakes and typographical errors relating to certain information in the “Letter of advice from Platinum Securities” as contained in the Circular as follows:

1. In Note (3) to Table 1 headed “Summary of the Initial Hotel Properties” on page 55 of the Circular, the gross floor area of Po Sing Court should be **14,200 sq. ft.** (instead of 13,583 sq. ft.).
2. In Table 11 headed “Effects on the NAV and the NAV per Share of the Remaining Regal Group” on page 82 of the Circular, the percentage change of the aggregate carrying value of consolidated net asset value (the “NAV”) of Regal and its subsidiaries (the “**Regal Group**”) should be an increase of **225.07%** (instead of 255.07%). The consolidated NAV of the Regal Group, taking into account of the valuation surplus based on the minimum consideration for the disposal of the Initial Hotel Properties, as derived from the unaudited consolidated pro forma balance sheet set out in Appendix III of the Circular should be **HK\$11,394.2 million** (instead of HK\$17,526 million) and the NAV per Share should be **HK\$1.348** (instead of HK\$2.073). The corresponding percentage change in the consolidated NAV and the NAV per Share of the Regal Group (based on book value of the Initial Hotel Properties after adjustments on valuation surplus by reference to their market values as at December 31, 2005) should be a **decrease of 9.6%** and **9.6%**, respectively (instead of an increase of 39.11% and 39.03%, respectively). Accordingly, the descriptions in the second paragraph on page 83 of the Circular should correspondingly be “**decrease from approximately HK\$12.6 billion to approximately HK\$11.4 billion**” (instead of increase from approximately HK\$12.6 billion to approximately HK\$17.5 billion) and “**represents a slight decrease of approximately 9.6%**” (instead of an increase of approximately 39.11%).

LETTER FROM THE BOARD

3. In Table 12 headed “Effects on the earnings of the Remaining Regal Group” on page 83 of the Circular, the heading of the third column of the table should be “Unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on **January 1, 2006**” (instead of June 30, 2006). The revenue of unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on January 1, 2006 should be **HK\$638.62 million** (instead of HK\$608.29 million). The corresponding percentage change should be **an increase of 5.0%** (instead of 0%). The profit and the basic EPS attributable to the Shareholders in the unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on January 1, 2006 should be **HK\$4,974.72 million** and **HK58.85 cents**, respectively (instead of HK\$4,873.67 million and HK57.66 cents, respectively). The corresponding percentage change in the profit and the basic EPS attributable to the Shareholders should be an increase of **1,500.6%** and **1,499.2%**, respectively (instead of 1,468.0% and 1,471.1%, respectively). Accordingly, the last figure on the third line in the second paragraph on page 84 of the Circular should correspondingly be **HK\$4,974.72 million** (instead of HK\$4,873.67 million) and the figure on the fifth line in the same paragraph should be **1,500.6%** (instead of 1,468.11%).
4. The figure on the sixth line in the first paragraph under the section headed “(d) *Effect on working capital*” on page 85 of the Circular should be **HK\$4,678.5 million** (instead of HK\$4,236.6 million) and the repayment of bank loan on the seventh line in the same paragraph should be **HK\$4,468.7 million** (instead of HK\$5,008.7 million).

Platinum Securities confirmed that, notwithstanding the slight decrease of approximately 9.6% in the consolidated NAV of the Regal Group (after taking into account of the valuation surplus of the Initial Hotel Properties), and given the significant increase of approximately 225.1% in the aggregate carrying value of consolidated NAV of the Regal Group, it maintains its view that completion of the Proposed Spin-off will have a positive effect on the NAV of the Regal Group and an overall positive financial impact to the Regal Group.

Platinum Securities confirmed that it is not aware of any other error in the “Letter of advice from Platinum Securities” contained in the Circular. Notwithstanding the said mistakes and changes, Platinum Securities confirmed that its recommendations (i) that the terms of the Proposed Spin-off are fair and reasonable, (ii) that the Proposed Spin-off is in the interest of the Company and its Shareholders as a whole; and (iii) on its advice to the Shareholders to vote in favor of the Proposed Spin-off, and the reasoning thereof as stated in the “Letter of advice from Platinum Securities” contained in the Circular remain unchanged. A “Revised letter of advice from Platinum Securities” which incorporates the changes as mentioned above is contained on pages 12 to 47 of this supplemental circular.

POSTPONED SGM

As a result of the aforementioned changes to the “Letter of advice from Platinum Securities” of the Circular, the proposed SGM for the approval of the Proposed Spin-off and any related matter will be postponed. A notice of postponement of the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, December 18, 2006 is set out on pages 48 to 50 of this supplemental circular.

LETTER FROM THE BOARD

A form of proxy for use at the Postponed SGM is enclosed with this supplemental 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 the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th 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 appointed for the holding of the Postponed SGM, or any adjournment thereof. Completion and return of the respective form of proxy will not preclude you from attending and voting in person at the Postponed SGM or any adjournment thereof should you so desire.

CONSEQUENTIAL CHANGES TO THE CIRCULAR

Due to the postponement of the SGM to December 18, 2006 and the changes to the expected timetable of the Proposed Spin-off, the Listing Date is presently expected to be in January 2007.

The corresponding changes to the Circular are as follows:

1. (i) the Base Rent to the extent that it relates to the pro-rated amount payable in respect of the year ending December 31, 2006 and the Variable Rent payable in respect of the year ending December 31, 2006, as described in the Circular, shall no longer be relevant or applicable; (ii) the Base Rent in relation to the year ending December 31, 2007 shall be HK\$630 million, which shall then be pro-rated from the Listing Date until December 31, 2007; and (iii) the entire amount of the Net Property Income from the Listing Date to December 31, 2007 (instead of from "the Listing Date to December 31, 2006 and the twelve months ending December 31, 2007" as described on page 36 of the Circular) will be transferred from the Remaining Regal Group to the Lessors in the form of Base Rent and Variable Rent pursuant to the Lease Agreements; and
2. under the proposed Distributable Income Guarantee Deed, in the event that the Total Distributable Income for the period from the Listing Date to December 31, 2007, in aggregate, is less than a sum to be set out in the Offering Circular which, subject to the final determination of the Listing Date, is expected to be of an amount not exceeding HK\$570 million (instead of HK\$570 million to HK\$590 million as described in the Circular), Regal will guarantee to pay the Trustee the shortfall.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the Bye-laws of the Company, the procedures of voting by poll on the resolutions to be put forth for Shareholders' approval at the Postponed SGM of the Company are as follows:

1. According to Bye-law 78, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:
 - (i) by the Chairman of the meeting; or
 - (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
 - (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
 - (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting, being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.
2. According to Bye-law 79, if a poll is demanded as aforesaid under Bye-law 78, it shall (subject as provided in Bye-law 80 as described below) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman of the meeting directs. No notice need to be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.
3. According to Bye-law 80, any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.

LETTER FROM THE BOARD

EXPECTED TIMETABLE AND CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

The expected timetable as contained in the Circular has been revised and is set out on page i of this supplemental circular. The Board has determined that the Record Date will now be Monday, December 18, 2006.

Based on the revised expected timetable as set out on page i of this supplemental circular, the register of members of the Company will be closed from Friday, December 15, 2006 to Monday, December 18, 2006 (both dates inclusive) for the purpose of determining the Assured Entitlement and entitlement to vote at the Postponed SGM. No transfer of the Shares may be registered during such book close period. In order to qualify for the Assured Entitlement and to vote at the Postponed SGM, all forms for transfers of Shares and/or exercise of any subscription rights attaching to the outstanding warrants of the Company duly accompanied by the relevant certificates, together with, where appropriate, the relevant subscription money, must be lodged with the Registrar by no later than 4:00 p.m. on Thursday, December 14, 2006.

The last day of dealing in the Shares cum Assured Entitlement is expected to be on Tuesday, December 12, 2006 and the Shares will then be traded ex Assured Entitlement as from Wednesday, December 13, 2006. However, if the Global Offering and the Separate Listing are postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purposes of determining the Assured Entitlement and entitlement to vote at the Postponed SGM and further announcement(s) will be made to inform the Shareholders and other investors in due course.

Shareholders should note that the implementation of the Preferential Offering is conditional upon the satisfaction of the conditions of the Proposed Spin-off as set out in paragraph 10 headed “Conditions” under the section headed “Proposed Spin-off and Separate Listing” in the Circular. If any of such conditions is not fulfilled by such time as is set out therein, the Preferential Offering will not be made and, in such case, no Qualifying Shareholders may subscribe for any Reserved Units thereunder.

RECOMMENDATIONS

Despite the changes to the “Letter of advice from Platinum Securities” as mentioned above, the Directors (including the independent non-executive Directors) maintain the view that the Proposed Spin-off are in the interests of the Company and the Shareholders, and accordingly recommend the Shareholders to vote in favor of the ordinary resolution to approve the Proposed Spin-off and other matters related thereto at the Postponed SGM as set out in the notice of postponement of SGM on pages 48 to 50 of this supplemental circular.

LETTER FROM THE BOARD

Platinum Securities confirmed that despite the changes to the “Letter of advice from Platinum Securities” as mentioned above, its advice to the Independent Board Committee to recommend to the Shareholders, and its recommendation to the Shareholders, to vote in favor of the resolution to be proposed at the Postponed SGM, remain unchanged. The full text of the “Revised letter of advice from Platinum Securities” containing its advice and the principal factors and reasons taken into account as regards, among other things, the Proposed Spin-off is set out on pages 12 to 47 of this supplemental circular.

The Independent Board Committee, having reviewed the opinion of Platinum Securities, maintains its opinion that the terms of the Proposed Spin-off are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, and its recommendations to the Shareholders to vote in favor of the Proposed Spin-off also remain unchanged. A “Letter from the Independent Board Committee” in relation to the Proposed Spin-off having taken into consideration of the aforementioned changes to the “Letter of advice from Platinum Securities” in the Circular is set out on page 8 of this supplemental circular.

ADDITIONAL INFORMATION

Shareholders should read this supplemental circular, together with the Circular carefully and in particular, the “Revised letter of advice from Platinum Securities” contained in this supplemental circular, before voting on the ordinary resolution to be proposed at the Postponed SGM.

This supplemental circular is being distributed to the shareholders of the Company (and the holders of the warrants of the Company for information purpose only). This supplemental circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this supplemental circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

Yours faithfully,
By Order of the Board
Eliza Lam Sau Fun
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



(Stock Code: 78)

December 2, 2006

*To the shareholders of the Company, and for information only,
to the holders of the warrants of the Company*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE PROPOSED SPIN-OFF OF
REGAL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

We refer to the circular in respect of the very substantial disposal in relation to the proposed spin-off of Regal Real Estate Investment Trust on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Proposed Spin-off**”) to the Shareholders dated November 23, 2006 (the “**Circular**”) and the “Letter from the Independent Board Committee” as contained therein. We also refer to the supplemental circular in respect of the Proposed Spin-off dated December 2, 2006 (the “**Supplemental Circular**”) and the “Revised letter of advice from Platinum Securities” as contained therein. Unless the context requires otherwise, terms used in this letter shall have the same meanings given to them in the section headed “Definitions” of the Circular.

Platinum Securities has drawn to the attention of the Independent Board Committee inadvertent mistakes and typographical errors relating to certain information in the “Letter of advice from Platinum Securities” as contained in the Circular. After due consideration of the “Revised letter of advice from Platinum Securities” and, in particular, the advice contained therein as set out on pages 12 to 47 of the Supplemental Circular of which this letter forms part, we maintain our opinion that the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, as the members of the Independent Board Committee, we maintain our recommendations to the Shareholders to vote in favor of the ordinary resolution set out in the notice of postponement of SGM dated the even date of this letter to approve the Proposed Spin-off.

Yours faithfully,

**Independent Board Committee of
Regal Hotels International Holdings Limited**

Ms. Alice Kan Lai Kuen
Independent
Non-executive Director

Mr. Ng Siu Chan
Independent
Non-executive Director

Mr. Wong Chi Keung
Independent
Non-executive Director

LETTER FROM PLATINUM SECURITIES

The following is the text of the letter from the independent financial adviser to the Independent Board Committee and the Shareholders for the purpose of incorporation into this supplemental circular.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road, Central
Hong Kong

Telephone (852) 2841 7000
Facsimile (852) 2522 2700

December 2, 2006

To the Independent Board Committee and the Shareholders

Dear Sirs,

**VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE PROPOSED SPIN-OFF OF
REGAL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

Reference is made to the circular of Regal Hotels International Holdings Limited (the “**Company**”) dispatched to the Shareholders dated November 23, 2006 (the “**Circular**”) in respect of the very substantial disposal in relation to the Proposed Spin-off of Regal Real Estate Investment Trust on the Main Board of The Stock Exchange of Hong Kong Limited. Unless otherwise stated or the context requires otherwise, capitalized terms used in this letter shall have the same meanings as those defined in the Circular and the supplemental circular of the Company dated December 2, 2006.

We draw the attention of the Independent Board Committee and the Shareholders to the following inadvertent mistakes and typographical errors in the “Letter of advice from Platinum Securities” contained in the Circular.

1. In Note (3) to Table 1 headed “Summary of the Initial Hotel Properties” on page 55 of the Circular, the gross floor area of Po Sing Court should be **14,200 sq. ft.** (instead of 13,583 sq. ft.).
2. In Table 11 headed “Effects on the NAV and the NAV per Share of the Remaining Regal Group” on page 82 of the Circular, the percentage change of the aggregate carrying value of consolidated NAV of Regal and its subsidiaries (the “**Regal Group**”) should be an increase of **225.07%** (instead of 255.07%). The consolidated NAV of the Regal Group, taking into account of the valuation surplus based on the minimum consideration for the disposal of the Initial Hotel Properties, as derived from the unaudited consolidated pro forma balance sheet set out in Appendix III of the Circular, should be **HK\$11,394.2 million**

LETTER FROM PLATINUM SECURITIES

(instead of HK\$17,526 million) and the NAV per Share should be **HK\$1.348** (instead of HK\$2.073). The corresponding percentage change in the consolidated NAV and the NAV per Share of the Regal Group (based on book value of the Initial Hotel Properties after adjustments on valuation surplus by reference to their market values as at December 31, 2005) should be a **decrease of 9.6%** and **9.6%**, respectively (instead of an increase of 39.11% and 39.03%, respectively). Accordingly, the descriptions in the second paragraph on page 83 of the Circular should correspondingly be “**decrease from approximately HK\$12.6 billion to approximately HK\$11.4 billion**” (instead of increase from approximately HK\$12.6 billion to approximately HK\$17.5 billion) and “**represents a slight decrease of approximately 9.6%**” (instead of an increase of approximately 39.11%).

3. In Table 12 headed “Effects on the earnings of the Remaining Regal Group” on page 83 of the Circular, the heading of the third column of the table should be “Unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on **January 1, 2006**” (instead of June 30, 2006). The revenue of unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on January 1, 2006 should be **HK\$638.62 million** (instead of HK\$608.29 million). The corresponding percentage change should be an **increase of 5.0%** (instead of 0%). The profit and the basic EPS attributable to the Shareholders in the unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on January 1, 2006 should be **HK\$4,974.72 million** and **HK58.85 cents**, respectively (instead of HK\$4,873.67 million and HK57.66 cents, respectively). The corresponding percentage change in the profit and the basic EPS attributable to the Shareholders should be an increase of **1,500.6%** and **1,499.2%**, respectively (instead of 1,468.0% and 1,471.1%, respectively). Accordingly, the last figure on the third line in the second paragraph on page 84 of the Circular should correspondingly be **HK\$4,974.72 million** (instead of HK\$4,873.67 million) and the figure on the fifth line in the same paragraph should be **1,500.6%** (instead of 1,468.11%).
4. The figure on the sixth line in the first paragraph under the section headed “(d) *Effect on working capital*” on page 85 of the Circular should be **HK\$4,678.5 million** (instead of HK\$4,236.6 million) and the repayment of bank loan on the seventh line in the same paragraph should be **HK\$4,468.7 million** (instead of HK\$5,008.7 million).

We noted point 2 above particularly on the percentage change on the consolidated NAV of the Regal Group. Notwithstanding the slight decrease of approximately 9.6% in the consolidated NAV of the Regal Group (after taking into account of the valuation surplus of the Initial Hotel Properties), given the significant increase of approximately 225.1% in the aggregate carrying value of consolidated NAV of the Regal Group, we maintain our view that completion of the Proposed Spin-off will have a positive effect on the NAV of the Regal Group and an overall positive financial impact to the Regal Group.

Save for the above, we confirm that we are not aware of any other error in the “Letter of advice from Platinum Securities” contained in the Circular. We maintain that we advise the Independent Board Committee to recommend to the Shareholders, and we also recommend the Shareholders, to vote in favor of the resolution to be proposed at the Postponed SGM.

LETTER FROM PLATINUM SECURITIES

A “Revised letter of advice from Platinum Securities” which incorporates the changes as mentioned above is contained on pages 12 to 47 of the supplemental circular of the Company dated December 2, 2006 to the Circular.

In addition, we note that, as stated in the letter from the Board of the supplemental circular of the Company dated December 2, 2006, due to the postponement of the SGM to December 18, 2006 and the changes to the expected timetable of the Proposed Spin-off, the Listing Date is presently expected to be in January 2007. As such, the corresponding changes to the Circular are as follows:

1. (i) the Base Rent to the extent that it relates to the pro-rated amount payable in respect of the year ending December 31, 2006 and the Variable Rent payable in respect of the year ending December 31, 2006, as described in the Circular, shall no longer be relevant or applicable; (ii) the Base Rent in relation to the year ending December 31, 2007 shall be HK\$630 million, which shall then be pro-rated from the Listing Date until December 31, 2007; and (iii) the entire amount of the Net Property Income from the Listing Date to December 31, 2007 (instead of from “the Listing Date to December 31, 2006 and the twelve months ending December 31, 2007” as described on page 36 of the Circular) will be transferred from the Remaining Regal Group to the Lessors in the form of Base Rent and Variable Rent pursuant to the Lease Agreements; and
2. under the proposed Distributable Income Guarantee Deed, in the event that the Total Distributable Income for the period from the Listing Date to December 31, 2007, in aggregate, is less than a sum to be set out in the Offering Circular which, subject to the final determination of the Listing Date, is expected to be of an amount not exceeding HK\$570 million (instead of HK\$570 million to HK\$590 million as described in the Circular), Regal will guarantee to pay the Trustee the shortfall.

Notwithstanding the above amendments and corresponding changes, we confirm that our recommendations (i) that the terms of the Proposed Spin-off are fair and reasonable, (ii) that the Proposed Spin-off is in the interest of the Company and its Shareholders as a whole; and (iii) on our advice to the Shareholders to vote in favor of the Proposal Spin-off, and the reasoning thereof as stated in the “Letter of advice from Platinum Securities” contained in the Circular remain unchanged.

Yours faithfully,
For and on behalf of

Platinum Securities Company Limited

Liu Chee Ming
Managing Director

Ross Cheung
Director

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

The following is the text of the revised letter of advice from the independent financial adviser to the Independent Board Committee and the Shareholders for the purpose of incorporation into this supplemental circular.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road, Central
Hong Kong

Telephone (852) 2841 7000
Facsimile (852) 2522 2700

December 2, 2006

To the Independent Board Committee and the Shareholders

Dear Sirs,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF OF REGAL REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the terms of the Proposed Spin-off. Details of the Proposed Spin-off are contained in the letter from the Board as set out in the circular of the Company dated November 23, 2006 (the “**Circular**”). Terms used in this revised letter shall have the same meanings as defined in the Circular and in the supplemental circular of the Company dated December 2, 2006 unless the context requires otherwise.

In our capacity as the independent financial adviser, our role is to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off are in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote on the resolution to approve the Proposed Spin-off at the Postponed SGM.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the annual reports and accounts of the Group for the three financial years ended December 31, 2005 and the interim report of the Group for the six months ended June 30, 2006; (ii) the Valuation Report prepared by the Independent Property Valuer; and (iii) the unaudited pro forma financial statements as set out in Appendix III of the Circular. We have also discussed with management of the Company about their plans and the business prospects of the Company.

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We have assumed that all information, facts, opinions and representations contained in the Circular (as supplemented by the supplemental circular to the shareholders of the Company dated the even date of this letter (the “**Supplemental Circular**”)) are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular (as supplemented by the Supplemental Circular), and have made all reasonable enquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular (as supplemented by the Supplemental Circular) and of the information and representations provided to us by the Company. Furthermore, we have no reasons to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the terms of the Proposed Spin-off.

We are independent from, and are not associated with, the Company nor another party to the Proposed Spin-off, or their respective substantial shareholders or connected person(s), as defined under the Listing Rules and, accordingly, are considered eligible to give independent advice on the Proposed Spin-off. We will receive a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company and another party to the Proposed Spin-off or their respective substantial shareholders or connected person(s), as defined under the Listing Rules.

As stated in the letter from the Board in the Circular, an Independent Board Committee, comprising Ms. Alice Kan Lai Kuen, Mr. Ng Siu Chan and Mr. Wong Chi Keung, has been established to advise the Shareholders in relation to the Proposed Spin-off.

A. PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PROPOSED SPIN-OFF

In formulating our opinion in relation to the Proposed Spin-off and giving our independent financial advice to the Independent Board Committee and the Shareholders, we have considered the following principal factors:

1. Background of the Proposed Spin-off

Pursuant to the joint announcement of the Company, Century City and Paliburg dated November 23, 2006, the Board announced that a formal application has been made to the SFC for the Authorization and an application has been made to the Stock Exchange for the Proposed Spin-off. Regal REIT intends to make a Global Offering of the Units, comprising the Hong Kong Public Offering and the International Offering (including the Preferential Offering).

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Regal REIT's primary objectives will be to provide stable distributions to Unitholders and to achieve long-term capital growth in net asset value per Unit by way of: (1) internal growth through asset enhancement opportunities and operational improvements; (2) external growth through potential acquisitions that meet the REIT Manager's investment criteria; and (3) financing through an appropriate capital structure.

In connection with the Proposed Spin-off, the Group is proposing to implement the Restructuring which will involve a transfer to Regal REIT of the entire issued share capital of Holding SPV which (indirectly through the Lessors) indirectly owns the Initial Hotel Properties.

(a) *Business of Regal REIT and the Initial Hotel Properties*

Regal REIT will be formed to own an investment portfolio of hotel properties initially in Hong Kong. Upon the completion of the Global Offering, Regal REIT will own the Initial Hotel Properties as described below. The Initial Hotel Properties are strategically located across different districts in Hong Kong and currently have an aggregate of 3,348 rooms and over 30 food and beverage outlets. Table 1 below sets forth certain information in relation to the Initial Hotel Properties as at the Latest Practicable Date.

Table 1: Summary of the Initial Hotel Properties

Initial Hotel Properties	Location	HKTB Rating ⁽¹⁾	Opening Year	Number of Rooms	Number of Stories	Gross Floor Area ⁽⁵⁾ (sq.ft.)	Covered Floor Area ⁽⁶⁾ (sq.ft.)	Capital Values as at September 30, 2006 ⁽⁷⁾ (HK\$)
Regal Airport Hotel	Hong Kong International Airport	High Tariff B	1999	1,104	14 (including one basement floor)	774,445	897,034	5,720,000,000
Regal Hongkong Hotel	Causeway Bay	High Tariff A	1993	424	37 (including four basement floors) ⁽²⁾	215,736	320,417	2,960,000,000
Regal Kowloon Hotel	Tsimshatsui	High Tariff A	1982	600	20 (including four basement floors)	341,714	468,355	3,190,000,000
Regal Oriental Hotel	Kowloon City	High Tariff B	1982	390	17 (including two basement floors)	243,167 ⁽³⁾	294,154 ⁽³⁾	1,240,000,000
Regal Riverside Hotel	Shatin	High Tariff B	1986	830	17 (including two basement floors) ⁽²⁾	519,046	662,123	2,960,000,000
Total				<u>3,348⁽⁴⁾</u>		<u>2,094,108</u>	<u>2,642,083</u>	<u>16,070,000,000</u>

Notes:

- (1) The Hong Kong Tourism Board classifies hotels into four categories, namely, High Tariff A, High Tariff B, Medium Tariff and Unclassified, based on facilities, location, staff to room ratio, achieved room rate and business mix of the hotels. In 2005, the average room rates of High Tariff A, High Tariff B and Medium Tariff hotels were HK\$1,611, HK\$732 and HK\$460, respectively.

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- (2) The number of stories of Regal Hongkong Hotel and Regal Riverside Hotel will increase to 39 and 20, respectively, after completion of the Asset Enhancement Program.
- (3) The gross floor area includes 14,200 sq. ft. of Po Sing Court used as back-of-the-house area for Regal Oriental Hotel, which is owned by Gala Hotels Limited and represents 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel.
- (4) Includes 12 house-use rooms (e.g. rooms for general managers of the hotels).
- (5) The gross floor area has the meaning ascribed to it under the Building Planning Regulations. After completion of the AEP, the gross floor area would increase to 2,269,120 sq. ft..
- (6) The covered floor area means all floor area covered by a roof including gross floor areas, mechanical and electrical floor areas, vehicle driveway, car parking areas, back of the house areas, basement areas that have not been included in the calculation of gross floor area but excluding bay window areas, roof areas, podium open deck areas and other uncovered areas. After completion of the AEP, the floor area would increase to 2,747,042 sq. ft..
- (7) Please refer to Appendix I of the Circular for further details on capital values of the Initial Hotel Properties.

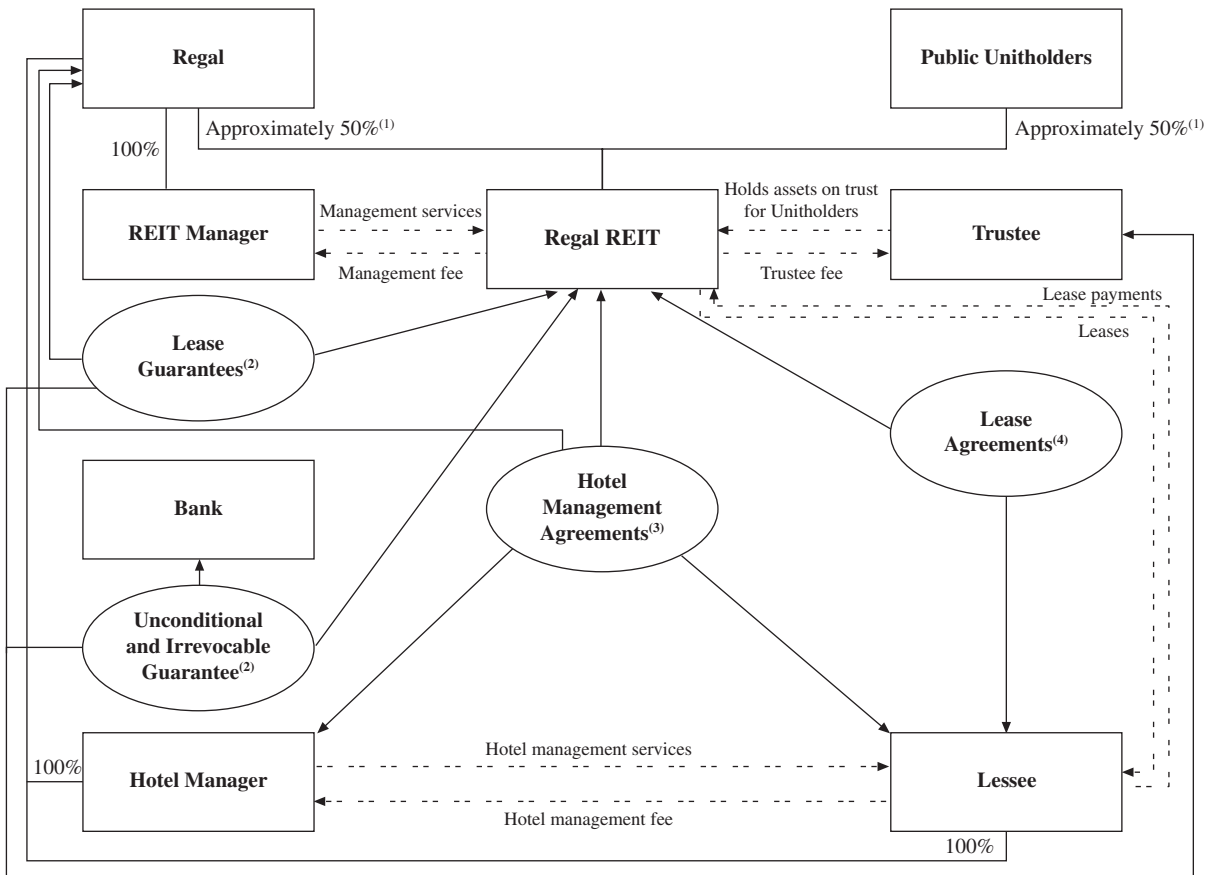
The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rent, and Variable Rent. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant year from 2011 to 2015.

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(b) *Structure of Regal REIT*

Chart 1 below illustrates the overall structure of Regal REIT:

Chart 1: Overall structure of Regal REIT



— Equity interest
 - - -> Payments and services pursuant to contractual relationships under Trust Deed, Lease Agreements and Hotel Management Agreement
 -> Contractual relationships under Trust Deed, Lease Agreements, Hotel Management Agreements, Lease Guarantees, and Unconditional and Irrevocable Guarantee

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Regal will guarantee to pay all amounts from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements. In addition, Regal will procure an unconditional and irrevocable bank guarantee for HK\$1 billion until June 30, 2011 in favor of the Lessors and the Trustee. For further details, please refer to paragraph 3 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.
- (3) Regal REIT (through Holding SPV and the Lessors) will enter into separate Hotel Management Agreements with the Lessee, the Hotel Manager and Regal. For further details, please refer to paragraph 4 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.
- (4) Regal REIT (through the Lessors) will enter into separate Lease Agreements with the Lessee. For further details, please refer to paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.

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(i) The REIT Manager

The REIT Manager is a wholly-owned subsidiary of Regal and was incorporated for the sole purpose of managing the assets of Regal REIT. Its main responsibility is to manage the assets of Regal REIT for the benefit of Unitholders.

The REIT Manager has general powers of management over the assets of Regal REIT including the Initial Hotel Properties. In particular, the REIT Manager is responsible for monitoring the performance of the obligations of the Lessee under the Lease Agreements, the Hotel Manager under the Hotel Management Agreements, and the Finance Companies under the Financing Agreement. The REIT Manager is also responsible for Regal REIT's investment and financing strategies and asset enhancement, acquisition and disposal policies.

The REIT Manager will be licensed by the SFC to conduct the regulated activity of asset management, as required by the REIT Code.

As stated in the letter from the Board in the Circular, all the on-going transactions between the REIT Manager and members of the Group will be on an arm's length basis and on normal commercial terms.

(ii) The Hotel Manager

The Hotel Manager, a wholly-owned subsidiary of the Company, is expected to be engaged as the exclusive operator and manager of the Initial Hotel Properties for a term of 20 years from the Listing Date. The Hotel Manager will supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties solely under the "Regal" brand name and to act in good faith, to exercise due care and diligence and with full control and discretion, to operate, manage, and promote the business of each of the Initial Hotel Property, to provide all services lawfully or properly provided by a hotel of comparable standard as the Initial Hotel Property and to act in the best interests of the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) with a view to optimizing profit of the Initial Hotel Property.

(c) *Intended use of proceeds*

Based on a minimum selling price of HK\$14 billion under the Sale and Purchase Agreement, Regal will apply part of the proceeds to be received from the sale of Holding SPV pursuant to the Sale and Purchase Agreement in the amount of approximately HK\$4.8 billion for subscription of Units and an amount of approximately HK\$4.3 billion to repay its outstanding bank loans. The balance of not less than HK\$4 billion, after payment of the expenses associated with the Proposed Spin-off, will be retained for general working capital purposes.

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2. Business of the Group

The Group is principally engaged in the business of hotel and property development, hotel ownership, hotel operation and management and other investments. As stated in the letter from the Board in the Circular, in line with the international trend of separating ownership and operation of hotels to allow hotel owners to focus on capital enhancement and hotel acquisition opportunities and hotel operators to focus on promoting brand name and management business, Regal REIT will be formed to become the owner of the Initial Hotel Properties pursuant to the Proposed Spin-off. The Remaining Regal Group will take up the lease of the Initial Hotel Properties from Regal REIT for the period from the Listing Date to December 31, 2015. Immediately after the Proposed Spin-off, the Remaining Regal Group will continue to be the hotel operator of the Initial Hotel Properties and other Regal Hotels, in the manner as described in the Circular.

Table 2 below illustrates the breakdown of the revenue of the Group by business segment for the three financial years ended December 31, 2005:

Table 2: Revenue breakdown of the Group by business segments

	For the year ended December 31,					
	2003		2004		2005	
	Revenue	% of	Revenue	% of	Revenue	% of
	<i>HK\$</i>	Revenue	<i>HK\$</i>	Revenue	<i>HK\$</i>	Revenue
	<i>million</i>	%	<i>million</i>	%	<i>million</i>	%
Hotel ownership and management	747.2	96.4	995.2	94.8	1,082.7	94.9
Property development and investment	—	—	6.6	0.6	1.6	0.1
Others	<u>27.7</u>	<u>3.6</u>	<u>48.8</u>	<u>4.6</u>	<u>56.8</u>	<u>5.0</u>
Total	<u><u>774.9</u></u>	<u><u>100.0</u></u>	<u><u>1,050.6</u></u>	<u><u>100.0</u></u>	<u><u>1,141.1</u></u>	<u><u>100.0</u></u>

Source: Annual reports and audited accounts of the Group

As illustrated in Table 2 above, during the three financial years ended December 31, 2005, the revenue of the Group was streaming from three divisions, namely: (i) hotel ownership and management; (ii) property development and investment; and (iii) others. We note that the revenue of the Group was mainly generated by the hotel ownership and management division, which accounted for approximately 96.4%, 94.8% and 94.9% of the total revenue of the Group for the three financial years ended December 31, 2003, 2004 and 2005 respectively. Upon completion of the Proposed Spin-off, the Remaining Regal Group will not own any hotel property in Hong Kong but will continue to be engaged in hotel and property development, hotel operation and management and other investments. Pursuant to the Lease Agreements which will take effect upon the Proposed Spin-off, the

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Lessor will lease the Initial Hotel Properties to the Lessee for hotel business, and hence the Initial Hotel Properties will continue to be operated by the Remaining Regal Group and, therefore, it is expected the Proposed Spin-off will not affect the revenue of the Remaining Regal Group except the fee payable by Regal REIT to the REIT Manager which will become a new source of income of the Remaining Regal Group, but with lease payment as a new expense item.

3. Reasons for and benefits of the Proposed Spin-off

As stated in the letter from the Board in the Circular, the Directors believe that the Proposed Spin-off will bring about a number of benefits to both Regal and Regal REIT including the following:

- (i) The delineation of the respective businesses carried on by each of the Remaining Regal Group and Regal REIT is expected to allow better business focus regarding their respective operational and financial performance. Specifically, Regal REIT will focus on capital enhancement and hotel acquisition opportunities while the Remaining Regal Group will focus on promoting brand name and hotel management as well as hotel and property development businesses.
- (ii) After the Proposed Spin-off, the Remaining Regal Group and Regal REIT will adopt different business and growth strategies, offering the Shareholders and other investors the opportunity and flexibility for investment in both the Remaining Regal Group and Regal REIT or either of them.
- (iii) The Proposed Spin-off will allow Regal REIT to establish its own profile as a separate listed entity and will provide separate capital-raising platforms for the Remaining Regal Group and Regal REIT with respect to the growth of their respective future businesses and operations.
- (iv) The estimated consideration for the disposal of the Holding SPV, which indirectly owns the Initial Hotel Properties, to Regal REIT is expected to be not less than approximately HK\$14 billion. Based on the aggregate carrying value of the Initial Hotel Properties as at June 30, 2006 of approximately HK\$4 billion, Regal is expected to derive a gain from the disposal of the Initial Hotel Properties of not less than HK\$4.6 billion (after elimination of the unrealized gain attributable to the 50% interest assured to be retained by the Remaining Regal Group in Regal REIT).
- (v) The Shareholders will benefit from the enhancement in the net asset value of the Remaining Regal Group as a result of the Proposed Spin-off. Assuming a consideration for the disposal of the Initial Hotel Properties of not less than HK\$14 billion, the book net asset value of the Remaining Regal Group is expected to increase from approximately HK\$2 billion as at June 30, 2006 to not less than HK\$6 billion immediately after the Proposed Spin-off. In addition, immediately after the Proposed Spin-off and assuming that the Over-allotment Option is not exercised, the disposal of the Initial Hotel Properties will generate surplus

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cash proceeds of not less than HK\$4 billion after repayment of outstanding bank loans for the Remaining Regal Group's operations and new investment activities. For further details, please refer to the section headed "Financial Effects of the Proposed Spin-off" in the Circular.

- (vi) Based on the audited figures of Regal for the year ended December 31, 2005, the ratio of net debt to total assets of Regal was 63.1%. After applying part of the consideration to be received from the sale of Holding SPV, which indirectly owns the Initial Hotel Properties, under the Proposed Spin-off to repay its outstanding bank loans above, the Remaining Regal Group is expected to become free from bank debt immediately after the Proposed Spin-off.
- (vii) As the Remaining Regal Group intends to retain a holding of a significant interest in Regal REIT, it will continue to benefit from the business prospects and results of Regal REIT.

4. Relationship between Regal REIT and the Group

- (a) *Delineation of business between the Remaining Regal Group and Regal REIT*

As stated in the letter from the Board in the Circular, after the Proposed Spin-off, there will be a clear delineation of businesses between the Remaining Regal Group and Regal REIT. The Remaining Regal Group will focus on the Remaining Businesses and Regal REIT will focus on Regal REIT Business as are more particularly described in Table 3 below:

**Table 3: Business of the Remaining Regal Group
and Regal REIT upon the Proposed Spin-off**

The Remaining Businesses of the Remaining Regal Group	Regal REIT business
(i) Hotel operation and management	(i) Hotel properties ownership, including portfolio management such as asset enhancements and hotel acquisitions and disposals
(ii) Hotel and property development	
(iii) Other investments	
(iv) REIT management services	

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The major assets and operations of each of the Remaining Regal Group and Regal REIT immediately after the Proposed Spin-off are more particularly described in Table 4 below:

**Table 4: Major assets and operations of each of the
Remaining Regal Group and Regal REIT upon the Proposed Spin-off**

Remaining Regal Group	Regal REIT
(i) Operating and managing the Initial Hotel Properties pursuant to the Lease Agreements and the Hotel Management Agreements	(i) Owning and leasing the Initial Hotel Properties
(ii) Apart from the Initial Hotel Properties, managing two Regal hotels in Shanghai	
(iii) Holding a 70% equity interest in a jointly controlled entity which holds 100% interest in Regalia Bay, a luxury residential development project in Stanley, Hong Kong	
(iv) Developing, through a 50%-owned associated company which in turn holds a 59% interest in an investee company, a site in the Central Business District of Beijing (comprising office, residential, hotel, commercial properties and car parking spaces)	
(v) Through the REIT Manager, providing management services to Regal REIT	

Immediately after the transfer of the Initial Hotel Properties to Regal REIT and the Proposed Spin-off,

- (i) the Remaining Regal Group will not own any hotel property in Hong Kong but will continue to be engaged in hotel and property development, hotel operation and management and other investments; and
- (ii) Regal REIT will not invest in vacant land, engage or participate in property development activities not allowed under the REIT Code, or acquire properties which do not fit into its investment strategy.

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(b) *Deed of Non-Competition*

The Company, the REIT Manager and the Trustee as the trustee of Regal REIT will enter into the Deed of Non-Competition, which shall remain in effect for an initial term of 10 years commencing from the Listing Date, and thereafter shall remain in full force until the earlier of the Units ceasing to be listed on the Stock Exchange and the Group ceasing to beneficially own and control 30% or more of the outstanding Units. The key terms of the Deed of Non-Competition include:

- (i) Regal will grant to Regal REIT a right of first opportunity to acquire new hotels in Greater China (i.e. mainland China, Hong Kong, Macau and Taiwan) of which the Remaining Regal Group is aware of.
- (ii) Regal will grant to Regal REIT a right of first refusal to purchase any of the Remaining Regal Group's hotel interests in Greater China that it may intend to dispose of in the future.
- (iii) The Remaining Regal Group will undertake to Regal REIT not to manage, or grant a license to or authorize any other person or company to manage, any hotels under the "Regal" brand in Hong Kong or within a radius of eight kilometers of any Regal REIT hotel property in the rest of Greater China (excluding Hong Kong) for so long as the Remaining Regal Group (or in the event that any other member of the Remaining Regal Group becomes listed on the Stock Exchange and Regal retains not less than 30% equity interest in such listed company, any member of such listed group) is a hotel manager of any Regal REIT hotel under the "Regal" brand name in Greater China.
- (iv) The Remaining Regal Group may manage hotels under other brands in the abovementioned areas if, to the satisfaction of the REIT Manager, there is a segregation of hotel management functions and reservation systems between those hotels in question and Regal REIT's hotel properties, and the Remaining Regal Group has notified the REIT Manager prior to entering into a management agreement in connection with the management of a hotel under such other brands.
- (v) The Remaining Regal Group will be obliged to promote the "Regal" brand and ensure the standard of "Regal" hotels are maintained. Regal REIT will not take any action that may invalidate, prejudice or impair any of the Remaining Regal Group's intellectual property rights in the "Regal" brand, or use the "Regal" name or the "R" logo unless as otherwise permitted under the Hotel Management Agreements or the Deed of Trade Mark License.

Based on our discussion with the management of the Company, upon completion of the Proposed Spin-off, the Remaining Regal Group and Regal REIT would respectively focus on the different businesses as set out in Table 3 above, which are distinct from each other. Furthermore, the Deed of Non-Competition would minimize the potential business conflicts and competition between the Remaining Regal Group and Regal REIT. As such, we are of the view that the delineation in the business of the Remaining Regal Group and Regal REIT is clear.

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(c) *Functional independence between the Remaining Regal Group and Regal REIT*

As stated in the letter from the Board in the Circular, subsequent to the Proposed Spin-off, the underlying assets of Regal REIT will be held by the Trustee, whereas the Hotel Manager will supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties solely under the “Regal” brand name.

(d) *Independence of directorship and the management*

In accordance with the letter from the Board in the Circular, the board of directors of the REIT Manager will comprise seven directors, three of whom are independent non-executive directors. The three Directors who are also directors of the REIT Manager will not constitute a majority of the board of directors of the REIT Manager. Upon the Proposed Spin-off, the Board of the Company and the board of directors of the REIT Manager will have three common directors but no common executive director. These three common directors are all executive directors of the Company, but are all non-executive directors of the REIT Manager. None of the Directors or the directors of the REIT Manager will participate, at the same time, in the day-to-day management of both the Remaining Regal Group and the REIT Manager. Accordingly, despite the said common non-executive directorships, the day-to-day executive management responsibilities of the Remaining Regal Group will remain distinct from those of the REIT Manager. As such, we are of the view that the board of directors and the management of the REIT Manager are independent from the Remaining Regal Group upon the Proposed Spin-off.

Immediately after the Proposed Spin-off, none of the three common directors of the Company and the REIT Manager will hold any interest in the Units of Regal REIT (other than indirectly through the Company as a result of the Company’s holdings in Regal REIT).

In light of the above, we consider that Regal REIT would function independently from the Remaining Regal Group.

5. The Restructuring

(a) *Establishment of Regal REIT*

It is intended that the REIT Manager and the Trustee will enter into the Trust Deed for the purpose of constituting and establishing Regal REIT.

(b) *Internal reorganization*

In preparation for the transfer of Holding SPV to Regal REIT, Regal will reorganize its interests in the Initial Hotel Properties, the major steps of which will include:-

- (i) Asset transfer agreements will be entered into between the respective Lessor and the Lessee for the transfer of various assets including, but not limited to, cash and bank balances, accounts receivable, pre-payments, hotel inventories, and rental deposits received by the respective Lessor.

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- (ii) Assignments of loans will be entered into between the Lessors (as debtors), two finance companies in the Group (as assignors), and Holding SPV and Rich Day Investments Limited, a wholly-owned subsidiary of Holding SPV (as assignees), for the assignment of various existing inter-company loans to Holding SPV and Rich Day Investments Limited (as the case may be).
- (iii) Transfers by the current holding companies of the Holding Companies in relation to the entire issued capital of the Holding Companies to Holding SPV.

Upon completion of the above internal reorganization, Holding SPV will become the sole beneficial shareholder of the Holding Companies, which will, in turn, hold the owning companies of the Initial Hotel Properties and the Promissory Notes would have been issued by Holding SPV to the Vendor.

6. Transfer of Holding SPV to Regal REIT

(a) The Sale and Purchase Agreement

On the Listing Date, the Trustee will acquire the entire issued share capital of Holding SPV and the Promissory Notes, which are non-interest bearing and will become an inter-company loan of Regal REIT on the Listing Date, pursuant to the Sale and Purchase Agreement. After such acquisition, Holding SPV will cease to be a subsidiary of the Company, and Regal REIT will own the Initial Hotel Properties through the wholly-owned subsidiaries of Holding SPV.

The aggregate consideration for the acquisition of the entire issued share capital of Holding SPV and the Promissory Notes, subject to the Adjustment Sum, is expected to be not less than HK\$14 billion. The Company will endeavor to achieve an overall consideration under the Sale and Purchase Agreement of over HK\$14 billion. The purpose of including the Adjustment Sum is to reflect the actual consideration payable to the Vendor based on the Offer Price achieved in the Global Offering.

Completion of the Sale and Purchase Agreement is expected to take place on the Listing Date, and will be subject to the satisfaction of a number of conditions including, but not limited to:

- (i) the Company obtaining Shareholders' approval of the Proposed Spin-off;
- (ii) concurrent signing and delivery of the Lease Agreements, the Hotel Management Agreements, the Lease Guarantees, and an unconditional and irrevocable bank guarantee provided under the Lease Guarantees;
- (iii) the Facility being in place at Completion and being available to be drawn down by the Finance Companies at Completion; and
- (iv) the obligations of the underwriters under the underwriting agreement in relation to the Hong Kong Public Offering becoming unconditional in accordance with their respective terms.

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(b) *Basis of the Consideration of the Proposed Disposal*

As stated in the letter from the Board in the Circular, the aggregate carrying value of the Initial Hotel Properties as at June 30, 2006 and the appraised value of the Initial Hotel Properties as at September 30, 2006 were approximately HK\$4 billion and HK\$16.07 billion respectively. The aggregate consideration, which is expected to be not less than HK\$14 billion, represents a discount of approximately 12.88% to the appraised value of the Initial Hotel Properties given by the Valuation Report. The Company will endeavor to achieve an overall consideration under the Sale and Purchase Agreement of over HK\$14 billion. Accordingly, the price-to-book ratio (“PBR”) at which the Initial Hotel Properties are transferred to Regal REIT will be no less than approximately 0.87 times, subject to the Adjustment Sum based on the Offer Price achieved in the Global Offering.

In order to assess the fairness and reasonableness of the proposed consideration for the Initial Hotel Properties (the “Consideration”), we have considered the following:

(1) Comparable Hotel REITs

For the purpose of our analysis, we have attempted to identify comparable REITs based on the following selection criteria:

- (i) Currently listed on the Stock Exchange or respective stock exchanges of the United States, Singapore and Japan which we consider are of similar market conditions with Hong Kong;
- (ii) Ownership of hotel or hospitality-related properties as their underlying assets;
- (iii) Market capitalization of at least US\$500 million; and
- (iv) Over 90% of their respective total turnover being generated from hotel businesses.

Based on the above selection criteria, we have identified, to our best endeavor, the list of Comparable Hotel REITs that are listed on the Stock Exchange and the stock exchanges of Singapore, Japan and the United States, as specified in Table 5 below.

We have reviewed commonly used valuation parameters, including (i) the premium/(discount) of appraised value to consideration for underlying assets for the Comparable Hotel REITs; and (ii) PBR ratios of Comparable Hotel REITs, given by their corresponding unit closing prices as at the Latest Practicable Date.

However, we note and would like to point out that the Initial Hotel Properties are all located in Hong Kong whereas the underlying assets of the Comparable Hotel REITs are situated in such other geographical locations as Singapore, the United States and Japan. As such, we consider that the Comparable Hotel REITs might not provide appropriate evaluation parameters for the purpose of our analysis. Accordingly, the relevant data of the Comparable Hotel REITs as set out in Table 5 below are intended for illustration and reference purpose only.

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Table 5: The Comparable Hotel REITs

REIT	Valuation of the underlying properties^(Note 1) <i>HK\$ million</i>	Consideration <i>HK\$ million</i>	Premium/ (Discount) to the valuation as at the initial listing date <i>%</i>	PBR as at the Latest Practicable Date <i>Times</i>
Singapore				
CDL Hospitality Trusts ^(Note 2)	4,232	4,232	0.00	1.56
Ascott Residence Trust ^(Note 2)	4,279	3,945 ^(Note 3)	(7.81)	0.99
Simple Average for Singapore			(3.90)	1.28
Maximum for Singapore			0.00	1.56
Minimum for Singapore			(7.81)	0.99
The United States				
Lasalle Hotel Properties	—	—	—	1.67
Sunstone Hotel Investors	—	—	—	1.81
Strategic Hotels & Resorts	—	—	—	1.64
Felcor Lodging Trust Inc	—	—	—	2.51
Diamondrock Hospitality	—	—	—	1.75
Highland Hospitality Corp	—	—	—	1.40
Equity Inns Inc	—	—	—	2.87
Ashford Hospitality Trust	—	—	—	1.42
Hospitality Properties Trust	—	—	—	2.05
Innkeepers USA Trust	—	—	—	1.98
Host Hotels & Resorts Inc	—	—	—	2.53
Simple Average for the United States			—	1.97
Maximum for the United States			—	2.87
Minimum for the United States			—	1.40
Japan				
Japan Hotel And Resort Inc	—	—	—	1.16

Sources: Bloomberg, corresponding offering circulars and registration statements of the Comparable REITs

Notes:

- (1) Based on the date of valuation given by corresponding valuation reports
- (2) SGD1.00 = HK\$5.00 as at Latest Practicable Date
- (3) Based on the aggregate acquisition value of underlying properties and the issue of units at offer price

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As shown in Table 5 above, the premium/(discount) as represented by the considerations for the acquisitions of the underlying assets by the Comparable Hotel REITs listed on the stock exchange of Singapore ranges from zero premium/(discount) to a discount of approximately 7.81%. The PBR of the Comparable Hotel REITs: (i) listed on the stock exchange of Singapore ranges from approximately 0.99 times to approximately 1.56 times with an average of approximately 1.28 times; and (ii) listed on the stock exchange of the United States ranges from approximately 1.40 times to approximately 2.87 times with an average of approximately 1.97 times. The relevant PBR of the Comparable Hotel REIT listed on the stock exchange of Japan is 1.16 times.

As discussed earlier, there are significant differences in the geographical locations of the underlying assets of Regal REIT and that of the Comparable Hotel REITs. As such, we consider that the PBR of the Comparable Hotel REITs might not be an appropriate evaluation parameter for our analysis. Therefore, the above-mentioned PBR analysis is for reference purpose only.

Given the significant differences in the geographical locations of the underlying assets of Regal REIT, we have therefore also analyzed comparable REITs listed in Hong Kong as outlined in section (2) below.

(2) Comparable Hong Kong REITs

In order to provide a more comprehensive and meaningful evaluation of the Consideration, taking into consideration that (i) the Initial Hotel Properties are all located in Hong Kong; (ii) the Initial Hotel Properties generate their entire income in Hong Kong; and (iii) Regal REITs is seeking a listing on the Stock Exchange after the Proposed Spin-off, we have considered the REITs currently listed on the Stock Exchange. For the purpose of our analysis, we have summarized relevant data of all the REITs currently listed in Hong Kong (the “Comparable Hong Kong REITs”) in Table 6 below.

We have selected the (i) premium/discount of appraised value to consideration for underlying assets; and (ii) PBR ratios of the Comparable Hong Kong REITs, given by their corresponding unit closing prices as at the Latest Practicable Date, as our valuation parameters, the details of which are illustrated in Table 6 below.

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Table 6: The Comparable Hong Kong REITs

REIT	Valuation of the underlying properties HK\$ million	Consideration HK\$ million	Premium/ (Discount) to the valuation as at the initial listing date %	PBR as at the Latest Practicable Date Times
The Link ^(Note 1)	33,802	34,185	1.13	1.45
Prosperity	4,538	4,193	(7.60)	0.80
GZI	4,005	4,089	2.10	1.03
Champion ^(Note 2)	22,670	19,300	(14.87)	0.61
Average			(4.81)	0.97
Maximum			2.10	1.45
Minimum			(14.87)	0.61
Regal REIT	16,070	14,000	(12.88)	0.87

Sources: Bloomberg, corresponding offering circulars of the Comparable REITs

Notes:

- (1) Excluding the discount on the Hong Kong public offering
- (2) Estimate based on the final offer price

Premium/(discount) to the appraised value

From Table 6 above, the premium/(discount) as represented by the considerations for the acquisitions of the underlying assets by the Comparable Hong Kong REITs ranges from a premium of approximately 2.10% to a discount of approximately 14.87%. As discussed above, we note that the proposed consideration for the Initial Hotel Properties, which represents a discount of approximately 12.88% (based on the expected minimum purchase price) to the appraised value of approximately HK\$16.07 billion in accordance with the Valuation Report falls within the range of the Comparable Hong Kong REITs.

Although the discount of approximately 12.88% is higher than the average premium/(discount) to the underlying assets by the Comparable Hong Kong REITs (which has an average discount of approximately 4.81%), the Proposed Spin-off will provide a number of benefits to the Group and significantly strengthen its financial position by:

- (i) Generating not less than HK\$14 billion from the Proposed Spin-off;

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- (ii) Realizing a net cash surplus proceed of not less than HK\$4 billion after reducing the Remaining Regal Group's bank debt to zero.

On that basis, we consider that a slightly higher discount is appropriate.

PBR

As shown in Table 6 above, the PBR of the Comparable Hong Kong REITs range from approximately 0.61 times to approximately 1.45 times. As discussed above, we note that the PBR at which the Initial Hotel Properties to be transferred to Regal REIT will be no less than approximately 0.87 times, which falls within the range of the PBR of the Comparable Hong Kong REITs.

In light of the above, in particular:

- (i) the discount of approximately 12.88% falls within the range of the average premium/(discount) of the Comparable Hong Kong REITs;
- (ii) the discount of approximately 12.88% is appropriate in light of the significant financial benefits that will accrue to the Group; and
- (iii) the PBR of approximately 0.87 times falls within the range of PBR of the Comparable Hong Kong REITs,

We consider that the Consideration for the Proposed Spin-off is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. The Lease Agreements and the Lease Guarantees

(a) The Lease Agreements

As stated in the letter from the Board in the Circular, each of the Lessors is expected to enter into a separate Lease Agreement in respect of the Initial Hotel Properties with the Lessee, a wholly-owned subsidiary of Regal, for a term from the Listing Date to December 31, 2015.

For the years from 2006 to 2010, the Lessee will be required to pay an annual aggregate Base Rent of HK\$550 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2006) and HK\$630 million, HK\$700 million, HK\$750 million and HK\$780 million for the second, third, fourth and fifth fiscal years respectively. In addition, during each of the first to fifth fiscal years, the Lessee will be required to pay a Variable Rent for each such year, a sum which represents 100%, 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2006 to 2010, respectively.

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In the event the aggregate of the Variable Rent paid by the Lessee from the Listing Date to December 31, 2010 shall be less than HK\$220 million, the Lessee will be required to pay the shortfall, subject to certain downward adjustment to be specified in the Lease Agreements. There shall however first be deducted from the amount of HK\$220 million the total liquidated damages paid under the Sale and Purchase Agreement for delay in completing the Asset Enhancement Program and the amount payable under the Distributable Income Guarantee Deed (but excluding the amount representing any non-payment of Base Rent during the relevant period), and the amount of guaranteed Variable Rent allocated to the relevant Initial Hotel Property pursuant to the Lease Agreements if any Lease Agreement is terminated prior to December 31, 2010.

For each of the five years from 2011 to 2015, the Lessee shall pay the higher of HK\$400 million and the market level rent to be determined on an annual basis by a jointly appointed independent professional property valuer under the rent review process pursuant to the Lease Agreements.

For Regal Hongkong Hotel, there will be an additional pre-determined monthly rent payable by the Lessee for the use of certain areas for the mechanical, electrical, back-of-house and other minor hotel facilities for the operation of Regal Hongkong Hotel.

The Lessee will also be required from the Listing Date until December 31, 2010 to contribute on a monthly basis 2% of the Total Hotel Revenue towards the FF&E Reserve owned and maintained by Regal REIT. Thereafter, the percentage contribution by the Lessee will be determined as part of the annual rent review.

Based on our discussion with management of the Company, we understand that the annual aggregate Base Rent and the Variable Rent for the years from 2006 to 2010 are determined based on the projected Net Property Income of the Initial Hotel Properties after arm's length negotiation. We also understand from the management of the Company that the NPI of the Initial Hotel Properties during the period of 2006 and 2010 are projected based on the estimated occupancy rates and the estimated average room rates of the Initial Hotel Properties after taking into consideration: (i) the district that each of the Initial Hotel Property locates; (ii) anticipated growth in tourist arrivals; (iii) change in the average room rates of the Initial Hotel Properties; (iv) competition to be faced by each of the Initial Hotel Property; (v) business campaigns; and (vi) additional room revenues to be brought by the new rooms upon completion and delivery of the Asset Enhancement Program. In addition, based on our discussion with the Independent Property Valuer, we understand that the Independent Property Valuer has reviewed the projection of the Net Property Income and has confirmed that the basis in determining the Base Rent and Variable Rent by referencing to NPI projections is in line with common market practice, and that NPI for the period from Listing Date to December 2010 are projected based on fair and reasonable assumptions.

Moreover, we have conducted due diligence work during our review of the NPI projections, in particular, we have held numerous discussions with the management of the Company, Hotel Manager and the REIT Manager on the assumptions and bases regarding the NPI projections for the years from 2006 to 2010 and their detailed strategies and business plans to achieve such projections; and we have also had several telephone conferences with the Independent Property Valuer to assess the reasonableness of the assumptions used in the NPI projections. In conclusion, we are of the view that the basis of the NPI projections is fair and reasonable.

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In light of the above, in particular: (i) the Base Rent and the Variable Rent are determined after arm's length negotiation; (ii) the basis in determining the Base Rent and the Variable Rent by referencing to the NPI projection is in line with common market practice; and (iii) the NPI for the period from Listing Date to December 2010 are projected based on fair and reasonable assumptions, we consider the Base Rent and the Variable Rent contemplated under the Lease Agreements, determined on the basis of the NPI projections, are fair and reasonable.

Based on our discussion with management of the Company, we understand the Directors consider that the term of the Lease Agreements is appropriate and is a commercial decision which is in line with market practice. Due to the fact that there is currently no hotel REITs listed on the Stock Exchange, we have selected a universe of hotel REITs which are listed on the Singapore Stock Exchange and the New York Stock Exchange for comparison purpose. We have identified a total of six hotel REITs with similar leasing arrangements. The durations of the lease agreements of the corresponding hotel REITs are set out in Table 7 below:

Table 7: Durations of the lease agreements of the hotel REITs

The Comparable REITs	Duration of the lease agreement
i) Singapore	
CDL Hospitality Trusts	20 years
ii) The United States	
Sunstone Hotel Investors	5 years
Strategic Hotel & Resort	5 years
DiamondRock Hospitality	5 to 6 years
Highland Hospitality Corp	10 years
Ashford Hospitality Trust	5 years
Regal REIT	From the Listing Date and to December 31, 2015 (approximately 9 years)

Source: Respective offering circulars of the Comparable REITs

As shown in Table 7 above, we note that the durations of the lease agreements of the above hotel REITs range from 5 years to 20 years. As such, we are of the view that the term of the Lease Agreement, which is from the Listing Date and to December 31, 2015 (approximately 9 years), is within the range of the duration of lease agreement given by the corresponding Comparable REITs and is appropriate.

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(b) *The Lease Guarantees*

As stated in the letter from the Board in the Circular, Regal is expected to give guarantees to the Lessor and the Trustee (on behalf of Regal REIT) in respect of the Lessee's payment obligations under the Lease Agreement, and to procure and maintain, from time to time, at its sole cost and expense, an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Unless the Lease Agreements are early terminated, the same shall, at the sole cost and expense of Regal, remain in place and effective until June 30, 2016 upon the same terms and for an amount which is the highest of: (1) the amount which a jointly appointed independent professional property valuer determines to be the market rate of the security deposit; (2) 50% of the annual base rent as determined by such valuer; and (3) 50% of the Floor Rent (i.e., HK\$200 million for the Initial Hotel Properties).

Regal is also expected to undertake to ensure and procure that for so long as any part of the guaranteed liabilities remains outstanding, the Consolidated Tangible Net Worth (as defined in the Circular) of Regal shall not be less than HK\$4 billion.

If the said unconditional and irrevocable bank guarantee is called upon by any Lessor or the Trustee in the event of a payment or other default under the Lease Agreements and/or the Lease Guarantees, Regal will be required to arrange for the guarantee to be topped up or replaced up to the amount of the guarantee within 60 days.

Based on our discussion with management of the Company, we understand that it is not uncommon for the Company to provide guarantees for the payment obligations of its wholly-owned subsidiaries under commercial agreements. We note that the relevant guarantees to be provided by Regal under the Lease Guarantees in favor of the Lessor and the Trustee under the Lease Agreement are in respect of the payment obligations of the Lessee, which is a wholly-owned subsidiary of Regal. We also note that similar leasing of hotel assets exists in the CDL Hospitality Trusts whereby there is a similar lease guarantee arrangement provided by the parent company of lessee under such lease. Furthermore, it has also been taken into consideration: (i) the term of the Lease Agreements for five Initial Hotel Properties would subsist until 2015; (ii) the amount of contractual rental payable by the Lessee to the Lessors; and (iii) the Lessee is a newly established single purpose vehicle. Based on the above, we concur with Director's view on the basis in determining the Lease Guarantees and consider the relevant guarantees to be provided by the Company under the Lease Guarantees are not uncommon.

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(c) *Hotel Management Agreements*

As stated in the letter from the Board in the Circular, Regal REIT (through Holding SPV and the Lessors) is expected to enter into the Hotel Management Agreements with the Lessee, the Hotel Manager and Regal in respect of the Initial Hotel Properties. Pursuant to the Hotel Management Agreements, the Hotel Manager is expected to receive payment by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) of a hotel management fee comprising of:

- (1) a hotel management base fee which is equal to:
 - (i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and
 - (ii) in any other case during the term of the Hotel Management Agreement, an amount equal to 3% of Gross Revenues; and

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

Under each Hotel Management Agreement, the obligation of the Lessee to pay the hotel management fees to the Hotel Manager will be subordinated to the obligation of the Lessee to pay all rent due by it under the relevant Lease Agreement.

The Hotel Manager is also expected to charge a marketing fee of not more than 1% of the Total Hotel Revenue for each fiscal year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved in the operating budget.

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In order to assess whether the hotel management fee payable by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) is reasonable, we have attempted to identify comparable REITs listed in Hong Kong, the United States, Singapore and Japan with underlying hotel assets for the purpose of comparing the hotel management fees of the hotel REITs. However, we note that the percentage of the corresponding hotel management fees of the hotel REITs listed in the United States are not available. Based on the underlying services to be provided under the Hotel Management Agreements, which are similar in nature to the extent that they are all for revenue-generating purposes, we have made our comparison with the Hong Kong listed REITs and the Comparable Hotel REITs, details of which are shown in Table 8 below:

Table 8: Property/Hotel management fee of the Comparable REITs

REIT	Property management fee
Hong Kong	
The Link	Not Applicable
Prosperity	(i) 3.0% p.a. of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10.0% of the total license fee for securing a license for a duration of less than 12 months
GZI	(i) 4.0% p.a. of the rental fee income from three of its property projects (ii) 3.0% p.a. of the rental fee income from one of its property projects
Champion	(i) 3.0% p.a. of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10.0% of total license fee for securing a license for a duration of less than 12 months
Singapore	
CDL Hospitality Trusts	(i) A percentage of revenue and gross operating profit of each hotel (approximately 3.0% of total revenue of hotels for financial year 2005 based on calculation)

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REIT	Property management fee
Ascott Residence Trust	(i) 2.0%-3.0% p.a. of gross property revenue (ii) Incentive management fees — in relation to each Property, 5.0%-10.0% p.a. of gross operating profit
Regal REIT	(i) a hotel management base fee of: (a) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and (b) in any other case during the term of the Hotel Management Agreement, an amount equal to 3% of Gross Revenues; (ii) a hotel management incentive fee of: (a) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over: (1) the hotel management base fee; and (2) the Fixed Charges; and (b) in any other case during the term of the Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over: (1) the hotel management base fee; and (2) the Fixed Charges.

Source: Corresponding offering circulars of the Comparable REITs

As illustrated in Table 8 above, we note that the hotel management fee of Regal REIT is variable depending on the subsistence of the Lease Agreement for the Initial Hotel Properties. Based on our discussion with management of the Company, we understand that a lower amount of hotel management fee and hotel management incentive fee will be charged by the Hotel Manager to the Lessee (both are wholly-owned subsidiaries of Regal) while a higher amount of hotel management fee and hotel management incentive fee in any other case during the term of the Hotel Management Agreement will be charged. We are of the view that the hotel management services to be provided by the Hotel Manager to the Lessee, during the subsistence of the Lease Agreements, is in the nature of intra-group transactions, and there will not be any impact on the revenue and profit of the Remaining Regal Group as a whole. The proposed remuneration to the Hotel Manager, in any other case during the term of the Hotel Management Agreement, is in line with market level and the Hotel Manager would not be under-remunerated.

In light of the above, we are of the view that the hotel management fee payable by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) to the Hotel Manager is fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(d) *Relationship between the Lease Agreements, Lease Guarantee and Hotel Management Agreements*

We note that pursuant to the Sale and Purchase Agreement, the Completion is conditional upon, inter alia, the concurrent signing and delivery of the Lease Agreements, the Hotel Management

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Agreements, the Lease Guarantees and an unconditional and irrevocable guarantee issued by a bank pursuant to the terms of the Lease Guarantees. This fact may seem to suggest that the Lease Agreements, Lease Guarantee and Hotel Management Agreements are co-dependent to each other.

Regarding the Lease Agreements and the Lease Guarantees, we are of the view that they are co-dependent on each other because the Lease Guarantees only serve to provide certain guarantees to the Lessor and the Trustee in respect of the Lessee's payment obligations under the Lease Agreements.

In respect of the Hotel Management Agreements and the Lease Agreements, we are of the view that they could be regarded as independent from each other because, besides the difference in nature between services contracts and property lease agreements, the operations to be carried out pursuant to these two agreements represent two different, though complimentary, lines of businesses, i.e. the Lessee will take up the Lease Agreements for hotel operations and Remaining Regal Group will undertake the hotel management. In addition, we observe that the term of the Lease Agreements which expires on December 31, 2015 is shorter in duration than the term of the Hotel Management Agreements which is 20 years, hence the Hotel Management Agreement may continue to be effective after the expiration of the Lease Agreements and will not affect the effectiveness of the hotel Management Agreements, nor the obligations of the Hotel Manager to carry out its objective and management duties contemplated under the Hotel Management Agreements.

Moreover, pursuant to the terms and conditions of the Hotel Management Agreements, the hotel management base fee payable to the Hotel Manager set forth under the Hotel Management Agreements will be increased from 1% to 3% of Gross Revenues in the event that the Lease Agreements are no longer in subsistence. As such, we consider that the expiration of Lease Agreements will not adversely affect the earnings of the Hotel Manager under the Hotel Management Agreements.

8. The Subscription Agreement

The Company and its wholly-owned subsidiaries, Complete Success Investments Limited and Great Prestige Investments Limited, will enter into the Subscription Agreement with the REIT Manager to subscribe for Units (including a certain number of AEP Units) at the Offer Price. The consideration for the Units to be subscribed by Regal will be firstly satisfied by the issuance of a promissory note by the Vendor to Regal REIT, and such promissory note will then be applied by Regal REIT to satisfy part of the consideration payable by the Trustee to the Vendor for the acquisition of Holding SPV.

9. Terms of Regal REIT

(a) Management Fee payable by Regal REIT to the REIT Manager

As stated in the letter from the Board in the Circular, the REIT Manager will be remunerated by way of:

- (1) a base fee, which is intended to be 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of all the gross assets of Regal REIT, including the Initial Hotel Properties, held in its portfolio, payable monthly in arrears;

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- (2) a variable fee, which is intended to be 3% per annum, subject to a maximum cap of 5% per annum, of the Rental Income, in respect of the real estate assets of Regal REIT, payable annually;
- (3) an acquisition fee, which is intended to be 1% of the purchase price of property acquired by Regal REIT; and
- (4) a divestment fee, which is intended to be 0.5% of the sale price of property divested by Regal REIT.

The REIT Manager's fee will be in the form of cash and/or Units pursuant to the terms of the Trust Deed.

In order to assess whether the Management Fee payable by Regal REIT to the REIT Manager, a wholly-owned subsidiary of the Company, is reasonable, we have compared it with the management fee of the Hong Kong listed REITs and the Comparable REITs on the aforementioned basis for the hotel management fee, details of which are shown in Table 9 below:

Table 9: Management fee of Regal REIT and the Comparable REITs

REIT	Base fee	Performance/ variable fee	Acquisition fee	Divestment fee
Hong Kong				
The Link	N/A	An amount equal to the costs and expenses reasonably incurred by the manager in managing The Link Reit, subject to a minimum of HK\$15m per month	N/A	N/A
Prosperity	0.4% p.a. of the value of the deposited property (maximum 0.4% per annum of the deposited property)	3.0% p.a. of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
GZI	0.3% p.a. of the value of the deposited property	3.0% p.a. of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Champion	N/A	12.0% p.a. of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested

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REIT	Base fee	Performance/ variable fee	Acquisition fee	Divestment fee
Singapore				
CDL Hospitality Trusts	0.25% p.a. of the value of the deposited property	5.0% p.a. of the net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Ascott Residence Trust	0.3% p.a. of the property value	4.0% p.a. of gross profit	1.0% of the acquisition price of property acquired, 0.5% for if payment is made to third party agents or brokers	0.5% of the sale price of property divested
Regal REIT	0.3% p.a. (subject to a maximum cap of 0.5% p.a.) of the value of the gross assets of Regal REIT	3.0% p.a. (subject to a maximum cap of 5% p.a.) of the Rental Income	1.0% of the purchase price of property acquired by Regal REIT	0.5% of the sale price of property divested by Regal REIT

Sources: Corresponding offering circulars of the Comparable REITs

As illustrated in Table 9 above, the REIT Manager's remuneration, in terms of the base fee, the performance/variable fee, the acquisition fee and the divestment fee are all within the range of the fees charged by the corresponding REIT managers of the above comparable REITs. We consider that the proposed remuneration to the REIT Manager is in line with market level and the REIT Manager would not be under-remunerated.

In light of the above, we are of the view that the management fee payable to the REIT Manager is fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

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(b) *Trustee's Fees payable by Regal REIT to the Trustee*

In order to assess whether the Trustee's fees payable by Regal REIT to the Trustee are fair and reasonable, we have compared it with the trustee's fees of the Hong Kong listed REITs and the Comparable REITs on the aforementioned basis for the hotel management fee and REIT management fee, details of which are shown in Table 10 below:

Table 10: Trustee's fee of Regal REIT and the Comparable REITs

REIT	Trustee's fee
Hong Kong	
The Link	(i) One-time inception fee of HK\$700,000 (ii) annual fee at a rate of 0.008% p.a. of the value of the deposited property, subject to a minimum amount of HK\$150,000 per month
Prosperity	(i) a one-off inception fee of no more than HK\$200,000 (ii) 0.03% to 0.05% p.a. of the value of the deposited property, subject to a minimum amount of HK\$50,000 per month
GZI	(i) a one-off inception fee of no more than HK\$200,000 (ii) an ongoing fee of 0.03% p.a. of the value of the deposited property, subject to a minimum amount of HK\$50,000 per month
Champion	(i) one-time inception fee of no more than HK\$200,000 (ii) Currently not more than 0.03% per annum of the value of the deposited property, subject to a minimum of HK\$200,000 per month (maximum 0.06% per annum of the value of the deposited property)

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REIT	Trustee's fee
Singapore	
CDL Hospitality	(i) a one-time inception fee of S\$15,000 (ii) 0.02% p.a. of the value of the deposited property. A maximum of 0.1% p.a. of the value of the deposited property, subject to a minimum of S\$10,000 per month, excluding out-of-pocket expenses and goods and services tax ("GST")
Ascott Residence	(i) a one-time inception fee of S\$15,000 (ii) up to 0.021% p.a. of the property values, subject to a minimum fee of S\$10,000 per month and a maximum fee of 0.1% p.a. of the property values, excluding out-of-pocket expenses and GST
Regal REIT	(i) one-time inception fee of HK\$200,000 (ii) 0.0165% p.a. of the value of the Deposited Property, subject to a minimum of HK\$66,000 per month and a maximum cap of 0.06% p.a. of the value of the Deposited Property

Sources: Corresponding offering circulars of the Comparable REITs

As illustrated in Table 10 above, we note that the remuneration payable to the Trustee is within the range of the fees paid to the trustees by the above comparable REITs. We consider the Trustee's fees payable by Regal REIT are in line with market level.

(c) *Lock-up arrangement*

As stated in the letter from the Board in the Circular, in addition to the arrangements provided under the Distribution Deed as mentioned in paragraph 8 headed "Distribution Deed" in the Circular, it is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions.

We note that the lock-up period of six months is no more than what must be abided by controlling shareholders of all new listing applicants on the Stock Exchange. Furthermore, if there is no lock-up arrangement, the prospective investors of Regal REIT may be concerned about the selling pressure from the Group immediately after the completion of the Global Offering, which could suppress the net proceeds from the Global Offering or even jeopardize it.

In light of the above, we are of the view that the lock-up arrangement to be entered into between the Group and the underwriters of the Global Offering is in compliance with the Listing Rules and is also a common arrangement between underwriters and listed issuers in the case of an initial public offering, which is appropriate.

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

(d) *Deed of Trade Mark License*

Regal International Limited, a wholly-owned subsidiary of Regal, is expected to enter into a Deed of Trade Mark License with the REIT Manager, the REIT Group Companies and the Lessors (collectively “**the Licensees**”), whereby Regal International Limited will grant, free of royalty to each of the licensees a non-exclusive and non-transferable right and license to use its trade marks or service marks registered as at the date of Deed of Trade Mark License, for the purpose of describing the ownership of any Initial Hotel Property and/or use in connection with the business of each Initial Hotel Property.

Regal International Limited will not object to the use by the REIT Manager or any Lessor in any jurisdiction of (a) such trade marks or service marks for the purpose of describing the ownership of any Initial Hotel Property and/or in connection with the business of each Initial Hotel Property; (b) such trade marks or service marks as part of its corporate, business and domain names(s); and (c) any intellectual property right that Regal International Limited may have in relation to any other marks, logos or styles used in connection with the Initial Hotel Properties.

Each license is expected to commence on the Listing Date and is expected to continue in full force until termination of, in respect of the license granted to each Lessor, the relevant Hotel Management Agreement and, in respect of the license granted to the REIT Manager and the REIT Group Companies all the Hotel Management Agreements. Notwithstanding the earlier termination of the license granted to the REIT Manager and the REIT Group Companies, Regal International Limited shall not object to: (a) the REIT Manager’s use of the trade marks or service marks as part of the corporate, business or domain name(s) of Regal REIT; and (b) or use by any of the REIT Group Companies of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager determine to change such name(s).

Regal International Limited shall indemnify each Licensee in full for any claim, demand, liability, loss and damage suffered due to a claim by any third party that its use of the marks under license infringes such third party’s rights. Each Licensee shall indemnify Regal International Limited in full for any claim, demand, liability, loss and damage suffered to a breach by any terms of the Deed of Trade Mark License.

Based on our discussion with management of the Company, we understand that the entering into of the Deed of Trade Mark License is consistent with the Hotel Management Agreements, where the Hotel Manager will be responsible for the management of the Initial Hotel Properties. Upon the Deed of Trade Mark License becoming effective, the use of trade marks or service marks of the Company by the REIT Manager or any Lessor is clearly stipulated and the Company’s trade marks or service marks will be duly protected. We consider the entering into of the Deed of Trade Mark License is appropriate.

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

10. Financial impacts of the Proposed Spin-off and Separate Listing of Regal REIT

(a) *Effect on net asset value (the “NAV”)*

Based on our discussion with management of the Company, we understand that the aggregate carrying value of the Initial Hotel Properties as at June 30, 2006 was approximately HK\$4 billion, which was stated based on historical costs net of accumulated depreciation. Pursuant to the Sale and Purchase Agreement, the aggregate consideration for the acquisition of Holding SPV and the assignment of the Promissory Notes is expected to be not less than HK\$14 billion. Table 11 below shows the effects of the Proposed Spin-off on the NAV and the NAV per Share of the Remaining Regal Group based on the unaudited consolidated pro forma balance sheet as at June 30, 2006 set out in Appendix III of the Circular:

Table 11: Effects on the NAV and the NAV per Share of the Remaining Regal Group

	As at June 30, 2006		
	Before the Proposed Spin-off	Unaudited consolidated pro forma balance sheet assuming the Proposed Spin-off took place on June 30, 2006	Percentage change
Consolidated NAV of the Group (HK\$ million)	2,061.4 ^(Note 1) 12,599.6 ^(Note 3)	6,700.9 ^(Note 2) 11,394.2 ^(Note 4)	225.1% (9.6%)
Total number of issued Shares as at the Latest Practicable Date	8,452,900,000	8,452,900,000	
NAV/Share (HK\$)	0.244 ^(Note 1) 1.491 ^(Note 3)	0.793 ^(Note 2) 1.348 ^(Note 4)	225.0% (9.6%)

Sources: Interim report and accounts of the Company, unaudited consolidated pro forma balance sheet of the Remaining Regal Group

Notes:

- (1) Based on aggregate carrying value of the Initial Hotel Properties
- (2) Based on unaudited consolidated pro forma balance sheet as set out in Appendix III of the Circular
- (3) Based on book value of the Initial Hotel Properties after adjustments on valuation surplus by reference to their market values as at December 31, 2005
- (4) Based on unaudited consolidated pro forma balance sheet as set out in Appendix III of the Circular and assuming the Units held by the Remaining Regal Group at their attributable NAV subsequent to the Proposed Spin-off

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

As shown in Table 11 above, based on the unaudited consolidated pro forma balance sheet of the Remaining Regal Group as set out in Appendix III of the Circular, the NAV of the Remaining Regal Group would increase from approximately HK\$2,061.4 million to approximately HK\$6,700.9 million as at June 30, 2006, which represents an increase of approximately 225.1%. Such increase is attributable to the expected gain from the disposal of the Initial Hotel Properties of approximately HK\$4,648.7 million (after deduction of expenses in connection with the Proposed Spin-off assuming at HK\$27.8 million) netting-off the write-off of loan cost amounting to approximately HK\$27.2 million.

Taking into account of the valuation surplus of the Initial Hotel Properties, the NAV of the Group as at June 30, 2006 would decrease from approximately HK\$12.6 billion to approximately HK\$11.4 billion based on the unaudited consolidated pro forma balance sheet, which represents a slight decrease of approximately 9.6%.

Notwithstanding the slight decrease of approximately 9.6% in the consolidated NAV of the Group (after taking into account of the valuation surplus of the Initial Hotel Properties), given the significant increase of approximately 225.1% in the aggregate carrying value of consolidated NAV of the Group, we are of the view that completion of the Proposed Spin-off will have a positive effect on the NAV of the Group.

(b) *Effect on earnings*

The effects of the Proposed Spin-off on the earnings of the Remaining Regal Group based on the unaudited consolidated pro forma income statement as set out in Appendix III of the Circular are summarised in Table 12 below:

Table 12: Effects on the earnings of the Remaining Regal Group

	For the six months ended June 30, 2006		
	Unaudited consolidated pro forma income statement assuming the Proposed Spin-off took place on January 1, 2006		
	Before the Proposed Spin-off	Proposed Spin-off took place on January 1, 2006	Percentage Change
Revenue (<i>HK\$ million</i>)	608.29	638.62	5.0%
Cost of sales	(319.97)	(672.12)	110.0%
Profit attributable to the Shareholders (<i>HK\$ million</i>)	310.81	4,974.72	1,500.6%
Total number of issued Shares as at the Latest Practicable Date	8,452,900,000	8,452,900,000	
Basic EPS attributable to the Shareholders (<i>HK cents</i>)	3.68	58.85	1,499.2%

Sources: Annual report and accounts of the Company, pro forma income statement of the Remaining Regal Group

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

As shown in Table 12 above, based on the unaudited consolidated pro forma income statement of the Remaining Regal Group as set out in Appendix III of the Circular, the gross profit of the Remaining Regal Group will decrease assuming the Proposed Spin-off was completed at the beginning of the financial year. Based on our discussion with auditors of the Company, we understand that the negative gross profit of Remaining Regal Group is attributable to the escalating structure of the Base Rent from 2006 to 2010. In accordance with Hong Kong Accounting Standard 17 regarding lease of property, the cost of sales of the Remaining Regal is a simple average of the actual cash Base Rent receivables by Regal REIT from 2006 to 2010 in the preparation of the pro forma income statement. As such, the cost of sales for the year 2006 and 2007 would be greater than the actual cost of sales due to the escalating structure of the Base Rent.

Based on the unaudited consolidated pro forma income statement of the Remaining Regal Group as set out in Appendix III of the Circular, the profit attributable to the Shareholders of the Remaining Regal Group would increase from approximately HK\$310.81 million to approximately HK\$4,974.72 million for the six months ended June 30, 2006 assuming the Proposed Spin-off was completed at the beginning of the financial year, representing an increase of approximately 1,500.6% as compared to the unaudited consolidated accounts of the Group for the six months ended June 30, 2006.

Such increase is mainly due to a gain on the disposal of the Initial Hotel Properties of approximately HK\$4,648.7 million (after deduction of expenses in connection with the Proposed Spin-off assuming at HK\$27.8 million), which is a one-off item. Furthermore, as stated in the letter from the Board in the Circular, it is the present intention of the Directors to use part of the anticipated net cash proceeds to be received by the Company from the Proposed Spin-off for repaying its outstanding bank loans hence reducing interest expenses of the Group, the deposit of the excess amount of cash proceeds would also contribute interests income to the Remaining Regal Group. In addition, the Remaining Regal Group will receive the management fee payable by Regal REIT to the REIT Manager and share of profit from Regal REIT. On the other hand, the Remaining Regal Group will also receive the hotel management fee payable by Regal REIT to the Hotel Manager.

In accordance with the letter from the Board in the Circular, the REIT Manager's current policy is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year (at least 90% of Regal REIT's Total Distributable Income pursuant to the Trust Deed). As such, the Remaining Regal Group will receive dividend distributions from its holding of the Units subsequent to the Proposed Spin-off. However, the future dividend distributions cannot be determined at this stage.

On the other hand, pursuant to the Lease Agreements, the Group will be required to pay the Base Rent and the Variable Rent for leasing the Initial Hotel Properties from Regal REIT, which is an additional rental expense to the Remaining Regal Group. Furthermore, we note that the Variable Rent of 100% of the NPI Excess for the years 2006 and 2007, which will increase the cost of sales of the Remaining Regal Group, may possibly have a negative impact on the earnings of the Remaining Regal Group.

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We understand that the negative gross profit of the Remaining Regal Group was a result of the Proposed Spin-off. Moreover, as the bottom line of the Remaining Regal Group is expected to enjoy growth after the Proposed Spin-off, we, on balance, consider that there is no material negative impact to the Remaining Regal Group due to the Proposed Spin-off.

In consideration of the above, we are of the view that, apart from the one-off gain on the disposal of the Initial Hotel Properties, the Proposed Spin-off will have a balanced effect on the earnings of the Remaining Regal Group while the gain on the disposal of the Initial Hotel Properties will have a positive effect on the earnings of the Group, which is non-recurrent. As such, the Proposed Spin-off will have an overall positive effect on the earnings of the Remaining Regal Group.

(c) *Effect on gearing*

The gearing ratio of the Group (being the net debt divided by its total assets) was approximately 67.1% as at June 30, 2006. Based on the unaudited consolidated pro forma balance sheet of the Remaining Regal Group, after applying part of the net cash proceeds from the Proposed Spin-off for the repayment of bank loans in full, the gearing ratio of the Group is expected to become zero and it would become free of bank debt.

We consider that the improvement in the gearing ratio of the Remaining Regal Group is favourable and in the interest of the Company and the Shareholders as a whole.

(d) *Effect on working capital*

Subsequent to the Proposed Spin-off, the current liabilities would decrease as a result of the repayment of the bank loan and there will be surplus of the net cash proceeds to be received by the Company. Based on the unaudited consolidated pro forma balance sheet as set out in Appendix III of the Circular, the Group will receive a gross cash proceeds of approximately HK\$14 billion from the Proposed Spin-off. The net cash proceeds to be received by the Company from the Proposed Spin-off are expected to be approximately HK\$4,678.5 million after deducting: (i) repayment of bank loan of approximately HK\$4,468.7 million; (ii) total subscription price of HK\$4,825 million for the Units; and (iii) estimated expenses in relation to the Proposed Spin-off. As a result, the cash and bank balances of the Remaining Regal Group will increase from approximately HK\$25.1 million to approximately HK\$4,703.5 million based on the unaudited consolidated pro forma balance sheet as set out in Appendix III of the Circular. Based on our discussion with management of the Company, the net cash proceeds to be received by the Company from the Proposed Spin-off will be used as the working capital of the Group. As such, the working capital of the Remaining Regal Group will improve after the Proposed Spin-off.

In view of:

- (i) the positive effect on the NAV of the Remaining Regal Group;
- (ii) the overall positive effect on the earnings of the Remaining Regal Group;

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

(iii) the improvement in the gearing ratio of the Remaining Regal Group and becoming free of bank debt; and

(iv) the improvement in the working capital of the Group,

we are of the view that the Proposed Spin-off would have an overall positive financial effect to the Group and the Proposed Spin-off is in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, have taken into account the following factors in arriving at our opinion:

- (i) the benefits to be brought by the Proposed Spin-off to the Group;
- (ii) the clear delineation between the business retained by the Remaining Regal Group and the business of Regal REIT;
- (iii) the Consideration is fair and reasonable;
- (iv) the Base Rent and the Variable Rent contemplated under the Lease Agreements are appropriate, based on the projections made by the Independent Property Valuer, are fair and reasonable;
- (v) the relevant guarantees to be provided by the Company under the Lease Guarantees are not uncommon;
- (vi) the REIT Manager's Fees payable by Regal REIT are fair and reasonable;
- (vii) the hotel management fee receivable by the Hotel Manager under the Hotel Management Agreements is fair and reasonable;
- (viii) the Trustee's fees payable by Regal REIT are in line with market level;
- (ix) the terms of Regal REIT are fair and reasonable; and
- (x) the overall positive financial effect to the Group.

REVISED LETTER OF ADVICE FROM PLATINUM SECURITIES

Having considered the above, we are of the view that the terms of the Proposed Spin-off are fair and reasonable in so far as the Company and the Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Shareholders to vote in favor of the resolution to be proposed at the Postponed SGM. We also recommend the Shareholders to vote in favor of the resolution in approving the Proposed Spin-off at the Postponed SGM.

Yours faithfully,
For and on behalf of

Platinum Securities Company Limited

Liu Chee Ming
Managing Director

Ross Cheung
Director

NOTICE OF POSTPONEMENT OF SGM



(Stock Code: 78)

NOTICE IS HEREBY GIVEN THAT the board of directors (the “**Board**”) of Regal Hotels International Holdings Limited (the “**Company**”) has resolved that the special general meeting of the Company originally scheduled to be held on Saturday, December 9, 2006 at 11:00 a.m. (the “**SGM**”) be postponed to be held on Monday, December 18, 2006 at 11:00 a.m. to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT** subject to and conditional upon (among other things) (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting approval for the listing of, and permission to deal in, all the units (“**Units**”) of Regal Real Estate Investment Trust (“**Regal REIT**”) (including Units to be issued pursuant to the Proposed Spin-off (as defined below)); (ii) the receipt of the authorization of Regal REIT by the Securities and Futures Commission of Hong Kong pursuant to Section 104 of the Securities and Futures Ordinance; (iii) the conditions precedent to draw down of the term loan facility by Regal REIT being fulfilled or waived; (iv) the obligations of the underwriters under the underwriting agreements to be entered into in respect of the Global Offering (as defined below) becoming and remaining unconditional and not being terminated in accordance with the terms of such agreements or otherwise; (v) the offer price of the Units being duly determined; (vi) the underwriters of the Global Offering being satisfied with respect to completion of the subscription obligations under the subscription agreement in respect of the Global Offering; and (vii) the sale and purchase agreement in respect of the Proposed Spin-off becoming and remaining unconditional in accordance with its terms, and in each case, unless and to the extent any relevant condition is validly waived:

- (a) the Proposed Spin-off and all relevant documents or agreements in connection therewith or contemplated thereunder, be and is hereby approved and any two directors of the Company be and are hereby authorized on behalf of the Company to approve and implement the Proposed Spin-off and all incidental matters and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think fit; and
- (b) any two directors of the Company be and are hereby authorized (i) to sign and/or execute any document for and on behalf of the Company in connection with or pursuant to the Proposed Spin-off; (ii) to affix the common seal of the Company to any document in connection with or pursuant to the Proposed Spin-off (if necessary); and (iii) to exercise all such powers and do all such acts as they, in their absolute discretion, consider necessary, desirable or expedient to give effect to or in connection with the Proposed Spin-off.

NOTICE OF POSTPONEMENT OF SGM

For the purpose of this Resolution,

“**Global Offering**” means the proposed offering of Units to the public in Hong Kong and the proposed offering of Units to certain institutional, professional and other investors (including the preferential offering to certain qualifying holders of the Shares (as defined below) as detailed in the Circular (as defined below) for subscription of reserved Units, amount of which to be determined by the directors of the Company), the principal terms and conditions of which are set out or referred to in the circular to holders of the ordinary shares of the Company (the “**Shares**”) dated November 23, 2006 (a copy of which has been produced to this meeting marked “A” and initialled by the Chairman of this meeting for identification purpose), as supplemented by the supplemental circular to holders of the Shares dated even date of this notice (a copy of which has been produced to this meeting marked “B” and initialled by the Chairman of this meeting for identification purpose) (collectively, the “**Circular**”);

“**Proposed Spin-off**” means the proposed spin-off of Regal REIT comprising the Global Offering and the Separate Listing, the principal terms and conditions of which are set out or referred to in the Circular; and

“**Separate Listing**” means the proposed separate listing of the Units on the Main Board of the Stock Exchange, the principal terms and conditions of which are set out or referred to in the Circular.”

By order of the Board
Regal Hotels International Holdings Limited
Eliza Lam Sau Fun
Company Secretary

Hong Kong, December 2, 2006

Head office and principal place of business:
11th Floor, 68 Yee Wo Street
Causeway Bay
Hong Kong

Registered Office:
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Notes:

1. Relevant information on the above resolution was set out in the announcements of the Company dated November 23, 2006 and the date of this notice, and the Circular.
2. The register of members of the Company will be closed from Friday, December 15, 2006 to Monday, December 18, 2006 (both dates inclusive). In order to determine the entitlement to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on December 14, 2006.

NOTICE OF POSTPONEMENT OF SGM

3. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
4. Where there are joint registered holders of any Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such Share, be entitled alone to vote in respect thereof.
5. A form of proxy for use at the meeting is enclosed with the supplemental circular to the shareholders of the Company dated the even date of this notice.
6. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th 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 thereof.
7. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. If such member attends the meeting, however, his form of proxy will be deemed to have been revoked.
8. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.



(Stock Code: 78)

**FORM OF PROXY FOR THE POSTPONED SPECIAL GENERAL MEETING
 TO BE HELD ON DECEMBER 18, 2006**

¹ No. of Shares ⁵ to which this Proxy relates	
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I/We ²
 of
 being the Shareholder(s)⁵ of **REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED** (the “Company”) hereby appoint ³ the Chairman of the Meeting or
 of
 as my/our proxy to attend, act and vote for me/us and on my/our behalf at the postponed Special General Meeting of the Company to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, December 18, 2006 at 11:00 a.m. (the “Meeting”) and at any adjournment thereof on the ordinary resolution referred to in the Notice of Postponement of the Special General Meeting as indicated below:

ORDINARY RESOLUTION	For ⁴	Against ⁴
To approve and authorise the Proposed Spin-off ⁵ and any matter related thereto.		

Dated this day of 2006. Signature ⁶

NOTES:

1. Please insert the number of Shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares in the capital of the Company registered in your name(s).
2. Please insert full name(s) and address(es) in **BLOCK CAPITALS**.
3. If any proxy other than the Chairman of the Meeting is preferred, strike out the relevant reference 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 need not be a member of the Company. Where a member appoints more than one proxy to represent him, the form of proxy must clearly indicate the number of Shares in respect of which each proxy is so appointed. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE DULY INITIALED.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR OR AGAINST THE RESOLUTIONS, PLEASE PLACE AN “X” IN THE APPROPRIATE BOX.** If you do not indicate how you wish your proxy to vote, your proxy will exercise his discretion whether to vote for or against the ordinary resolution or to abstain from voting. Your proxy will be entitled to vote at his discretion on any resolution properly put to the Meeting other than that referred to in the Notice of Postponement of the Special General Meeting.
5. These terms are defined in the circular to holders of the Shares dated November 23, 2006 (as supplemented by the supplemental circular to holders of the Shares dated December 2, 2006).
6. This form of proxy must be signed under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.
7. If two or more persons are jointly entitled to a Share and are present at the Meeting, only the joint holder whose name stands first in the Register of Shareholders in respect of the joint holding is entitled to vote at the Meeting.
8. To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the Meeting or adjourned meeting thereof.