

General

The Lessee has entered into a separate Hotel Management Agreement with, inter alia, the Hotel Manager in respect of the management of the business of each Initial Hotel Property. The Hotel Manager will be engaged to act as the exclusive operator and manager of each Initial Hotel Property to supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties. The Lessor of the relevant Initial Hotel Property is also a party to the Hotel Management Agreements since the term of each Hotel Management Agreement is for a period longer than the term of the relevant Lease Agreement. In addition, Holding SPV is a party to each Hotel Management Agreement for the purpose of covenanting in respect of the maintenance of the FF&E Reserve covering all the Initial Hotel Properties. Regal is also a party to each Hotel Management Agreement.

During the term of the Lease Agreement for each Initial Hotel Property, the Lessee will assume the obligations of the “Owner” under the Hotel Management Agreement. For the purpose of this section, the “Owner” shall, during the term of the Lease Agreements, mean the Lessee and thereafter the applicable Lessor.

Upon the expiration or earlier termination of a Lease Agreement, the Hotel Manager continues with its obligations under the relevant Hotel Management Agreement and the Lessor becomes the “Owner” unless a substitute lessee is found.

Operating Term

The term of the appointment of the Hotel Manager is 20 years from the Listing Date.

Operation of the Initial Hotel Properties

The Hotel Manager is required under each Hotel Management Agreement to operate each Initial Hotel Property 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 Initial Hotel Property, to provide all services lawfully or properly provided by a hotel of comparable standard as each Initial Hotel Property and to act in the best interests of the Owner with a view to optimizing profit of the Initial Hotel Property.

All hotel employees are to be employees of the Hotel Manager, and it has sole discretion and authority in the selection and employment of all hotel employees necessary for the proper operation of each Initial Hotel Property. However, the Hotel Manager shall obtain the Owner’s approval (which shall not be unreasonably withheld) prior to selecting and employing the general manager and the financial controller of each Initial Hotel Property. All costs and expenses shall form part of the Hotel Operating Expenses.

The Hotel Manager is also required to maintain all licenses (other than the hotel licence and some other licences mentioned in “Material Agreements — Hotel Management Agreements — Lessor’s Obligation to maintain hotel licence and other licences” below) in respect of the operation and management of each Initial Hotel Property.

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The Hotel Manager is required to submit to the Owner an annual operating budget for the Owner's approval. If any part of the operating budget cannot be agreed by the Owner and the Hotel Manager, the items in dispute shall be referred to an independent expert for resolution and such resolution shall be final and binding upon the Owner and the Hotel Manager. The Hotel Manager shall operate the Initial Hotel Properties in accordance with the approved operating budget and shall not deviate materially from the approved operating budget without the Owner's prior written consent.

Hotel Management Fee

The Hotel Manager is entitled to payment by the Owner of a hotel management fee comprising of:

- (a) 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 cases during the term of the Hotel Management Agreement, an amount equal to 2% of Gross Revenues; and
- (b) 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 cases 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.

For so long as the Lease Agreement is in subsistence, the hotel management fee is to be paid annually in arrears from the Owner's own funds and is subordinated to all rent due under the relevant Lease Agreement. After the expiration or earlier termination of the relevant Lease Agreement, the hotel management fee is to be paid monthly in arrears.

Marketing Fee and Reimbursable Marketing Expenses

The Hotel Manager is entitled to charge a marketing fee at no more than 1% of the Total Hotel Revenue for the current fiscal year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved by the Owner in the operating budget. The Hotel Manager is also entitled to produce promotions and participate in trade shows and other sales activities for all hotels operated under the "Regal" brand name and all such costs (which are budgeted for and approved) shall be reimbursed to the Hotel Manager.

Routine Repairs and Maintenance

Routine repairs and maintenance are to be carried out by the Hotel Manager in accordance with an annual repairs and maintenance estimate to be approved by the Owner. The structural maintenance and repair of each Initial Hotel Property shall be the responsibility of the Hotel Manager and the costs shall form part of the Hotel Operating Expenses for that Initial Hotel Property.

Furniture, Fixtures and Equipment Reserve

The Lessor is required to procure that Holding SPV maintains the FF&E Reserve which is the equivalent to 2% of the Total Hotel Revenue for each fiscal year. The Lessee is required from the Listing Date until December 31, 2010 to fund the FF&E Reserve maintained by Holding SPV. Thereafter, the contribution to FF&E Reserve will be determined as part of the annual rent review between the Lessee and the relevant Lessor. The Hotel Manager may, in accordance with an FF&E budget approved by the Lessor and (during the term of the Lease Agreement) the Lessee, withdraw money from the FF&E Reserve to pay for additions to, and replacement of the FF&E. The FF&E Reserve held by Holding SPV for all of the Initial Hotel Properties will be pooled. The final decision as to whether or not to approve the FF&E budget shall be made by the Lessor. However, in the event that the aggregate budgets proposed and approved in respect of all of the Initial Hotel Properties exceed the aggregate balance in the FF&E Reserve, the final decision shall be made by Holding SPV. In both cases, failure of the Lessor or the Lessee or Holding SPV (as the case may be) to disapprove shall be deemed to constitute its approval. Any amount standing to the credit of the FF&E Reserve for any fiscal year and unused at any of the Initial Hotel Properties during the same fiscal year may, at the discretion of Holding SPV, be applied towards payment of additions to and replacement of the FF&E of any of one or more of the other Initial Hotel Properties in accordance with their approved FF&E budgets. Any amount remaining in the FF&E Reserve at the close of each fiscal year shall be carried forward and be retained in the FF&E Reserve for the subsequent fiscal year(s), but shall not be taken into account when calculating the contribution to the FF&E Reserve for the subsequent fiscal year(s).

Capital Additions

The Hotel Manager is required to submit a budget in respect of planned capital expenditure for the Lessor's and (during the term of the Lease Agreement) the Lessee's approval. The final decision as to whether or not to approve the capital budget or any changes thereto shall be made by the Lessor. Once approved, the Hotel Manager shall carry out Capital Additions in accordance with the approval of the Lessor and (during the term of the Lease Agreement) the Lessee as to the design, construction standard, and other material aspects of the proposed capital alterations or additions. All costs relating to capital additions required to conform with legal requirements shall be borne by the Lessor. All other costs of capital additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them and shall not be paid from the Hotel Operating Expenses or the FF&E Reserve.

Hotel Lettable Areas

There are certain lettable areas in the Initial Hotel Properties (which do not include the hotel rooms, but include certain retail space, car parking spaces and other spaces and areas for hotel and retail related use and for installation of telecommunication equipment and antennae), in respect of which the Hotel Manager is authorized by the Owner to manage, formulate and implement leasing strategies, plan the tenant mix and identify potential under-lessees, enforce tenancy conditions, carry out tenancy/license administration work, conduct rent assessment and formulate underlease terms. Parts of such hotel lettable areas at each of the Initial Hotel Properties are already let out by the Lessor prior to the Listing Date (the "**Existing Tenancies**"). In respect of other parts of such hotel lettable areas and upon expiry of the Existing Tenancies, the Hotel Manager is permitted to underlet or license such areas directly to third parties under underleases or licenses to be created by the Hotel Manager upon the terms and within certain criteria as set out in each Hotel Management Agreement.

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Insurances

Each Lessor is required to maintain (a) property insurance on the relevant Initial Hotel Property including all FF&E and the operating equipment at not less than 100% of replacement costs; and (b) loss of rental insurance covering loss of rental income under the Lease Agreement for the Lessor for a minimum period of three years resulting from interruption or cessation with the operation of the Initial Hotel Property. The insurance premiums will be reimbursed to the Lessor by the Lessee and will be treated as the Fixed Charges. The Lessee and the Hotel Manager will be included as an additional insured.

The Owner is required to maintain business interruption insurances covering loss of profit for the Owner for a minimum period of two years and other insurances as the Hotel Manager shall deem necessary. The insurance premiums are treated as the Hotel Operating Expenses. The Lessor and the Hotel Manager will be included as an additional insured.

The Hotel Manager is required to maintain third party liability insurance and other insurances against items like theft or damage to guests' properties with a combined single limit for each occurrence of not less than HK\$100,000,000 as well as workman compensation insurance, employers' liability insurance, insurances required by law and other insurances as the Hotel Manager shall deem necessary. The insurance premiums are treated as Hotel Operating Expenses. The Lessor and (during the term of the Lease Agreement) the Lessee will be included as an additional insured.

If the Hotel Manager or the Owner hires an outside contractor for any repair or maintenance work for an Initial Hotel Property, the Hotel Manager or the Owner shall provide comprehensive general liability insurance insuring the contractor for the work being done. The Hotel Manager, the Lessor and (during the term of the Lease Agreement) the Lessee will be included as an additional insured.

All insurance proceeds in respect of property damage shall be deposited into a bank account of the Lessor, operated by the joint signatories designated by the Lessor and the Hotel Manager. All monies withdrawn from such accounts shall be applied for repairs or replacement of the relevant Initial Hotel Property, together with replacing any FF&E and operating equipment.

The Owner assumes all risks in connection with the adequacy of all insurance policies and all loss and damages in excess of the insurance coverage. The Hotel Manager shall be released from all claims and liabilities arising out of any damages or destruction of the Initial Hotel Property save for loss or damages caused by willful misconduct, fraud, or gross negligence of the Hotel Manager or its associated companies.

Brand Name

The Hotel Manager is required to maintain and to operate all of the Initial Hotel Properties under the existing "Regal" brand name.

Damage/Condemnation

Where any Initial Hotel Property is damaged or destroyed during the term of the Hotel Management Agreements by an insured risk, the Owner or the Lessor is required to repair and to replace the damage and if it fails to do so within three months, the Hotel Manager either may do so using the funds available in the bank accounts holding the insurance proceeds, or terminate the Hotel Management Agreement by giving 60 days' notice to the Owner. In such circumstances, no

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compensation shall be payable to the Hotel Manager except where the cost of repair or replacement as estimated by an independent licensed quantity surveyor is less than the Restoration Threshold (see “Suspension of Rental” under the section headed “Material Agreements — Lease Agreements” in this Offering Circular), in which case the Owner shall pay the Hotel Manager, as liquidated damages, a sum equal to the hotel management base fee and the hotel management incentive fee paid for the past three fiscal years or the remaining term of the Hotel Management Agreement, whichever is the shorter.

Where the cost of repair or replacement of the damaged Initial Hotel Property exceeds the Restoration Threshold, (i) the Hotel Manager may terminate the Hotel Management Agreement without any compensation by giving 60 days’ written notice to the Owner or (ii) the Lessor may decide not to repair or to replace the Initial Hotel Property and terminate the Hotel Management Agreement by giving not less than 60 days’ written notice to the Hotel Manager without compensation to the Hotel Manager or the Lessee.

Where the cost for carrying out any repair to damages is estimated by the Owner to be less than HK\$50,000,000, the Owner shall carry out the repairs using the funds in the bank account into which the insurance proceeds are placed and any shortfall shall be borne by the Lessor. Where the costs for carrying such repair is estimated by the Owner to be equal to or more than HK\$50,000,000, the Lessor shall carry out such repair and replacement from the funds available in the bank account into which insurance proceeds are placed and shall pay for any shortfall out of its own funds.

Assignment and Encumbrances

The Hotel Manager is not permitted to assign or transfer any of its management obligations nor to delegate a substantial part of its management obligations without the prior written consent of the Owner, although it may, without such consent, assign its rights and interests (but not obligations) to any subsidiary of Regal or successor company as a result of merger, consolidation or reorganization provided that the Hotel Manager gives the Owner at least 60 days’ prior written notice.

The Lessee is not permitted to assign, charge, encumber or deal with the rights in respect of each Initial Hotel Property or its rights and obligations under the Hotel Management Agreements.

Default and Termination

Upon the occurrence of any of the following events, the non-defaulting party may terminate the Hotel Management Agreement by giving three months’ notice. Such events include (i) failure of the Hotel Manager to operate the Initial Hotel Property in accordance with the prescribed operating standards and the relevant Lessor elects to terminate the relevant Lease Agreement on this ground; and (ii) failure to perform any other covenant which has a material adverse impact on the operation of the Initial Hotel Property or the rights or duties of the parties under the Hotel Management Agreement and not cured within 30 days after a written notice giving particulars of the breach is received by the defaulting party.

Upon the occurrence of any of the following events, the non-defaulting party may terminate the Hotel Management Agreement immediately by serving a written notice of termination. Such events include (i) failure by the Owner or the Hotel Manager to pay sums due for over 30 days; (ii) bankruptcy, insolvency, a petition for reorganization, appointment of a receiver or entering into of a judgment for bankruptcy against either the Owner or the Hotel Manager; (iii) any party to the Hotel Management Agreement ceasing to carry on business; (iv) any change in the shareholding of the Hotel

Manager which would result in the Hotel Manager ceasing to be a member of the Regal Group (unless as a result or reorganization of the Regal Group, a member of the Regal Group becomes listed on the Hong Kong Stock Exchange and the Hotel Manager becomes a member of a group controlled by such listed company and Regal retains not less than 30% of such listed company). In addition, the Lessor is entitled to terminate the Hotel Management Agreement if notice to terminate the related Lease Agreement is served by the Lessor as a result of default by the Lessee thereunder, subject to liquidated damages being payable to the Hotel Manager in such circumstances. The amount of liquidated damages shall be the hotel management base fee and hotel management incentive fee payable for three fiscal years or the remainder of the operating term, whichever is shorter.

Under each of the Hotel Management Agreements, if the Hotel Manager fails to achieve at least 80% of the Gross Operating Profit approved by the Owner for two consecutive fiscal years (the “**Performance Test**”), the Owner and any other non-defaulting party shall have the right to terminate such Hotel Management Agreement by giving at least three months’ written notice. A fiscal year may not be taken into account for the purposes of the Performance Test if the demand for hotel rooms in Hong Kong in such fiscal year is adversely affected by an economic downturn to the extent that there is a decrease of at least 25% of the RevPAR jointly published by the Hong Kong Tourism Board and the Hong Kong Hotels Association compared to the preceding fiscal year. In addition, in assessing whether the Performance Test is achieved in a fiscal year, the threshold of 80% of the approved Gross Operating Profit shall be reduced proportionately by reference to the number of day(s) on which certain events occurred, and these include epidemics, pandemics or other infectious diseases, force majeure, non-budgeted major renovations (which shall exclude the Asset Enhancement Program) and the Owner itself being in default of material obligations. The Hotel Manager however has one chance to cure the non-performance by paying to the Owner an amount equal to the difference between (a) the actual Gross Operating Profit of each of the two fiscal years; and (b) 80% of the Gross Operating Profit in the approved operating budgets for each of the corresponding fiscal years.

Lessor’s Obligation to Maintain Hotel Licence and Other Licences

The Lessor is required to maintain and renew a licence under the Hotel and Guesthouse Accommodation Ordinance (Chapter 349 of the Laws of Hong Kong) and other licences (including a general restaurant licence) to enable the Lessee or the Hotel Manager to operate a hotel business at the relevant Initial Hotel Property. However, the Lessor shall not be liable for any failure to renew such licences unless the failure is caused by the default of the Lessor. All costs and expenses in relation to the maintenance and renewal for such licences shall be treated as Hotel Operating Expenses save and except any such costs and expenses which constitute Capital Additions shall be borne by the relevant Lessor and the Lessee in the manner agreed between them (save and except that any such costs and expenses required to conform with the legal requirements shall be borne by the Lessor). The Hotel Manager shall comply with all the conditions under the licence as may be imposed by the relevant licensing authority from time to time and shall keep the Lessor indemnified in respect of any breach of the conditions and associated liabilities caused by the default of the Hotel Manager.

Force Majeure

The parties have agreed that neither the Owner nor the Hotel Manager shall be liable for any failure to observe or perform its obligations under the Hotel Management Agreement to the extent that, and for so long as, observance or performance is prevented by an event of force majeure, provided that the affected party gives to the other party immediate written notice of such occurrence. For the purpose of the Hotel Management Agreement, an event of force majeure is an event beyond the reasonable control of the party giving the notice and which causes the whole or a substantial part of

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the Initial Hotel Property being unsuitable for operation as a hotel or which prevents observance or performance of such obligation which could not reasonably have been avoided, and which shall mean boycotts, embargoes, governmental restrictions, terrorist attacks, wars, war-like actions, civil commotion, riots, uprising, revolutions, earthquakes, other natural occurrence or any other event beyond the control of such affected party (which shall exclude epidemics, pandemics and other infectious diseases). Upon the cessation of the event of force majeure, the relevant party shall give further notice to the other party and forthwith thereafter the affected party shall observe and perform the relevant obligation. However, if within six months of the written notice, further notice that the force majeure has ceased has not been given, either party may at any time thereafter give to the other party not less than three months' written notice to terminate the Hotel Management Agreement, unless during the notice period the force majeure event ceases.

Regal Indemnity

Regal is required to indemnify each Lessor against all damages, losses, costs and expenses, claims and demands made by any third party by reason of any failure by the Hotel Manager to perform its obligations under the relevant Hotel Management Agreement.

Modification to the Hotel Management Agreements

Any modification to the Hotel Management Agreements shall only be valid if signed by the relevant Lessor, the Lessee, the Hotel Manager, Holding SPV and Regal, and is subject to the approval of the unitholders of Regal REIT if such approval is required pursuant to applicable regulatory requirements or the Trust Deed.