



REGAL REIT
富豪產業信託

Regal Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code : 1881)

2011 INTERIM REPORT



Asset Advantage in Financial Hub

Managed by



富豪資產管理有限公司
Regal Portfolio
Management Limited

CONTENTS

- 2 Corporate Information
- 3 Chairman's Statement
- 5 Management Discussion and Analysis
- 17 Other Information and Disclosures
- 18 Corporate Governance
- 19 Connected Party Transactions
- 23 Disclosure of Interests
- 25 Performance Table
- 26 Condensed Consolidated Interim Financial Statements
 - 26 Condensed Consolidated Income Statement
 - 27 Condensed Consolidated Statement of Comprehensive Income
 - 28 Condensed Consolidated Statement of Financial Position
 - 30 Condensed Consolidated Statement of Changes in Net Assets
 - 32 Distribution Statement
 - 34 Condensed Consolidated Statement of Cash Flows
 - 35 Notes to the Condensed Consolidated Interim Financial Statements
- 57 Review of Interim Results
- 58 Report on Review of Interim Financial Information
- 59 Investment/Hotel Properties Portfolio

CORPORATE INFORMATION

MANAGER OF REGAL REIT

Regal Portfolio Management Limited
(the “REIT Manager”)

DIRECTORS OF THE REIT MANAGER

Non-executive Directors

Lo Yuk Sui (Chairman)
Donald Fan Tung
Jimmy Lo Chun To
Kai Ole Ringenson

Executive Directors

Francis Chiu
Simon Lam Man Lim

Independent Non-executive Directors

John William Crawford, JP
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, JP (Chairman)
Kai Ole Ringenson
Alvin Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, JP

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

DB Trustees (Hong Kong) Limited (the “Trustee”)

AUDITORS OF REGAL REIT

Ernst & Young

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

PRINCIPAL BANKERS

Bank of China Limited, Macau Branch
The Bank of East Asia, Limited
Credit Agricole Corporate & Investment Bank
Cathay United Bank, Hong Kong Branch
China Construction Bank Corporation, Hong Kong Branch
CITIC Bank International Limited
Dah Sing Bank, Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
The Royal Bank of Scotland N.V.
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Tai Fung Bank Limited
Wing Hang Bank Limited

LEGAL ADVISORS

Baker & McKenzie

UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited
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CHAIRMAN'S STATEMENT

Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2011 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2011, Regal REIT attained an unaudited consolidated net profit before distribution to Unitholders of approximately HK\$1,957.6 million, as compared to the profit of HK\$325.2 million (as restated) recorded in the corresponding period in 2010. Based on the market valuations conducted as at the half year end date, there was an increase of approximately HK\$1,782.6 million in the fair value of Regal REIT's investment properties portfolio. This fair value increase has contributed significantly to the comparatively higher profit achieved for the Interim Period.

Distributable income available for distribution to Unitholders for the Interim Period amounted to approximately HK\$186.5 million, as compared with HK\$299.6 million for the same period last year, representing approximately HK\$0.0572 per Unit entitled to the distribution for the Interim Period. The decrease in distributable income for the period as compared to the same period last year was mainly attributable to a change in the rental package for the Initial Hotels based on the Market Rental Review commencing 2011 and the relatively higher Base Rent previously fixed for 2010. Based on Regal REIT's policy of distributing no less than 90% of the distributable income, the Directors of the REIT Manager have resolved to declare a distribution of HK\$0.057 per Unit to the Unitholders for the six months ended 30th June, 2011 (six months ended 30th June, 2010: HK\$0.086 per Unit), representing a distribution of approximately 99.6% of the available distributable income for the Interim Period.

During the first half of 2011, the global economy has generally rebounded. However, the pace of recovery remains unbalanced, with the economies of emerging markets growing much faster than developed countries. Towards the end of the second quarter, concerns over the United States sovereign debt ceiling and credit rating intensified and the European sovereign debt crisis has deepened. The second round of quantitative easing in the United States phased out in June and its effects are still yet to be seen. In China, the government has continued to carry out prudent monetary policies with increased macro control to combat rising asset prices and mounting inflationary pressures. With the beginning of China's 12th Five-Year Plan, the growth in Gross Domestic Product was still being maintained at a high level of 9.6% during the first half of 2011.

The total number of visitor arrivals to Hong Kong during the first half of 2011 climbed to 19.3 million or a year-on-year increase of 14.7%. Visitor arrivals from major long-haul and short-haul markets continued on an upward trend, with those from the Mainland market registering the strongest growth at 21.1% to reach 12.7 million, which accounted for 65.7% of total visitor arrivals to Hong Kong. Sustaining economic growth and the appreciation of the Renminbi against the Hong Kong dollar continued to attract Mainland visitors to Hong Kong for shopping and entertainment.

Regal REIT currently commands an aggregate of 3,929 quality guestrooms and suites in six hotel properties, which accounts for approximately 10% of the total hotel room inventory of High Tariff A and High Tariff B hotels in Hong Kong.

The total property valuation of Regal REIT reached HK\$16,787.0 million as at 30th June, 2011, representing an increase of about 12.8% as compared with that as at 31st December, 2010.

For the years 2011 to 2015, the rental package for the Initial Hotels is subject to annual review and to be determined by an independent professional property valuer jointly appointed by the lessors and the lessee. The same independent professional property valuer, who conducted the Market Rental Review for 2011, was jointly appointed in June 2011 to carry out the rental review process for 2012, which will be completed by no later than 30th September, 2011. Based on present market trends and business projections, it is expected that the 2012 Market Rental Package could be notably higher than the rental level determined for 2011.

Looking ahead, the improved tourism infrastructure of Hong Kong, the gradual return of long-haul visitors, the positioning of Hong Kong as an Offshore Renminbi Center, the closer link with the Mainland, the rolling out of the 12th Five-Year Plan of China, and, particularly, the growing number and the increasing affluence of Mainland visitors, are expected to continue to bring in increasing tourism businesses to Hong Kong.

The Directors are optimistic that the tourism and hotel industries in Hong Kong will further prosper which will, in turn, positively benefit Regal REIT to grow its future capital value and profit earnings. Regal REIT will continue to actively seek appropriate acquisition opportunities to expand its investment portfolio in the upcoming years.

Lo Yuk Sui

Chairman

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Hong Kong, 24th August, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of the REIT Manager are pleased to report the unaudited interim results of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively, the "Group") for the six-month period from 1st January, 2011 to 30th June, 2011 (the "Interim Period").

LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

Regal REIT's and the REIT Manager's primary objectives are to provide long-term stable, growing distributions and capital growth for the unitholders of Regal REIT (the "Unitholders") through active ownership of hotels and strategic investments in hotels, serviced apartments or commercial properties (including office properties).

Regal REIT's and the REIT Manager's vision is to build up the existing portfolio of properties comprising Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels") and Regal iClub Hotel in Hong Kong and to be a pre-eminent owner of quality international hotels as well as to reinforce Regal REIT's status as a growing attractive option to investors.

THE REIT MANAGER, THE RHIHL LESSEE, THE HOTEL MANAGER AND THE TRUSTEE

The REIT Manager is licenced by the Securities and Futures Commission in Hong Kong (the "SFC") to undertake the regulated activity of asset management. The REIT Manager does not manage the Initial Hotels or Regal iClub Hotel directly.

The current leases of the Initial Hotels with a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL", together with its subsidiaries, the "RHIHL Group") will last until 31st December, 2015. For the years 2011 to 2015, the rental package will be determined on a yearly basis by a jointly appointed independent professional property valuer (expenses to be split equally between Favour Link International Limited (the "RHIHL Lessee") and Regal REIT). The determinations will include the amount of market rents (inclusive of the amount of base rent (the "Base Rent") for each Initial Hotel, the variable rent (the "Variable Rent") sharing percentage and the RHIHL Lessee's contribution to the furniture, fixtures and equipment reserve (the "FF&E Reserve") calculated as a percentage of total hotel revenue) to be applied for each of the Initial Hotels for the relevant respective years from 2011 to 2015, together with the amount of the security deposit required (collectively, the "Market Rental Package").

On 31st December, 2010, Regal REIT completed the acquisition of the remaining 25% equity interest in Twentyfold Investments Limited which directly holds Sonnix Limited which, in turn, owns major portions of the property located at No. 211 Johnston Road, Wanchai, Hong Kong, namely, Regal iClub Hotel. Regal REIT appointed Regal Hotels International Limited as the hotel manager (the "Hotel Manager") to operate the hotel portion of Regal iClub Hotel, comprising 99 guestrooms and suites, for a term of 10 years from 1st January, 2011 to 31st December, 2020. From 1st January, 2011, the hotel has been managed by the Hotel Manager under the hotel management agreement (the "iClub Hotel Management Agreement") and the operating results of the hotel have been accounted for directly by Regal REIT.

The trustee of Regal REIT (the "Trustee") is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as trustee for collective investment schemes authorised under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). In this role, the Trustee holds the assets of Regal REIT in trust for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the trust deed constituting Regal REIT on 11th December, 2006 (as amended by the first supplemental deed dated 2nd March, 2007, the second supplemental deed dated 15th May, 2008, the third supplemental deed dated 8th May, 2009, the fourth supplemental deed dated 23rd July, 2010, the fifth supplemental deed dated 3rd May, 2011 and the sixth supplemental deed dated 21st, July, 2011) (collectively, the "Trust Deed") and all regulatory requirements.

RENTAL STRUCTURE

Initial Hotels - Rental Structure and Market Rental Package

Market Rental Package for 2011

Mr. David Faulkner, as an independent professional property valuer, was jointly appointed by the lessors and the RHIHL Lessee to conduct a rent review for the Initial Hotels for the year 2011. According to the determination of the Market Rental Package for the year 2011, the aggregate amount payable by the RHIHL Lessee as Base Rent for the Initial Hotels was determined to be HK\$560.0 million with Variable Rent based on a sharing of 50% of the excess of the aggregate net property income ("NPI") of the five Initial Hotels over the aggregate Base Rent from the operations of the Initial Hotels in 2011. According to the Market Rental Package for 2011, no FF&E Reserve contributions are required to be made by the RHIHL Lessee and the obligation for such contributions rests with Regal REIT. The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$280.0 million, which is equivalent to six months' Base Rent for the year 2011, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for 2011 are included in the announcement published on 29th October, 2010.

Base Rent

Regal REIT received Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT received an aggregate of approximately HK\$281.1 million, representing cash Base Rent of HK\$280.0 million and cash additional base rent (the "Additional Base Rent") of approximately HK\$1.1 million for the prior year.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels operations over the Base Rent payments. During the Interim Period, as the NPI from hotel operations of the Initial Hotels was approximately HK\$358.2 million, Variable Rent of approximately HK\$39.1 million was payable to Regal REIT as 50% sharing of the excess of NPI over the Base Rent according to the Market Rental Package for 2011.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the lease agreements in relation to the leasing of the Initial Hotels to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels. To maintain this reserve, the relevant lessors contribute an amount equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for previous months. During the Interim Period, approximately HK\$15.3 million had been contributed to the reserve and approximately HK\$8.8 million had been expended for the purposes intended.

Rent Review of Market Rental Package for 2012

The rent review by a jointly appointed independent professional property valuer (expenses to be split equally between the RHIHL Lessee and Regal REIT) will take place to determine the Market Rental Package for the 2012 year. The same independent professional property valuer, Mr. David Faulkner, who conducted the Market Rental Package for 2011, was jointly appointed in June 2011 to carry out the rental review process for 2012, which will be completed by no later than 30th September, 2011.

Regal iClub Hotel - Rental Structure

Hotel Portion

For the six months ended 30th June, 2011, Regal iClub Hotel-hotel portion contributed gross hotel revenue of approximately HK\$19.5 million and incurred operating costs and expenses amounting to approximately HK\$7.5 million.

Other Portions

Regal iClub Hotel - other portions generated rental income of approximately HK\$2.3 million for the period under review.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the iClub Hotel Management Agreement to maintain FF&E Reserve for the plant and equipment deployed in the hotel portion of the Regal iClub Hotel. To maintain this reserve, Regal REIT contributes an amount equals to 2% of the total hotel revenue for previous months. During the Interim Period, approximately HK\$0.4 million was contributed to the reserve and approximately HK\$0.1 million had been expended for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the Interim Period are set out in the condensed consolidated interim financial statements on pages 26 to 56.

Review of the Economic Environment

During the first quarter of 2011, the global economy continued to recover, but remained unbalanced between advanced and emerging economies¹. Growth in the advanced economies has, however, slowed down during the second quarter. Global inflation has risen to about 4%² in light of accelerating commodity prices and in developing economies, inflation pressure has become increasingly broad-based. The concerns over the United States sovereign debt ceiling and credit rating have sent shockwaves through the global economy and triggered market volatility. As the US phased out the second round of quantitative easing measures by June, it was generally anticipated that funding liquidity would be tightened. The sovereign debt crisis in Europe also heightened uncertainty in the economic outlook and decreased the risk appetite for investment in the Euro zone during the first half of 2011. The earthquake which occurred in Japan in March disrupted the travel patterns of travelers in the region on a short term basis.

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- 1 Source: Publications, International Monetary Fund, "World Economic Outlook Update – Global growth attained an annualized rate of 4.3 percent in the first quarter of 2011", 17th June, 2011.
 - 2 Source: Publications, International Monetary Fund, "World Economic Outlook Update – Global inflation picked up from 3.5 percent in the last quarter of 2010 to 4 percent in the first quarter of 2011", 17th June, 2011.

Meanwhile, China's growth in Gross Domestic Product (GDP) was 9.6%³ during the first half of 2011. China announced its 12th Five-Year Plan to grow GDP by 7% annually on average as part of its economic target; and to have urbanization rate to reach 51.5% which will be up by 4 percentage points for economic restructuring⁴. All these targets might pose positive effects on the affluence of the Mainland residents, and in turn would benefit Hong Kong's tourism industry. Hong Kong's economy maintained its growth momentum in the second quarter of 2011 with the real GDP up by 5.1% following 7.5% during the first quarter⁵. The economic integration between Hong Kong and Mainland China continues to benefit Hong Kong's positioning as an International Financial Hub, Asset Management Center and Offshore Renminbi Center. Improvement in connectivity by way of infrastructure construction such as cross-border highways, bridges and the future construction of the third runway in the Hong Kong International Airport will further enhance the competitiveness of Hong Kong in the long run.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, 1H 2011 versus 1H 2010⁶

Visitors to Hong Kong by Geographical Regions	1H 2011 (Percentage of total visitors)	1H 2011 (No. of visitors)	1H 2010 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	65.7	12,697,366	10,487,199	2,210,167	21.1
South & Southeast Asia	9.2	1,787,617	1,669,299	118,318	7.1
North Asia	5.7	1,096,571	1,062,771	33,800	3.2
Europe, Africa & the Middle East	5.5	1,054,228	1,040,271	13,957	1.3
Taiwan	5.4	1,053,701	1,056,139	(2,438)	(0.2)
The Americas	4.6	886,383	836,253	50,130	6.0
Australia, New Zealand & South Pacific	1.9	370,734	368,287	2,447	0.7
Macao SAR	2.0	384,581	335,797	48,784	14.5
Total	100.0	19,331,181	16,856,016	2,475,165	14.7

Since the economic recovery in 2010, the growth of Hong Kong's tourism sector has been relatively strong. During the first half of 2011, visitor arrivals to Hong Kong climbed to over 19.3 million which broke Hong Kong's historic record and represented an increase of 14.7% as compared with the same period last year.

As a result of the further liberalization of travel restrictions in China since 2003, including the Individual Visit Scheme (IVS)⁷ as promulgated under the Closer Economic Partnership Arrangement (CEPA), there has been a noticeable increase in the number of Mainland tourists from various Chinese cities.

³ Source: Sheng LY, National Bureau of Statistics of China, "National Economy Maintained Steady and Fast Growth", 13th July, 2011.

⁴ Source: Xinhua News Agency, "Key targets of China's 12th five-year plan", 5th March, 2011.

⁵ Source: Press Release, Census and Statistics Department, "Gross Domestic Product for the 2nd quarter 2011", 12th August, 2011.

⁶ Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2011", July 2011; the REIT Manager.

⁷ Source: Visitor Information, Tourism Commission, "Individual Visit Scheme – The Individual Visit Scheme was first introduced in 2003 as a liberalization measure under the Closer Economic Partnership Agreement. Under the Scheme, around 270 million Mainland residents in 49 cities are eligible to apply for the relevant exit endorsement from the relevant Mainland authorities", 11th August, 2011.

For short-haul markets, Mainland Chinese visitor numbers showed satisfactory growth from 10.5 million to 12.7 million, representing an increase of 21.1% compared with the same period last year. Overall, 65.7% of the total number of visitors to Hong Kong were from Mainland China as compared with 62.2% last year, representing an increase of 3.5 percentage points. In Japan, the March 11 earthquake in the Northeast region dampened the travel desire of vacationers in the country, however, the impact was temporary and overall Japanese arrivals to Hong Kong did not show a significant drop.

For long-haul markets, there was improvement during the period. Visitors from the Americas amounted to 0.9 million in 2011 or about 4.6% of the total number of visitors and increased by about 6.0% year-on-year. Visitors from Europe, Africa and the Middle East aggregated approximately 1.1 million or around 5.5% of the total number of visitors and a 1.3% increase over the same period last year.

Review of Hotel Rooms Supply in Hong Kong 1H 2011

As of end of first quarter 2011, the supply of hotel rooms in Hong Kong registered an increase from 60,104 to 60,730, representing an increase of 626 rooms or 1.0%. The number of hotel properties in Hong Kong rose from 173 to 177, which marks an increase of about 2.3%. Looking ahead to the second half of 2011, 15 new hotels are planned to open in Hong Kong with an addition of 2,764 rooms or a growth rate of about 4.6% in the hotel room supply, aggregating to a total of 63,494 hotel rooms by the end of 2011⁸. Expansion in the hotel room inventory will help to cater for the expected increment in visitor arrivals.

Industry Performance

Room Occupancy Rates, Average Room Rates and RevPAR (Revenue per available room)

Hong Kong Hotel Market Performance (1H 2011 versus 1H 2010)⁹

Category	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2011	1H 2010	1H 2011	1H 2010	1H 2011	1H 2010
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	83	78	2,164	1,896	1,796	1,479
High Tariff B	89	86	1,054	879	938	756
Medium Tariff	91	89	656	541	597	481
All Hotels	88	84	1,291	1,105	1,136	928

During the first half of 2011, all hotels in Hong Kong reached an average occupancy rate of 88%, representing a growth rate of about 4 percentage points as compared with the same period last year. The average room rate climbed to HK\$1,291 and soared by 16.8% year-on-year. RevPAR of all hotels in Hong Kong recorded an average of HK\$1,136 which jumped by 22.4% versus the same period last year⁹.

8 Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2011", April 2011; "Hotel Supply Situation – as at Jun 2010", August 2010; the REIT Manager.

9 Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2011", July 2011; the REIT Manager.

Performance of the Initial Hotels

Total Hotel Revenue, Gross Operating Profit and Net Property Income For the Initial Hotels 1H 2011 versus 1H 2010

	1H 2011 (HK\$'million)	1H 2010 (HK\$'million)	Variance (HK\$'million)	Variance (%)
Operating Results				
Room revenue	535.4	416.9	118.5	28.4
Food and beverage revenue	208.0	194.6	13.4	6.9
Other income	22.1	20.5	1.6	7.8
Total hotel revenue	765.5	632.0	133.5	21.1
Operating expenses	(392.5)	(352.4)	(40.1)	11.4
Gross operating profit	373.0	279.6	93.4	33.4
Other expenses	(26.9)	(21.9)	(5.0)	22.8
Net rental income	12.1	11.6	0.5	4.3
Net property income	358.2	269.3	88.9	33.0
Statistics				
Average room rate	HK\$866.58	HK\$729.23	HK\$137.35	18.8
Occupancy rate	89.1%	82.5%	6.6%	8.0
RevPAR	HK\$772.29	HK\$601.40	HK\$170.89	28.4
Total available room nights	693,230	693,230	—	—
Occupied room nights	617,804	571,688	46,116	8.1

During the Interim Period, total hotel revenue of the Initial Hotels rose from HK\$632.0 million to HK\$765.5 million or an increase of 21.1% year-on-year, while gross operating profit increased from HK\$279.6 million to HK\$373.0 million or a rise of 33.4% year-on-year. Likewise, net property income recorded an increase of HK\$88.9 million from HK\$269.3 million to HK\$358.2 million or an uplift of 33.0%.

The five Initial Hotels achieved an average occupancy rate of 89.1% during the first six months, representing an increase of 6.6 percentage points year-on-year, with RevPAR increased by 28.4%.

Highlights on Performance of the Initial Hotels

The hotel manager of the Initial Hotels continuously adopted various revenue management strategies to enhance the revenue yield mix and improve service levels. As a result, an average occupancy rate of the Initial Hotels increased by 6.6 percentage points from 82.5% to 89.1% year-on-year, and RevPAR rose from HK\$601.40 to HK\$772.29, representing an increase of HK\$170.89 per room night, or a growth of 28.4%. During the Interim Period, all five Initial Hotels enjoyed satisfactory growth in room revenue as market demand for hotel rooms remained strong as experienced by the overall hotel market in Hong Kong. In line with room revenue, food and beverage revenue of the Initial Hotels improved by 6.9%. This was attributable to the enhanced facilities including the renovation of ballrooms, function rooms and dining facilities which drove the increasing demand for event bookings and visits at all five Initial Hotels.

Performance of Regal iClub Hotel

Since the commencement of full operations in late December 2010, the 99 guestrooms and suites at Regal iClub Hotel have recorded an average occupancy rate of over 93%, with an average room rate exceeding HK\$1,100 per night and a RevPAR of approximately HK\$1,060 during the Interim Period. The chic and trendy as well as IT-enabled business model has proven to be well received by business, leisure and the MICE (meetings, incentives, conventions and exhibitions) markets. The hotel manager of Regal iClub Hotel introduced effective carbon reduction measures in its operations which makes Regal iClub Hotel the first Hong Kong carbon neutral hotel property. This green initiative and supportive corporate sustainability was well received by the market.

In conclusion, the performance of the properties portfolio of Regal REIT showed satisfactory improvement compared with 2010 year-on-year and the management of the REIT Manager anticipates this trend can be sustained during the second half of 2011.

Performance of Regal REIT

Regal REIT currently commands an aggregate of 3,929 quality guestrooms and suites with 6 hotel properties. This accounted for approximately 10% of the total hotel room inventory of High Tariff A and High Tariff B hotels in Hong Kong⁹. The total property valuation of Regal REIT reached HK\$16,787.0 million as at 30th June, 2011, representing an increase of about 12.8% as compared with that for the year ended 31st December, 2010.

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the prior period is set out below:

	1st January, 2011 to 30th June, 2011		1st January, 2010 to 30th June, 2010
	HK\$'million	%	HK\$'million
Base Rent			
Cash Base Rent	280.0	80.8	390.0
Cash Additional Base Rent	1.1	0.3	4.9
Difference in accounting Base Rent and actual contractual cash Base Rent	—	—	(33.3)
Variable Rent	39.1	11.3	—
Other rental-related income			
Furniture, fixtures and equipment reserve contribution	—	—	12.6
Other	4.4	1.3	3.9
Regal iClub Hotel			
Gross hotel revenue	19.5	5.6	—
Rental income	2.3	0.7	12.0
Gross rental and hotel revenue	346.4	100.0	390.1
Property operating expenses	(5.6)	(1.6)	(5.0)
Hotel operating expenses	(7.5)	(2.2)	—
Net rental and hotel income	333.3	96.2	385.1

During the Interim Period, net rental and hotel income represented approximately 96.2% of the gross rental and hotel revenue, after the deduction of property and hotel operating expenses. The property management of Regal REIT is handled by the hotel manager under the relevant hotel management agreements with respect to the Initial Hotels and Regal iClub Hotel – hotel portion.

Distributable Income and Distribution Policy

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders the minimum amount of no less than 90% of Regal REIT's total distributable income for each financial year. The amount of any distribution for the Interim Period of each financial year is at the discretion of the REIT Manager.

The unaudited distributable income for the Interim Period amounted to approximately HK\$186.5 million, representing an approximate HK\$0.0572 per Unit entitlement to the interim distribution.

Interim Distribution for 2011

The Directors of the REIT Manager have resolved to declare a distribution of HK\$0.057 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 16th September, 2011.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 14th September, 2011 to Friday, 16th September, 2011, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2011, all unit certificates with completed transfer forms must be lodged with Regal REIT's unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Monday, 12th September, 2011. The relevant distribution warrants are expected to be despatched on or about 12th October, 2011.

Valuation of Investment Properties

As at 30th June, 2011, Regal REIT's investment properties portfolio, comprised of the Initial Hotels and other portions of Regal iClub Hotel, which together with the property, plant and equipment for the owner-occupied hotel portion of Regal iClub Hotel, was valued at HK\$16,787.0 million, as compared to the valuation of HK\$14,880.0 million as at 31st December, 2010.

The valuation of the portfolio of investment properties as at 30th June, 2011 was conducted by Colliers International (Hong Kong) Limited ("Colliers"). Colliers is the principal valuer of Regal REIT appointed by the Trustee according to the provisions of the Code on Real Estate Investment Trusts (the "REIT Code").

Colliers, an independent professional property valuer, assessed the market values of the portfolio of investment properties subject to the lease agreements and the hotel management agreements and in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)", the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the REIT Code. Colliers used the discounted cash flow ("DCF") method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison method has been used as a check on the valuation arrived at from the DCF method.

Under the provisions of the REIT Code, all the real estate held under the scheme shall be valued annually, and valuation report must be in compliance with the REIT Code. As previously reported in the annual reports of Regal REIT, prior to 1st January, 2011, its hotel properties have been stated at their open market valuations for existing use as appraised annually and not depreciated. Upon completion of the acquisition of the remaining 25% interest in Twentyfold Investments Limited, which indirectly owns major portions of No. 211 Johnston Road on 31st December, 2010, the property became wholly-owned by Regal REIT. Under the Hong Kong Accounting Standard (the "HKAS") 16 *Property, Plant and Equipment*, the property, plant and equipment operating under the hotel portion of Regal iClub Hotel is reclassified as owner-occupied property. Regal REIT has elected to use the revaluation model to account for such property.

Initial Hotels

As at 30 June, 2011, the aggregate fair value of the five Initial Hotel properties was HK\$16,100.0 million, as compared to the valuation of HK\$14,310.0 million as at 31st December, 2010.

Regal iClub Hotel

As at 30th June, 2011, the aggregate fair value of Regal iClub Hotel, comprised of the investment property and the property, plant and equipment was HK\$687.0 million, as compared to the valuation of HK\$570.0 million as at 31st December, 2010. The fair value of the property was derived using the DCF method as outlined above. The revaluation model was adopted for the property, plant and equipment to ensure Regal REIT fully complied with the REIT Code in respect of valuing all its real estate held under the scheme; and consistent with the approach adopted for 2010 and 2009, ie since the property was acquired by Regal REIT.

In the financial statements herein presented, aggregate depreciation provided for the period under review amounted to approximately HK\$2.5 million has been charged to the income statement for the Interim Period in accordance with HKAS 16 *Property, Plant and Equipment*, but this has no actual impact on the operating cash flows.

Net Asset Value

As at 30th June, 2011, the net asset value (the "NAV") per Unit attributable to Unitholders amounted to HK\$3.586, increased by HK\$0.526 from the NAV per Unit attributable to Unitholders as at 31st December, 2010, was mainly due to the increase in the fair values of Regal REIT's investment properties portfolio during the Interim Period.

Capital Additions Projects

During the period under review, 451 guestrooms, representing over 11% of the total portfolio of 3,929 guestrooms and suites, were renovated to enhance capital value and market competitiveness. To attract the MICE market segments, a number of ballrooms and function rooms have also been upgraded to enhance functionality and decor to drive the ever-increasing demand for event bookings at Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel. Regal Palace, a Michelin star-rated Chinese restaurant located at Regal Hongkong Hotel, has also been renovated to attract gourmet diners with high quality Chinese cuisine.

Financial Review and Financing Strategy

At 30th June, 2011, Regal REIT had loan facilities aggregating HK\$4,780.0 million comprised of a term loan of HK\$4,500.0 million secured by the Initial Hotels and loan facilities of HK\$280.0 million secured by the Regal iClub Hotel.

The term loan facility of HK\$4,500.0 million (the "Initial Facility"), secured by the Initial Hotels, bears interest at a floating rate of 60 basis points above the three-month Hong Kong Interbank Offered Rates ("HIBOR"). In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements in 2007 for an aggregate notional principal amount of HK\$4,350.0 million. Under such arrangements, the interest rates effectively borne by Regal REIT with regard to HK\$4,350.0 million of the term loan are subject to a cap of 7.15% and a floor of 3.80% per annum up to 18th January, 2012. The HK\$150.0 million balance of this HK\$4,500.0 million term loan is not hedged.

After completion of the acquisition of the remaining 25% interest in the Regal iClub Hotel on 31st December, 2010, the Regal iClub Hotel became wholly-owned by Regal REIT. On 28th January, 2011, Regal REIT entered into a new loan agreement for loan facilities aggregating HK\$280.0 million, comprised of a term loan of HK\$220.0 million and a revolving credit facility of HK\$60.0 million (the "New Facilities") to replace the previous facilities of HK\$211.0 million. The New Facilities bear interest based on HIBOR and no interest rate hedging has been arranged. As at the end of the reporting period, the term loan facility had an outstanding amount of HK\$218.5 million and HK\$30.0 million had been drawn down from the revolving credit facility.

As at 30th June, 2011, the gearing ratio of Regal REIT amounted to 28.1%, being the gross amount of the outstanding loans of HK\$4,748.5 million as compared to the total gross assets of Regal REIT of approximately HK\$16,920.8 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$7.8 million in unrestricted and HK\$78.9 million in restricted cash balances and bank deposits as at 30th June, 2011.

As at 30th June, 2011, the Group's current liabilities exceeded its current assets by approximately HK\$4,612.0 million as the Initial Facility of HK\$4.5 billion repayable in full on 30th March, 2012 and the related derivative financial instruments were both classified as current liabilities at the end of the reporting period. The REIT Manager is in discussions with banks on various refinancing proposals. The REIT Manager believes that the refinancing exercise will be concluded before the maturity of the Initial Facility.

Apart from the above, the Group maintains sufficient cash reserves and receives timely payments of rental income to meet its liquidity requirements. The REIT Manager considers that sufficient resources will be secured to satisfy the funding obligations in respect of the Group's operations.

As at 30th June, 2011, Regal REIT's properties, with an aggregate carrying value of HK\$16,787.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

Outlook in 2011

As Hong Kong's infrastructure development continues to integrate with the Pearl River Delta and as expansions of tourism infrastructure of the two theme parks in Hong Kong continue, which led to the achievement of record park attendance, tourist traffic can expect to increase. The Hong Kong Tourism Board's efforts to promote mega events throughout the year will also attract more tourists from around the globe for sight-seeing and to experience the culture and traditions of Hong Kong. The appreciation of the Renminbi relative to the Hong Kong dollar should also encourage Mainland visitors to spend more during their leisure trips for shopping and entertainment. Visitors from the Americas and Euro zone might be temporarily affected by the debt crisis and may impose challenges on the overall economic environment during the second half of 2011.

Looking forward to the second half of 2011, the momentum of growth in Hong Kong's hotel and tourism industry is expected to continue in light of the trend of increasing Mainland visitors and the flexibility of travel through the Individual Visit Scheme. The forecasted number of visitors to Hong Kong is about 40 million for 2011, which is an anticipated increase of more than 10% year-on-year as compared with the 36 million visitors in 2010¹⁰. During the first half of 2011, a historic high number of 19.3 million visitor arrivals was recorded. It is anticipated that the occupancy rates and average room rates of hotels in Hong Kong will see further growth as increasing demand still outweighs new sources of room supply. The utilization rate of Regal REIT's investment properties as a whole will continue to be benefitted as the current hotel and tourism trend extends into the second half of 2011.

10 Source: Press Release, Hong Kong Tourism Board, "2011 Hong Kong Tourism Overview Receives 900 Trade Representatives and Tourism Students", 16th February, 2011.

OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2011, the total number of Units outstanding was 3,257,431,189. Refer to note 19 to the condensed consolidated interim financial statements on page 51.

As at 30th June, 2011, based on information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders.

NEW UNITS ISSUED

Save for the 15,871,088 new Units allotted and issued to the REIT Manager in payment of REIT Manager fees in relation to the year ended 31st December, 2010, no further new Units were issued during the Interim Period.

EMPLOYEES

Regal REIT is managed by the REIT Manager and the Trustee. By contracting out such services, Regal REIT does not employ any staff in its own right.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Interim Period, there were no repurchases, sales or redemptions of Units.

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

Regal REIT did not enter into any real estate acquisition or disposal transactions during the Interim Period.

CORPORATE GOVERNANCE

The REIT Manager aims to ensure good corporate governance through high levels of transparency, equal treatment of Unitholders, compliance with applicable laws and regulations and by appointing independent and well-qualified board members.

The REIT Manager has adopted a compliance manual for use in relation to the management and operation of Regal REIT (the "Compliance Manual"). The Compliance Manual sets out the key processes, systems and policies and procedures to guide operations and thereby set high standards of corporate governance to ensure that the relevant regulations and legislation are adhered to.

During the Interim Period, Regal REIT and the REIT Manager have complied with the provisions of the REIT Code, the relevant provisions of the SFO, the relevant provisions of the Listing Rules applicable to Regal REIT, the Trust Deed and the Compliance Manual.

BOARD OF DIRECTORS OF THE REIT MANAGER

The board of directors of the REIT Manager (the "Board") is responsible for overseeing the overall governance of the REIT Manager and the day-to-day management of the REIT Manager's affairs and the conduct of its business. The Board currently comprises two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors.

On 1st April, 2011, Mr. Simon Lam Man Lim, acting as Responsible Officer of the REIT Manager, was appointed as an Executive Director of the REIT Manager.

DEALINGS IN SECURITIES OF REGAL REIT BY DIRECTORS OR THE REIT MANAGER

The REIT Manager has adopted the "Code Governing Dealings in Units by Directors or the REIT Manager" (the "Units Dealings Code") as set out in the Compliance Manual, on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Following specific enquiries by the REIT Manager, the Directors of the REIT Manager and the REIT Manager have confirmed that they have complied with the required standards under the Model Code and the Units Dealings Code during the Interim Period.

CONNECTED PARTY TRANSACTIONS

Regal REIT and the other companies or entities held or controlled by Regal REIT (collectively, the “Regal REIT Group”) have entered into a number of continuing transactions with its connected persons (defined in paragraph 8.1 of the REIT Code), as listed below, which constitute connected party transactions of Regal REIT within the meaning of the REIT Code:

- (i) the REIT Manager and the other companies or entities held or controlled by Regal Hotels International Holdings Limited (collectively, the “RHIHL Connected Persons Group”);
- (ii) the companies and entities held or controlled by Paliburg Holdings Limited (“PHL”) (collectively, the “PHL Connected Persons Group”); and
- (iii) the Trustee and companies within the same group or otherwise “associated” with the Trustee (collectively, the “Trustee Connected Persons Group”).

RHIHL CONNECTED PERSONS GROUP

(i) RHIHL Lease Agreements

Each of Bauhinia Hotels Limited, in relation to Regal Airport Hotel, Cityability Limited, in relation to Regal Hongkong Hotel, Gala Hotels Limited, in relation to Regal Oriental Hotel, Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel and Ricobem Limited, in relation to Regal Kowloon Hotel, the direct owners of the Initial Hotels, respectively, (collectively, the “Initial Hotel – Property Companies” and each referred to as the “Initial Hotel – Property Company”) entered into separate lease agreements (the “RHIHL Lease Agreements”) with the RHIHL Lessee in relation to the leasing of the Initial Hotels on 16th March, 2007. The RHIHL Lessee is a member of the RHIHL Connected Persons Group. The terms of the RHIHL Lease Agreements expire on 31st December, 2015.

Under the terms of each RHIHL Lease Agreement, the RHIHL Lessee makes lease payments to the Initial Hotel – Property Company and is entitled to operate and manage the Initial Hotel owned by the Initial Hotel – Property Company and, accordingly, all income received from the operation of the relevant Initial Hotel, during the term of the RHIHL Lease Agreements, is retained by the RHIHL Lessee.

During the Interim Period, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK\$324.6 million including cash Base Rent, cash Additional Base Rent, Variable Rent and other rental-related income.

(ii) Initial Hotels Management Agreements

Under the terms of each RHIHL Lease Agreement, the RHIHL Lessee has delegated the operation and management of the relevant Initial Hotel to Regal Hotels International Limited (the "Hotel Manager") by entering into an hotel management agreement (the "Initial Hotels Management Agreement") among (1) the relevant Initial Hotel – Property Company, (2) the RHIHL Lessee, (3) the Hotel Manager, (4) Regal Asset Holdings Limited and (5) RHIHL, for a term of 20 years from 16th March, 2007.

Each Initial Hotel – Property Company is a party to an Initial Hotels Management Agreement on terms including, upon the expiry or termination of any RHIHL Lease Agreement, that the Hotel Manager will continue to manage the relevant Initial Hotel in accordance with the Initial Hotels Management Agreement.

Regal Asset Holdings Limited, the indirect holding company of each Initial Hotel – Property Company, is a party to the Initial Hotels Management Agreements. During the term of the RHIHL Lease Agreements, Regal Asset Holdings Limited shall maintain a cash reserve for furniture, fixtures and equipment for each of the respective Initial Hotels.

The RHIHL Lessee and the Hotel Manager are members of the RHIHL Connected Persons Group.

(iii) RHIHL Lease Guarantees

RHIHL has guaranteed to pay all amounts from time to time owing or payable by the RHIHL Lessee to the Initial Hotel – Property Companies under the RHIHL Lease Agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. The lease guarantees (the "RHIHL Lease Guarantees") also contain an indemnity in respect of all guaranteed liabilities.

(iv) RHIHL Deed of Trade Mark Licence

Regal International Limited, a member of the RHIHL Connected Persons Group, entered into a deed of trade mark licence (the "RHIHL Deed of Trade Mark Licence") with the REIT Manager and Regal REIT Group on 2nd March, 2007. Regal International Limited granted to the REIT Manager and each Initial Hotel – Property Company, inter alia, a non-exclusive and non-transferable licence to use its registered trade marks or service marks, in any jurisdiction where such marks are registered and free of any royalty, for the purpose of describing the ownership of each Initial Hotel and/or use in connection with the business of each Initial Hotel.

(v) iClub Hotel Management Agreement

On 23rd December, 2010, Regal REIT (via Sonnix Limited (the "Regal iClub Hotel – Property Company")) entered into a new hotel management agreement (the "iClub Hotel Management Agreement") with the Hotel Manager, a member of the RHIHL Connected Persons Group, in respect of the management of the business of Regal iClub Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020, at a management fee comprised of a base fee which is equal to 2% of the gross hotel revenue derived from Regal iClub Hotel and an incentive fee which is equal to 5% of the excess of the gross operating profit of Regal iClub Hotel over the base fee and certain fixed charges for each fiscal year during the term of the iClub Hotel Management Agreement. Reference can be made to the announcement dated 23rd December, 2010 published by the REIT Manager in relation to this connected party transaction.

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK\$32.7 million for such services rendered during the Interim Period were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waiver from Strict Compliance

A waiver (the "RHIHL Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the RHIHL Lease Agreements, Initial Hotels Management Agreements, RHIHL Lease Guarantees and RHIHL Deed of Trade Mark Licence described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the offering circular dated 19th March, 2007 issued by the REIT Manager (the "Offering Circular").

During the Interim Period, Regal REIT has complied with the terms and conditions of the RHIHL Connected Persons Group's Waiver.

PHL CONNECTED PERSONS GROUP

PHL Sale and Purchase Agreement

On 10th September, 2009, Regal REIT, acting through the Trustee, entered into a sale and purchase agreement (the "PHL S&P Agreement") with Paliburg Development BVI Holdings Limited (the "PHL Vendor"), a member of the PHL Connected Persons Group, PHL and the REIT Manager, pursuant to which the Trustee conditionally agreed to acquire, inter alia, 75% of the total issued share capital of Twentyfold Investments Limited, which directly held the Regal iClub Hotel – Property Company that owns major portions of No. 211 Johnston Road, for a total consideration of approximately HK\$198.0 million. The above acquisition was completed on 20th October, 2009.

Pursuant to the terms of the PHL S&P Agreement, the Trustee as the purchaser was granted a call option, which it could exercise at its sole and absolute discretion and at the direction of the REIT Manager, to acquire the remaining 25% of the total issued share capital of Twentyfold Investments Limited based on certain pre-agreed terms at any time during the period commencing from 1st November, 2010 and expiring on 28th February, 2011 (both dates inclusive). On 10th December, 2010, the Trustee exercised the call option by serving the call notice at an initial consideration of approximately HK\$90.1 million to the PHL Vendor. The acquisition of the remaining 25% of the total issued share capital of Twentyfold Investments Limited pursuant to the exercise of the call option took place on 31st December, 2010. On 1st March, 2011, the Call Consideration Statement (as defined in the PHL S&P Agreement) was finalized, based on an audit of the consolidated accounts of Twentyfold Investments Limited. The final call consideration was agreed and determined at HK\$90.5 million. References can be made to the related announcements dated 10th December, 2010, 31st December, 2010 and 1st March, 2011 published by the REIT Manager for further details of this transaction.

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

Rich Day Investments Limited and Bauhinia Hotels Limited, which are members of the Regal REIT Group, entered into a loan facilities agreement with certain lending banks for an aggregate loan amount of HK\$4.5 billion comprised of a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million. In March 2009, the revolving credit facility of HK\$150.0 million was drawn down and subsequently converted to a term loan during 2009. The HK\$4.5 billion term loan facility bears interest at a floating rate of three-month HIBOR plus 0.6%. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries entered into interest rate hedging arrangements with Deutsche Bank AG, a member of the Trustee Connected Persons Group in connection with the listing of Regal REIT for an aggregate notional principal amount of HK\$2.0 billion for the period from 18th January, 2008 to 18th January, 2012.

Ordinary Banking Services

Regal Asset Holdings Limited engaged Deutsche Bank AG, a member of the Trustee Connected Persons Group, to provide ordinary banking and financial services such as bank deposits during the Interim Period in the ordinary and usual course of business of the Regal REIT Group and on normal commercial terms.

Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. For services rendered in this capacity, Regal REIT paid the Trustee fees aggregating approximately HK\$1.2 million pursuant to the Trust Deed for the Interim Period.

Waiver from Strict Compliance

A waiver (the "Trustee Connected Persons Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the above transactions with connected persons (as defined in paragraph 8.1 of the REIT Code) of the Trustee was granted by the SFC on 5th March, 2007 subject to certain conditions as set out in the Offering Circular.

During the Interim Period, Regal REIT has complied with the terms and conditions of the Trustee Connected Persons Group's Waiver.

DISCLOSURE OF INTERESTS

The REIT Code requires connected persons (as defined in paragraph 8.1 of the REIT Code) of Regal REIT to disclose their interests in the Units. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to the REIT Manager, the directors or the chief executives of the REIT Manager, and to persons interested in the Units.

HOLDINGS OF SIGNIFICANT UNITHOLDERS

As at 30th June, 2011, the following significant Unitholders (as defined in paragraph 8.1 of the REIT Code), not being a director or chief executive of the REIT Manager, had interests in the Units as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholders	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2011
Century City International Holdings Limited ("CCIHL")	2,433,549,739 (Note i)	74.71%
Century City BVI Holdings Limited ("CCBVI")	2,433,549,739 (Notes i & ii)	74.71%
Paliburg Holdings Limited ("PHL")	2,428,262,739 (Notes iii & iv)	74.55%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,428,262,739 (Notes iii & v)	74.55%
Regal Hotels International Holdings Limited ("RHIHL")	2,428,262,739 (Notes iii & vi)	74.55%
Regal International (BVI) Holdings Limited ("RBVI")	2,428,262,739 (Notes iii & vii)	74.55%
Complete Success Investments Limited	1,817,012,072 (Note viii)	55.78%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.45%

Notes:

- (i) The interests in 2,433,549,739 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI and RBVI, respectively.
- (ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.

- (iii) The interests in 2,428,262,739 Units held by each of the Unitholders as named above were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.
- (iv) PHL is a listed subsidiary of CCIHL, which held a 58.62% shareholding interest in PHL as at 30th June, 2011, and PHL's interests in Units are deemed to be the same interests held by CCIHL.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) RHIHL is a listed associate of PDBVI, which held a 49.37% shareholding interest in RHIHL as at 30th June, 2011, and its interests in Units are deemed to be the same interests held by PDBVI.
- (vii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (viii) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.

Save as disclosed herein, there is no person who, as at 30th June, 2011, had an interest in Units which are recorded in the register required to be kept under section 336 of the SFO.

HOLDINGS OF THE REIT MANAGER, DIRECTORS AND CHIEF EXECUTIVES OF THE REIT MANAGER

As at 30th June, 2011, the interests of the REIT Manager, directors and the chief executives of the REIT Manager in Units, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the REIT Manager and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code in the Listing Rules, were as follows:

Name of the REIT Manager and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2011
Lo Yuk Sui	2,433,549,739 (Note i)	74.71%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,433,549,739 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held a 56.44% shareholding interest as at 30th June, 2011.
- (ii) Regal Portfolio Management Limited is the REIT Manager of Regal REIT (as defined under the REIT Code).

Save as disclosed herein, as at 30th June, 2011, none of the REIT Manager, the directors and the chief executives of the REIT Manager had any interests in Units, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the REIT Manager and the Stock Exchange. Save as disclosed herein, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Regal REIT holding any Units.

PERFORMANCE TABLE

As at 30th June, 2011

	Notes	Six months ended 30th June, 2011	Six months ended 30th June, 2010 (Restated)	Six months ended 30th June, 2009 (Restated)	Six months ended 30th June, 2008 (Restated)	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (Restated)
Net assets attributable to Unitholders (HK\$'million)		11,680.5	9,427.5	9,082.9	12,409.6	11,798.7
Net asset value per Unit attributable to Unitholders (HK\$)		3.586	2.918	2.849	3.961	3.798
The highest traded price during the period (HK\$)	1	2.66	1.98	1.28	2.37	2.79
The lowest traded price during the period (HK\$)		2.24	1.65	0.84	1.50	2.52
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		37.53%	43.45%	70.52%	62.13%	33.65%
Distribution yield per Unit	2	2.25%	4.70%	7.59%	5.16%	2.14%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit attributable to Unitholders reported at the end of those periods. Accordingly, no premium of the traded price to net asset value per Unit attributable to Unitholders is presented.
2. Distribution yield per Unit for the six months ended 30th June, 2011 is calculated by dividing the interim distribution per Unit of HK\$0.057 over the closing price of HK\$2.53 as at 30th June, 2011, being the last trading day for the period. The calculation of the interim distribution per Unit is set out in the section "Distribution Statement" on page 32.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2011

	Notes	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited and restated) HK\$'000
Revenue			
Gross rental revenue		326,865	390,142
Gross hotel revenue		19,522	—
		346,387	390,142
Property and hotel operating expenses		(13,056)	(5,020)
Net rental and hotel income	4	333,331	385,122
Other income	5	71	30
Depreciation	11	(2,527)	—
Fair value changes on investment properties	12	1,782,569	104,506
REIT Manager fees	6	(32,701)	(34,253)
Trust, professional and other expenses	7	(2,581)	(3,783)
Fair value changes on derivative financial instruments		3,741	9,282
Finance costs - excluding distribution to Unitholders	8	(90,926)	(88,688)
PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		1,990,977	372,216
Income tax expense	9	(33,367)	(43,841)
PROFIT FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS		1,957,610	328,375
Non-controlling interest		—	(3,174)
PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		1,957,610	325,201
Finance costs - distribution to Unitholders		(338,773)	(274,289)
PROFIT FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		1,618,837	50,912
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	HK\$0.603	HK\$0.101

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2011

	Notes	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited and restated) HK\$'000
PROFIT FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS		1,957,610	328,375
OTHER COMPREHENSIVE INCOME			
Cash flow hedges:			
Changes in fair values of cash flow hedges		(18,951)	(51,787)
Transfer from hedging reserve to income statement		63,803	66,173
		<u>44,852</u>	<u>14,386</u>
Revaluation of property, plant and equipment	11	116,433	—
Deferred tax on revaluation of property, plant and equipment	18	(19,212)	—
		<u>142,073</u>	<u>14,386</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		142,073	14,386
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS		<u>2,099,683</u>	<u>342,761</u>
Represented by:			
Unitholders		2,099,683	339,587
Non-controlling interest		—	3,174
		<u>2,099,683</u>	<u>342,761</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2011

	Notes	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	551,000	—
Investment properties	12	16,236,000	14,880,000
Total non-current assets		<u>16,787,000</u>	<u>14,880,000</u>
Current assets			
Accounts receivable	13	39,603	121,359
Prepayments, deposits and other receivables		7,507	6,854
Restricted cash	14	78,908	71,979
Cash and cash equivalents		7,798	27,151
Total current assets		<u>133,816</u>	<u>227,343</u>
Total assets		<u>16,920,816</u>	<u>15,107,343</u>
Current liabilities			
Accounts payable	15	45,856	9,685
Deposits received		306	—
Due to related companies		418	432
Other payables and accruals		54,537	86,381
Interest-bearing bank borrowings	16	4,528,745	75,413
Derivative financial instruments	17	93,830	—
Tax payable		22,135	15,758
Total current liabilities		<u>4,745,827</u>	<u>187,669</u>
Net current assets/(liabilities)		<u>(4,612,011)</u>	<u>39,674</u>
Total assets less current liabilities		<u>12,174,989</u>	<u>14,919,674</u>

The notes on pages 35 to 56 form part of these condensed consolidated interim financial statements.

	Notes	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	16	211,794	4,617,241
Derivative financial instruments	17	—	142,423
Deposits received		2,486	2,034
Deferred tax liabilities	18	280,188	238,365
Total non-current liabilities		494,468	5,000,063
Total liabilities, excluding net assets attributable to Unitholders		5,240,295	5,187,732
Net assets attributable to Unitholders		11,680,521	9,919,611
Number of Units in issue	19	3,257,431,189	3,241,560,101
Net asset value per Unit attributable to Unitholders	20	HK\$3.586	HK\$3.060

The notes on pages 35 to 56 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2011

	Attributable to Unitholders					Total (unaudited) HK\$'000
	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	
Net assets as at 1st January, 2011	8,432,356	15,876	(138,677)	—	1,610,056	9,919,611
Profit for the period	—	—	—	—	1,957,610	1,957,610
Other comprehensive income for the period:						
Changes in fair value of cash flow hedges	—	—	(18,951)	—	—	(18,951)
Transfer from hedging reserve to income statement	—	—	63,803	—	—	63,803
Revaluation of property, plant and equipment	—	—	—	116,433	—	116,433
Deferred tax on revaluation of property, plant and equipment	—	—	—	(19,212)	—	(19,212)
Total comprehensive income for the period, before distribution to Unitholders	—	—	44,852	97,221	1,957,610	2,099,683
Finance costs - distribution to Unitholders	—	—	—	—	(338,773)	(338,773)
Net assets as at 30th June, 2011	<u>8,432,356</u>	<u>15,876</u>	<u>(93,825)</u>	<u>97,221</u>	<u>3,228,893</u>	<u>11,680,521</u>

For the six months ended 30th June, 2010

	Notes	Attributable to Unitholders				Non-controlling interest (unaudited) HK\$'000	Total (unaudited) HK\$'000
		Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000		
Net assets as at 1st January, 2010		8,362,016	(198,396)	145,111	8,308,731	15,939	8,324,670
Changes in accounting policies	2.2	—	—	1,020,310	1,020,310	5,569	1,025,879
As at 1st January, 2010 (restated)		8,362,016	(198,396)	1,165,421	9,329,041	21,508	9,350,549
Profit for the period		—	—	325,201	325,201	3,174	328,375
Other comprehensive income for the period:							
Changes in fair value of cash flow hedges		—	(51,787)	—	(51,787)	—	(51,787)
Transfer from hedging reserve to income statement		—	66,173	—	66,173	—	66,173
Total comprehensive income for the period, before distribution to Unitholders		—	14,386	325,201	339,587	3,174	342,761
Finance costs - distribution to Unitholders		—	—	(274,289)	(274,289)	—	(274,289)
As payment of REIT Manager fees:							
Units issued		13,874	—	—	13,874	—	13,874
Units to be issued		19,279	—	—	19,279	—	19,279
Net assets as at 30th June, 2010 (restated)		<u>8,395,169</u>	<u>(184,010)</u>	<u>1,216,333</u>	<u>9,427,492</u>	<u>24,682</u>	<u>9,452,174</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2011

	Notes	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited and restated) HK\$'000
Profit for the period, before distribution to Unitholders		1,957,610	325,201
Adjustments:			
Difference in accounting Base Rent and actual contractual cash Base Rent		—	33,286
Amount set aside on account for the furniture, fixtures and equipment reserve	(e)	(15,701)	(12,640)
REIT Manager fees paid/payable in the form of Units		—	33,153
Amortisation of debt establishment costs		5,731	4,495
Fair value changes on investment properties		(1,782,569)	(103,256)
Fair value changes on derivative financial instruments		(3,741)	(9,282)
Depreciation		2,527	—
Deferred tax		22,611	28,643
Distributable income for the period	(b)&(d)	186,468	299,600
Distribution per Unit	(a),(c)&(d)	HK\$0.057	HK\$0.086

Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders the minimum amount of no less than 90% of Regal REIT's Total Distributable Income for each financial year.

The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager has resolved to make an interim distribution of HK\$0.057 per Unit for the six months ended 30th June, 2011 (six months ended 30th June, 2010: HK\$0.086 per Unit).

- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 16th September, 2011 in respect of the interim distribution for the six months ended 30th June, 2011. This interim distribution will be paid out to Unitholders on or about 12th October, 2011. The total distributable amount to be paid to Unitholders for the period of approximately HK\$185.7 million is arrived at based on the interim distribution per Unit of HK\$0.057 and the number of Units expected to be in issue at the Record Date that are entitled to distribution as detailed below.
- (c) The number of Units expected to be entitled to distribution for the period from 1st January, 2011 to 30th June, 2011 is 3,257,431,189. This does not take into consideration any Units which may be repurchased and cancelled subsequent to the approval of the condensed consolidated interim financial statements but before the Record Date.
- (d) The interim distribution of HK\$0.057 per Unit for the six months ended 30th June, 2011, involving a total distributable amount of approximately HK\$185.7 million, was resolved and declared by the REIT Manager on 24th August, 2011. Accordingly, the distribution is not reflected as a distribution payable in the condensed consolidated interim financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2011.
- (e) Amount set aside for the furniture, fixtures and equipment reserve account contributed by Regal REIT with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel") and Regal iClub Hotel aggregated HK\$15.7 million. For the same period in the prior year, the amount for the Initial Hotels was contributed by the lessee.

The notes on pages 35 to 56 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2011

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Net cash flows from operating activities	294,586	336,485
Net cash flows used in investing activities	(29,841)	(41,790)
Net cash flows used in financing activities	(284,098)	(279,932)
Net increase/(decrease) in cash and cash equivalents	(19,353)	14,763
Cash and cash equivalents at beginning of period	27,151	68,305
Cash and cash equivalents at end of period	7,798	83,068
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	7,798	83,068

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2011

1. GENERAL

Regal Real Estate Investment Trust ("Regal REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units (the "Units") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March, 2007 (the "Listing Date"). Regal REIT is governed by a trust deed (the "Trust Deed") dated 11th December, 2006 (date of establishment), made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as amended by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008, the third supplemental trust deed dated 8th May, 2009, the fourth supplemental trust deed dated 23rd July, 2010, the fifth supplemental trust deed dated 3rd May, 2011 and the sixth supplemental trust deed dated 21st July, 2011) and the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission (the "SFC").

The principal activity of Regal REIT and its subsidiaries (collectively, the "Group") is to own and invest in income-producing hotels, serviced apartments and commercial properties (including office properties) with the objectives of producing stable and growing distributions to the unitholders of Regal REIT (the "Unitholders") and to achieve long-term growth in the net asset value per Unit attributable to Unitholders.

The addresses of the registered office of the REIT Manager and the Trustee are Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the condensed consolidated interim financial statements include applicable disclosures required by the REIT Code issued by the SFC and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

2.2 Basis of preparation

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for investment properties, property, plant and equipment and certain financial instruments, which have been measured at fair values. These condensed consolidated interim financial statements are presented in Hong Kong dollars, which is the functional currency of Regal REIT.

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are effective for the Group's annual periods beginning on or after 1st January, 2011.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs (2010)</i>	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no impact on the Group's results of operations and financial position.

Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Amendments to HKAS 12 were issued in December 2010 which introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in HKAS 40 *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. The amendments also require that deferred tax on non-depreciable assets measured using the revaluation model in HKAS 16 *Property, Plant and Equipment*, should always be measured on a sale basis. As a result of the amendments, Hong Kong (SIC)-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, will be superseded once the amendments become effective. Although the amendments are effective for annual periods beginning on or after 1st January, 2012, the Group early adopted the amendments in the Group's annual financial statements for the year ended 31st December, 2010.

Prior to 31st December, 2010, the Group previously provided deferred tax on the fair value changes on its investment properties assuming that the carrying amount of these properties will be recovered through use. Upon the adoption of the Amendments to HKAS 12, the Group measures deferred tax on investment property assuming that its carrying amount will be recovered through sale.

The effects of the above changes on the condensed consolidated interim financial statements are summarised below.

	2010 HK\$'000
<i>Condensed consolidated income statement for the six months ended 30th June</i>	
Decrease in income tax expense	17,243
Increase in profit for the period, before non-controlling interest and distributions to Unitholders	17,243
Increase in profit for the period, before distributions to Unitholders	17,037
Increase in profit for the period, after distributions to Unitholders	17,037
Increase in non-controlling interest	<u>206</u>
Increase in basic and diluted earnings per Unit attributable to Unitholders	<u>HK\$0.005</u>

3. OPERATING SEGMENT INFORMATION

Operating segments of the Group are identified on the basis of internal reports about the components of the Group which are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to segments and assess their performance. Information reported to the Group's chief operating decision-maker, for the above-mentioned purposes, is mainly focused on the segment results related to the nature of properties, namely, the hotel properties and the mixed use property. For management purposes, the two reportable operating segments are (i) the hotel properties segment which invested in the Initial Hotels; and (ii) the mixed use property segment which invested in the Regal iClub Hotel, which is made up of the hotel portion and other portions.

The operating segments of the Group for the six months ended 30th June, 2011 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue from lessee	324,567	2,298	326,865
Gross hotel revenue from external customers	—	19,522	19,522
	<u>324,567</u>	<u>21,820</u>	<u>346,387</u>
Total	324,567	21,820	346,387
Segment results			
	<u>319,227</u>	<u>14,104</u>	<u>333,331</u>
Bank interest income			71
Depreciation	—	(2,527)	(2,527)
Fair value changes on investment properties	1,779,569	3,000	1,782,569
REIT Manager fees			(32,701)
Trust, professional and other expenses			(2,581)
Fair value changes on derivative financial instruments			3,741
Finance costs - excluding distribution to Unitholders			(90,926)
			<u>1,990,977</u>
Profit before tax and distribution to Unitholders			<u>1,990,977</u>

The operating segments of the Group for the six months ended 30th June, 2010 are as follows:

	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Segment revenue			
Gross rental revenue from lessees	378,142	12,000	390,142
	<u>378,142</u>	<u>12,000</u>	<u>390,142</u>
Segment results	378,142	12,000	390,142
	<u>373,122</u>	<u>12,000</u>	<u>385,122</u>
Bank interest income			30
Fair value changes on investment properties	99,506	5,000	104,506
REIT Manager fees			(34,253)
Trust, professional and other expenses			(3,783)
Fair value changes on derivative financial instruments			9,282
Finance costs - excluding distribution to Unitholders			(88,688)
			<u>372,216</u>
Profit before tax and distribution to Unitholders			<u>372,216</u>

Segment assets and liabilities

As at 30th June, 2011, the Group's segment assets comprised of aggregate fair values of investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment amounting to HK\$16,100,000,000 (31st December, 2010: HK\$14,310,000,000) and HK\$687,000,000 (31st December, 2010: HK\$570,000,000), respectively.

Save as set out above, no other assets and liabilities are included in the assessment of the Group's segment performance.

Other segment information

	Six months ended 30th June, 2011		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	10,431	94	10,525

	Year ended 31st December, 2010		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditures	86,358	25,000	111,358

Capital expenditures consist of additions to investment properties and property, plant and equipment.

Information about a major customer

Revenue of approximately HK\$324,567,000 (six months ended 30th June, 2010: approximately HK\$378,142,000) was derived from the lease of the hotel properties to a single lessee.

Geographical information

The Group's investment properties and property, plant and equipment are all located in Hong Kong.

4. NET RENTAL AND HOTEL INCOME

Revenue, which is also the Group's turnover, represents the gross rental revenue, gross hotel revenue and other rental-related income received and receivable from its investment properties during the period.

The net rental and hotel income represents the aggregate of:

- (a) Net rental income, being the net amount of gross rental revenue less property operating expenses, and
- (b) Net hotel income, being the gross hotel revenue less hotel operating expenses.

An analysis of the net rental and hotel income is as follows:

	Notes	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Gross rental revenue			
Rental income - Initial Hotels	(a)	320,145	361,639
- Regal iClub Hotel - other portions	(b)	2,298	12,000
Other rental-related income	(c)	—	12,640
Other		4,422	3,863
		<u>326,865</u>	<u>390,142</u>
Property operating expenses		(5,524)	(5,020)
Net rental income		<u>321,341</u>	<u>385,122</u>
Gross hotel revenue			
Hotel operating expenses	(d)	19,522	—
		(7,532)	—
Net hotel income		<u>11,990</u>	<u>—</u>
Net rental and hotel income		<u><u>333,331</u></u>	<u><u>385,122</u></u>

Notes:

(a) An analysis of the rental income is as follows:

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Base Rent:		
Cash Base Rent	280,000	390,000
Cash Additional Base Rent	1,078	4,925
Difference in accounting Base Rent and actual contractual cash Base Rent	—	(33,286)
	<u>281,078</u>	<u>361,639</u>
Variable Rent	39,067	—
	<u>320,145</u>	<u>361,639</u>

Prior to the year ended 31st December, 2010, under the terms of the lease agreements with the lessee with respect to the Initial Hotels, the Group was entitled to receive (i) cash base rent (the "Base Rent"), in the form of a pre-determined fixed cash sum per annum payable monthly in advance; (ii) cash additional base rent (the "Additional Base Rent") for capital additions projects which were proposed by the lessee, were approved and funded by the Group and were intended to increase revenue and rental payment capacity of any one of the Initial Hotels; and (iii) variable rent (the "Variable Rent"), computed on a pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments.

For the years 2011 to 2015, the determination of the Base Rent and the Variable Rent with respect to the Initial Hotels is subject to annual rent reviews by an independent property valuer. According to the determination of the market rental package for the year 2011 (the "Market Rental Package"), the Group was entitled to receive (i) Base Rent of HK\$560.0 million; and (ii) Variable Rent, computed on 50% of the excess of the aggregate net operating income (the "NPI") of the Initial Hotels over the aggregate Base Rent payments.

For the year ending 31st December, 2011, Regal REIT is to receive Base Rent in the form of cash for each Initial Hotel on a monthly basis. For the six months ended 30th June, 2011, Regal REIT received an aggregate of HK\$281.1 million, representing cash Base Rent of HK\$280.0 million and cash Additional Base Rent of HK\$1.1 million for December 2010.

- (b) Under the terms of the lease agreement with the lessee with respect to the Regal iClub Hotel, a subsidiary of Regal REIT received from the lessee a rent of HK\$2.0 million per calendar month (excluding management expenses, rates, government rent and other sums payable by the lessee under the lease agreement) until 31st December, 2010.

For the six months ended 30th June, 2011, Regal iClub Hotel - other portions generated rental income of approximately HK\$2.3 million.

- (c) Other rental-related income in the prior period represented contributions to the furniture, fixtures and equipment reserve (the "FF&E Reserve") received from the lessee of the Initial Hotels in accordance with the terms of the lease agreements until 31st December, 2010. The FF&E Reserve contributions were for additions to and replacements of furniture, fixtures and equipment for the Initial Hotels. Under the Market Rental Package for 2011, no FF&E Reserve contributions are required to be made by the lessee and the obligation for such contributions rests with the lessors of each of the Initial Hotels.
- (d) For the six months ended 30th June, 2011, Regal iClub Hotel - hotel portion contributed gross hotel revenue of approximately HK\$19.5 million and incurred operating costs and expenses amounting to approximately HK\$7.5 million.

5. OTHER INCOME

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Bank interest income	<u>71</u>	<u>30</u>

6. REIT MANAGER FEES

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Base Fees:		
In the form of Units	—	20,926
In the form of cash	22,475	740
Variable Fees:		
In the form of Units	—	12,227
In the form of cash	10,226	360
	<u>32,701</u>	<u>34,253</u>
Total REIT Manager Fees:		
In the form of Units	—	33,153
In the form of cash	32,701	1,100
	<u>32,701</u>	<u>34,253</u>

Under the Trust Deed, the REIT Manager is entitled to receive the following:

- a base fee (the “Base Fee”) of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT which is payable monthly (in the form of cash or Units) and subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the end of the reporting period for the relevant financial year; and
- a variable fee (the “Variable Fee”) of currently 3% (subject to a maximum of 5%) per annum of the net property income for the relevant financial year as defined in the Trust Deed in respect of each Initial Hotel and the Regal iClub Hotel, which is payable annually.

For the financial year 2011, the REIT Manger elected to receive its Base Fees and Variable Fees in the form of cash. Details of which can be referred to announcements published on 14th January, 2011 and 21st July, 2011 respectively.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Auditors' remuneration	590	600
Legal and other professional fees	323	1,355
Trustee fees	1,189	1,347
Other expenses	479	481
	<u>2,581</u>	<u>3,783</u>

8. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	21,363	17,898
Fair value changes on derivative financial instruments - cash flow hedges (transfer from hedging reserve)	63,803	66,173
Amortisation of debt establishment costs	5,731	4,569
Loan commitment fees	29	48
	<u>90,926</u>	<u>88,688</u>

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited and restated) HK\$'000
Charge for the period	10,756	14,924
Deferred tax (note 18)	22,611	28,917
	<u>33,367</u>	<u>43,841</u>

10. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the period before distribution to Unitholders of approximately HK\$1,957,610,000 (six months ended 30th June, 2010: approximately HK\$325,201,000 (as restated)) and the weighted average of 3,248,600,370 Units (six months ended 30th June, 2010: 3,214,791,176 Units) in issue during the period. The basic earnings per Unit attributable to Unitholders for the period amounted to HK\$0.603 (six months ended 30th June, 2010: HK\$0.101 (as restated)).

The diluted earnings per Unit attributable to Unitholders is the same as the basic earnings per Unit attributable to Unitholders as there were no dilutive instruments in issue during the period.

11. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
Transfer from investment properties (note 12)	437,000
Additions	94
Surplus on revaluation	116,433
Depreciation provided during the period	(2,527)
	<hr/>
At 30th June, 2011	<u>551,000</u>

The Group's property, plant and equipment represents the value of land, building and equipment of Regal iClub Hotel for the hotel portion. The property, plant and equipment was revalued on 30th June, 2011 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$551,000,000 on an open market value, existing use basis. A revaluation surplus of approximately HK\$116,433,000 resulting from the 30th June, 2011 valuation has been credited to other comprehensive income.

The Regal iClub Hotel is situated in Hong Kong and held under a long term lease, and has been pledged to secure banking facilities granted to the Group.

The carrying amount of the Group's property, plant and equipment would have been approximately HK\$434,567,000 had such assets been stated in the condensed consolidated interim financial statements at cost less accumulated depreciation and impairment losses.

Further particulars of the Group's hotel properties are included on pages 59 to 60.

12. INVESTMENT PROPERTIES

	HK\$'000
At 1st January, 2010	14,290,000
Fair value changes	478,642
Capital expenditures for the year	111,358
	<hr/>
At 31st December, 2010 and 1st January, 2011	14,880,000
Transfer to owner-occupied property (note 11)	(437,000)
Fair value changes	1,782,569
Capital expenditures for the period	10,431
	<hr/>
At 30th June, 2011	<u>16,236,000</u>

The Group's investment properties were valued on 30th June, 2011 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$16,236,000,000 on an open market value, existing use basis. The investment properties are leased to a related party and other commercial tenants under operating leases, further details of which are included in note 21(a) to the condensed consolidated interim financial statements.

The Group's investment properties, which are situated in Hong Kong and held under medium to long term leases, have been pledged to secure banking facilities granted to the Group (note 16).

Further particulars of the Group's investment properties are included on pages 59 to 60.

13. ACCOUNTS RECEIVABLE

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Variable Rent receivables	39,067	118,384
FF&E Reserve contribution receivables	—	2,975
Other accounts receivable	536	—
	<u>39,603</u>	<u>121,359</u>

The aged analysis of accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Within 3 months	39,571	121,359
Over 3 months	32	—
	<u>39,603</u>	<u>121,359</u>

Credit term

The Variable Rent receivables and FF&E Reserve contribution receivables represent amounts due from a related company which has no recent history of default. The amounts are unsecured and repayable within one year in accordance with the terms of the respective agreements.

The general credit term is 30 days for other accounts receivable. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

14. RESTRICTED CASH

At 30th June, 2011, the Group had approximately HK\$78.9 million (31st December, 2010: approximately HK\$72.0 million) of cash which was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the FF&E Reserve for use in the Initial Hotels and Regal iClub Hotel - hotel portion, and deposits of certain tenants in respect of the Regal iClub Hotel - other portions. All of the restricted cash is expected to be released within one year from the end of the reporting period and is, accordingly, classified as a current asset.

15. ACCOUNTS PAYABLE

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Amounts due to related companies	45,603	9,685
Other accounts payable	253	—
	<u>45,856</u>	<u>9,685</u>

The amounts due to related companies are unsecured, interest-free and repayable on demand. For other accounts payable, they are unsecured, interest-free and are normally settled within 90 days.

The aged analysis of accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Within 3 months	<u>45,856</u>	<u>9,685</u>

16. INTEREST-BEARING BANK BORROWINGS

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Interest-bearing bank borrowings	4,748,500	4,705,000
Debt establishment costs	(7,961)	(12,346)
	4,740,539	4,692,654
Portion classified as current liabilities	(4,528,745)	(75,413)
Non-current portion	211,794	4,617,241
Analysed into bank loans repayable:		
Within one year	4,528,745	75,413
In the second year	5,551	4,617,241
In the third to fifth years, inclusive	206,243	—
	4,740,539	4,692,654

Under a banking facility agreement, the Group was granted a facility aggregating HK\$4.5 billion (the "Initial Facility"). The Initial Facility bears interest at a floating interest rate of 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. At the end of the reporting period, the Group had fully utilised the Initial Facility. The Initial Facility will be repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK\$4.35 billion, details of which are set out in note 17.

After completion of the acquisition of the remaining 25% interest in the Regal iClub Hotel on 31st December, 2010, the Regal iClub Hotel became wholly-owned by Regal REIT. On 28th January, 2011, Regal REIT entered into a new loan agreement for loan facilities aggregating HK\$280.0 million, comprised of a term loan of HK\$220.0 million and a revolving credit facility of HK\$60.0 million (the "New Facilities") to replace the previous facilities of HK\$211.0 million. The New Facilities bear interest based on HIBOR and no interest rate hedging has been arranged. As at the end of the reporting period, the term loan facility had an outstanding amount of HK\$218.5 million and HK\$30.0 million had been drawn down from the revolving credit facility.

Bank borrowings under the Initial Facility are guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies of the Group. The New Facilities are guaranteed by Regal REIT while the bank borrowings under the replaced facilities in the prior year were guaranteed by Regal REIT and Paliburg Holdings Limited in proportions of 75% and 25%, respectively, on a several basis.

The Group's interest-bearing bank borrowings are also secured by, amongst others:

- (i) legal charges and debentures over the relevant properties;
- (ii) an assignment of rental income and all other proceeds arising from and including all rights, titles and interests under all hotel management agreements and lease agreements, where appropriate, and relating to the relevant properties;
- (iii) charges over each relevant rental account, sale proceeds account and other control accounts, if any;
- (iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant Group companies; and
- (v) an equitable charge over the shares in the relevant Group companies.

As at 30th June, 2011, the Group's current liabilities exceeded its current assets by approximately HK\$4,612.0 million as the Initial Facility of HK\$4.5 billion repayable in full on 30th March, 2012 and the related derivative financial instruments were both classified as current liabilities at the end of the reporting period. The REIT Manager is in discussions with banks on various refinancing proposals. The REIT Manager believes that the refinancing exercise will be concluded before the maturity of the Initial Facility and the Group would have sufficient resources to satisfy its commitments and working capital requirement.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Interest rate swaps - cash flow hedges	93,830	142,423

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to one of its floating rate term loans with a notional amount of HK\$4.35 billion (note 16). The full fair value of these cash flow hedges is classified as a current item as the remaining maturities of the hedged items extend for less than 12 months. Major terms of the interest rate swaps are set out below.

Notional amount	Maturity	Swaps
HK\$2,350,000,000	18th January, 2012	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.53% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012
HK\$2,000,000,000	18th January, 2012	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.55% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012

The above derivatives are measured at fair values at the end of the reporting period and are determined based on discounted cash flow models.

18. DEFERRED TAX

The movements in deferred tax assets and liabilities during the period/year were as follows:

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2010	—	(241,996)	65,307	(176,689)
Deferred tax charged to the income statement during the year	—	(26,979)	(34,697)	(61,676)
Gross deferred tax assets/(liabilities) at 31st December, 2010 (audited)	—	(268,975)	30,610	(238,365)
Gross deferred tax assets/(liabilities) at 1st January, 2011	—	(268,975)	30,610	(238,365)
Deferred tax charged to other comprehensive income during the period	(19,212)	—	—	(19,212)
Deferred tax charged to the income statement during the period	—	(11,939)	(10,672)	(22,611)
Gross deferred tax assets/(liabilities) at 30th June, 2011 (unaudited)	(19,212)	(280,914)	19,938	(280,188)

For presentation purposes, deferred tax assets and liabilities have been offset in the condensed consolidated statement of financial position and shown under non-current liabilities.

19. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2011 (unaudited)	31st December, 2010 (audited)
At beginning of the period/year	3,241,560,101	3,204,394,184
REIT Manager fees paid in the form of Units	15,871,088	37,165,917
At end of the period/year	3,257,431,189	3,241,560,101

20. NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per Unit attributable to Unitholders is calculated by dividing the net assets attributable to Unitholders as at 30th June, 2011 of approximately HK\$11,680,521,000 (31st December, 2010: approximately HK\$9,919,611,000) by the number of Units in issue of 3,257,431,189 (31st December, 2010: 3,241,560,101) as of that date.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 12, under operating lease arrangements. At 30th June, 2011, the total future minimum lease receivables under non-cancellable operating leases with its lessees fall due as follows:

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Within one year	291,035	569,645
In the second to fifth years, inclusive	33,110	32,385
After five years	34,891	37,969
	<u>359,036</u>	<u>639,999</u>

Certain of the leases contain Additional Base Rent and Variable Rent provisions, details of which are set out in note 4 to the condensed consolidated interim financial statements.

Certain of the operating leases in the prior year were entered into by the Group on behalf of a related company.

(b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for a term of 12 years. At 30th June, 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Within one year	6,157	6,157
In the second to fifth years, inclusive	24,629	24,629
After five years	34,891	37,969
	<u>65,677</u>	<u>68,755</u>

During the six months ended 30th June, 2011, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK\$3,078,600 (six months ended 30th June, 2010: HK\$887,000) were charged to the condensed consolidated income statement.

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21(b) above, the Group had the following capital commitments in respect of its investment properties as at the end of the reporting period:

	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Authorised and contracted for	2,800	3,008
Authorised, but not contracted for	21,120	30,284
	<u>23,920</u>	<u>33,292</u>

23. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with connected and/or related parties during the period:

Connected/related parties	Relationship with the Group
DB Trustees (Hong Kong) Limited (the "Trustee")	The Trustee of Regal REIT
Deutsche Bank AG and its associates (the "Deutsche Bank Group")	Connected persons of the Trustee
Regal Hotels International Holdings Limited and other members of its group (collectively the "RHIHL Group")	Significant Unitholder of Regal REIT
Regal Portfolio Management Limited (the "REIT Manager")	The Manager of Regal REIT and a member of the RHIHL Group
Paliburg Holdings Limited and other members of its group (collectively the "PHL Group")	Controlling shareholders of the RHIHL Group
Colliers International (Hong Kong) Limited (the "Valuer")	The principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2011 (unaudited) HK\$'000	Six months ended 30th June, 2010 (unaudited) HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	324,567	411,428
Hotel management fees charged by the RHIHL Group	(ii)	(1,021)	—
Marketing fee charged by the RHIHL Group	(iii)	(195)	—
Contractual rental and rental-related income received/receivable from the PHL Group	(iv)	—	12,000
Building management fee charged by the PHL Group	(v)	(179)	—
Interest expense charged by the Deutsche Bank Group	(vi)	(29,332)	(30,421)
REIT Manager fees	(vii)	(32,701)	(34,253)
Trustee fees	(viii)	(1,189)	(1,347)
Valuation fees paid/payable to the Valuer	(ix)	(170)	(180)

Notes:

- (i) The rental and rental-related income are earned by the Group in accordance with the relevant agreements with respect to the Initial Hotels, details of which, including the terms, are set out in note 4 to the condensed consolidated interim financial statements.
- (ii) Hotel management fees comprise of (a) a base fee, for an amount equal to 2% of the gross hotel revenue, and (b) an incentive fee equal to 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the relevant hotel management agreement.
- (iii) The marketing fee is charged at 1% of the gross hotel revenue of the Regal iClub Hotel – hotel portion in accordance with the relevant hotel management agreement.
- (iv) The rental and rental-related income in the prior year were earned by the Group in accordance with the lease with respect to the Regal iClub Hotel, details of which, including the terms, are set out in note 4 to the condensed consolidated interim financial statements.
- (v) The building management fee is charged as a lump sum on a monthly basis in respect of the Regal iClub Hotel - other portions.
- (vi) The interest expense is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. The interest expense is incurred thereon in accordance with the relevant bank agreements and swap contracts with the Deutsche Bank Group.
- (vii) The REIT Manager is entitled to receive the Base Fees and Variable Fees, details of which, including the terms, are set out in note 6 to the condensed consolidated interim financial statements.
- (viii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at a rate ranging from 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the end of the reporting period subject to a minimum of HK\$66,000 per month.
- (ix) The valuation fees were charged by the Valuer in accordance with the terms of the relevant agreements.

(b) Balances with connected/related parties were as follows:

	Notes	30th June, 2011 (unaudited) HK\$'000	31st December, 2010 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables and FF&E Reserve contribution receivables	(i)	39,067	121,359
Other receivable	(ii)	4,440	5,000
Accounts payable to related companies	(ii)	(45,603)	(9,685)
Amounts due to related companies	(iii)	(428)	—
Net amounts due from/(to) the PHL Group:			
Amount due from/(to) a related company	(iii)	10	(432)
Other payables and accruals	(iii)	—	(418)
Deposits paid	(ii)	1,212	1,212
Net amounts due to:			
The Trustee	(iv)	(1,189)	(646)
The Valuer	(v)	(85)	(611)
Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group	(vi)	<u>32,385</u>	<u>31,253</u>

Notes:

- (i) Details of the balance are set out in note 13 to the condensed consolidated interim financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand.
 - (iii) The amounts are unsecured, interest-free and repayable within one year.
 - (iv) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (v) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vi) The short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the Group and the Trustee for a period up to 30th June, 2011.

Under the Market Rental Package for 2011, the RHIHL Lessee had delivered a replacement third party guarantee as a security deposit, for an amount of HK\$280.0 million, which is equivalent to six months Base Rent for the year 2011, issued by a licensed bank in Hong Kong in favour of the Group and the Trustee for a period up to 30th June, 2012.

- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of the hotel portion of the Regal iClub Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

24. EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period except as disclosed in note 6 for the election to receive the Variable Fee in the form of cash as announced on 21st July, 2011.

25. CONTINGENCIES AND PROVISION

A wholly-owned subsidiary of Regal REIT that owns the Regal Hongkong Hotel had instituted legal proceedings with the High Court in 2007 as plaintiff (the "Plaintiff") against a defendant who is the owner of a neighboring commercial building regarding a claim for reinstatement of easements and rights of way on the 1st floor and basement and for damages for interference during the renovation period of that commercial building (the "Claims"). The defendant made a counterclaim against the Plaintiff with respect to the usage of certain driveway areas on the ground floor of the Regal Hongkong Hotel (the "Counterclaim").

On 1st February, 2010, the High Court released a judgement to dismiss the Plaintiff's Claims and the defendant's Counterclaim and made a costs order nisi that the Plaintiff pay the defendant the costs of the Claims and the defendant pay the Plaintiff the costs of the Counterclaim (the "Judgement"). On 26th February, 2010, an appeal was filed by the Plaintiff against the Judgement on the Claims made by the High Court and the hearing for the appeal has been re-scheduled to November 2011. The outcome of such appeal remains uncertain at this stage.

On 19th July, 2010, a bill of costs in respect of the Claims was submitted by the defendant and on 26th October, 2010, a bill of costs in respect of the Counterclaim was communicated to the defendant. Based on the taxation hearing which took place in May 2011, both bills of costs were assessed. In July 2011, the Group settled a sum, representing the net amount of the two assessed bills of costs, to the defendant. A provision for the expected costs which could arise from the Judgement was included in "Other payables and accruals" in the consolidated statement of financial position as at 31st December, 2010 and the Directors do not consider any adjustment to such provision is required as at 30th June, 2011.

No further disclosures regarding such provision are being made by the Group as the Directors believe such disclosures might be prejudicial to the legal position of the Group.

REVIEW OF INTERIM RESULTS

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the interim report of Regal REIT for the six-month period from 1st January, 2011 to 30th June, 2011, in conjunction with Regal REIT's external auditors. The review report of the external auditors is set out on page 58 of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of Regal Portfolio Management Limited (the "REIT Manager")

INTRODUCTION

We have reviewed the interim financial information of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 56 which comprises the condensed consolidated statement of financial position as at 30th June, 2011 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in net asset, statement of cash flows and distribution statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The REIT Manager is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

24th August, 2011

INVESTMENT/HOTEL PROPERTIES PORTFOLIO

As at 30th June, 2011

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,083	31,900	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	23,623	27,300	100

	Description	Use	Lease	Gross Floor Area <i>(sq.m.)</i>	Approx Covered Floor Area <i>(sq.m.)</i>	Percentage interest attributable to Regal REIT
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,000	100
(6)	Regal iClub Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wanchai Hong Kong	Hotel/ office/ commercial	Long term	5,326	5,530	100

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