



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)

INTERIM REPORT
2010

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Managed by



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

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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
Eric Man Wai Kong

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

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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 2010 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2010, Regal REIT attained an unaudited consolidated net profit before distribution to Unitholders of approximately HK\$308.2 million, as compared to the profit of HK\$187.5 million recorded in the corresponding period in 2009. Based on the market valuations conducted as at the half year end date, there was an increase of approximately HK\$104.5 million in the fair values of Regal REIT's investment properties portfolio. This valuation increase has contributed positively 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\$299.6 million, as compared with HK\$280.5 million for the comparative period last year, representing approximately HK\$0.093 per Unit entitled to the distribution for the Interim Period. 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\$0.086 per Unit to the Unitholders for the six months ended 30th June, 2010 (six months ended 30th June, 2009: HK\$0.085 per Unit), representing a distribution of approximately 92.5% of the available distributable income for the Interim Period.

The first half of 2010 saw the global economy gradually recovering from the financial tsunami in 2008 and the human swine flu pandemic in 2009. The pace of recovery in the United States and Europe is still relatively slow due to the high unemployment rates. The economies in China and major Asian countries seem to have been less affected by the global economic downturn and sustained strong economic growth. Hong Kong continues to show its resilience and is expected to achieve a growth rate of 6.0% in its GDP in 2010, turning around from the drop in GDP of 2.8% for the year of 2009.

During the period under review, total number of visitors to Hong Kong reached approximately 16.9 million, which represents an increase of 23.1% year-on-year and is a new record for visitor arrivals in the first half of a year. Though visitors from all major markets recorded growth, the increase in the number of travellers from China and the Asian region was most noticeable. Visitors from the Mainland alone during this period surpassed 10 million and accounted for over 62.2% of the total count.

Benefited by the surge in visitor arrivals, the hotel industry in Hong Kong performed rather satisfactorily in the Interim Period, particularly as compared with the relatively weak performance in the corresponding period last year. Due to the lack luster economic condition prevailing in the United States and Europe, businesses from the long haul markets are still being affected. This has negatively impacted on the performance of Regal Airport Hotel, as its clientele has been principally targeted towards the individual travellers and long haul markets. Regal Airport Hotel has adjusted its business strategy to adapt to the changing demand profile, aiming to enhance its occupancy level and gross hotel revenue. Meanwhile, due to the temporary closure of some hotel guestrooms to accommodate the undertaking of upgrading works, the businesses at Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel have also been affected during the Interim Period. Nevertheless, the five Regal Hotels in Hong Kong have on the whole managed to achieve satisfactory performance in the first half of 2010, with aggregate net property income increased by 17.4% as compared with that attained in the corresponding period last year.

Regal REIT will continue to commit capital resources to upgrade its portfolio of investment properties, ranging from hotel guestrooms and suites, executive floors, dining venues, ancillary facilities, to IT enabled operating systems, with a view to maximise spatial utilisation and revenue generating capabilities. For the year 2010, Regal REIT has budgeted approximately HK\$56.0 million for these capital additions projects under the product revamp programme.

As reported earlier, the Regal iClub Hotel located within the Regal iClub Building in Wanchai, which is presently 75%-owned by Regal REIT with an option to acquire the remaining 25% interest, has been very well received. The renovation works for the conversion of the remaining 10 office floors in the building to add another 49 guestrooms and suites have already commenced, which are expected to be completed before the end of this year. This chic and trendy, IT enabled business model has proven to be popular with business travellers and could well be the prototype for further expansion in other suitable locations.

The current leases of the five Regal Hotels in Hong Kong with Regal Hotels Group will last until 31st December, 2015 but the yearly rental packages are fixed only up to the end of this year. For the year 2011 and onwards, the rental package will be determined on a yearly basis by an independent professional property valuer to be jointly appointed by Regal REIT and Regal Hotels Group. In this regard, an independent professional property valuer has been appointed to conduct the market rental review for the year 2011 and the rental review process will be completed before 30th September, 2010.

Based on present forecasts, the performance of the Regal Hotels in Hong Kong in the second half of this year, traditionally the high season for the hotel industry, is expected to surpass that achieved in the first half. Looking further ahead on a broader scale, the further relaxation of travel restrictions on individual visitors from the Mainland, the development of Hong Kong as the Offshore Renminbi Centre and the continual integration of Hong Kong with the Pearl River Delta regions should help bring the tourist industry in Hong Kong to new heights. Although global economies could still be volatile, the REIT Manager remains confident of the prospects of the hotel industry in Hong Kong. The REIT Manager will continue to monitor market changes and developments and will also closely review any potential expansion opportunities.

Lo Yuk Sui

Chairman

Regal Portfolio Management Limited

(as the REIT Manager of Regal REIT)

Hong Kong, 19th August, 2010

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, 2010 to 30th June, 2010 (the "Interim Period").

LONG-TERM OBJECTIVES AND MISSION OF REGAL REIT

Regal REIT's and the REIT Manager's primary objectives are to provide stable, growing distributions and long-term 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 continue to build up the existing portfolio of investment 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 Building in Hong Kong and to become a pre-eminent owner of 4 and 5 star-rated hotels as well as to reinforce Regal REIT's status as a growing attractive option to investors.

THE REIT MANAGER, THE RHIHL LESSEE, THE PHL 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 Initial Hotels were leased to Favour Link International Limited (the "RHIHL Lessee"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL") until 31st December, 2015, under long-term lease agreements (the "RHIHL Lease Agreements"). The RHIHL Lessee is responsible for the day-to-day running of the hotel businesses and has to that effect engaged Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group"), as the hotel manager (the "Hotel Manager") under long-term hotel management agreements (the "RHIHL Hotel Management Agreements").

Upon completion of the acquisition of 75% equity interests in Twentyfold Investments Limited which directly holds Sonnix Limited that, in turn, owns major portions of Regal iClub Building from Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL") (PHL together with its relevant subsidiaries, collectively, the "PHL Group") on 20th October, 2009, Regal iClub Building was leased to Real Charm Investment Limited, also a wholly-owned subsidiary of PHL, as the lessee (the "PHL Lessee") for the property leasing and operation business of Regal iClub Hotel for the period from 21st October, 2009 to 31st December, 2010 under a lease agreement (the "PHL Lease Agreement"). The PHL Lessee has also appointed the Hotel Manager for the operation and management of Regal iClub Hotel under a hotel management agreement (the "PHL Hotel Management Agreement") until 31st December, 2010.

The Trustee of Regal REIT 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 and the fourth supplemental deed dated 23rd July, 2010) (collectively, the "Trust Deed") and regulatory requirements.

RENTAL STRUCTURE

Initial Hotels - Rental Structure and Market Rental Package

Rental payments in respect of the Initial Hotels received by Regal REIT consist of three main elements: (i) Base Rent; (ii) Variable Rent; and (iii) Furniture, Fixtures and Equipment Reserve contribution.

Base Rent

Regal REIT receives rent in the form of a fixed cash Base Rent for each Initial Hotel for each of the years until 31st December, 2010. Total Base Rent for the year 2010 has been determined to be HK\$780.0 million. In addition, Regal REIT receives cash additional Base Rent (the "Additional Base Rent") for capital additions (the "Capital Additions") projects, which are proposed by the RHIHL Lessee, approved and funded by Regal REIT for Capital Additions projects intended to increase the revenue and rental payment capacity of the respective Initial Hotels. During the Interim Period, Regal REIT received approximately HK\$4.9 million in Additional Base Rents for the related Capital Additions projects.

Variable Rent

Regal REIT receives Variable Rent, sharing of aggregate profits from the Initial Hotels' operations after their Base Rent payments have been made by the RHIHL Lessee. The excess profits represented by the collective excess net property income (the "NPI") from the Initial Hotels' operations are allocated 50% to Regal REIT in 2010.

From the listing date of Regal REIT to 31st December 2010, RHIHL Lessee guarantees Variable Rent to be no less than HK\$220.0 million in total subject to no disposals of any of the Initial Hotels during the period. So far, Variable Rent of HK\$101.6 million was received. The remaining minimum guaranteed Variable Rent amounts to approximately HK\$118.4 million for the year ending 31st December, 2010.

Base Rent Reallocation

On 12th February, 2010, Regal REIT, through the Initial Hotels owning companies (the "RHIHL Lessors"), entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements (the "Base Rent Reallocations"), in order to better reflect the earning capacity of each of the Initial Hotels based on the 2008 year end valuation which included an updated assessment of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which will remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK\$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations took effect as of 1st January, 2009 and 1st January, 2010, respectively.

Furniture, Fixtures & Equipment Reserve Contribution

Regal REIT is obligated under the RHIHL Lease Agreements to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels (the "FF&E Reserve"). To maintain this reserve, the RHIHL Lessee contributes, in the form of additional rental payments, on a monthly basis, an amount equals to 2% (up to 31st December, 2010) of total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for the previous month to Regal REIT. During the Interim Period, approximately HK\$12.6 million had been contributed to the reserve and approximately HK\$9.1 million had been expended for the purposes intended.

Rent Reviews of Market Rental Package for 2011 to 2015

A 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 in each of the years from 2010 to 2014 to determine the market rental package, including the amount of market rents (inclusive of the amount of Base Rent for each Initial Hotel, Variable Rent sharing percentage and the RHIHL Lessee's contribution to 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").

The independent professional property valuer has been appointed in June 2010 for the purpose of the 2011 rent review and the 2011 Market Rental Package will be determined no later than 30th September, 2010.

Regal iClub Building - Rental Structure

Pursuant to the PHL Lease Agreement, the PHL Lessee is obligated to pay the monthly rental amount of HK\$2.0 million to a subsidiary of Regal REIT for the term commencing 21st October, 2009 until 31st December, 2010, the expiry date of the PHL Lease Agreement. The REIT Manager will consider different available options for the operation of the Regal iClub Hotel after expiry of the PHL Lease Agreement.

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 29 to 56.

Rental Revenue Derived from Hotel Operations

Regal REIT's rental revenues, represented by Base Rent and Variable Rent are derived from the hotel business operations at the Initial Hotels leased to the RHIHL Lessee and managed by the Hotel Manager. The monthly rental revenue receivable by Regal REIT also increased by HK\$2.0 million per month (representing full rental under the PHL Lease Agreement) payable by the PHL Lessee since the acquisition of 75% stake of Regal iClub Building in October 2009.

Overview of the Macro Economic Environment

The first half of 2010 saw the global economy gradually recovering from the financial tsunami in 2008 and the human swine flu pandemic in 2009. According to the World Economic Outlook Update by the International Monetary Fund, the global GDP is expected to increase by 4.6%¹ for the full year of 2010. The robust rebound in global economic activity was helped by strong growth in China's GDP which was estimated to increase by 10.5%¹ and Asia's GDP forecasted to increase by 7.5%¹, while GDP in the U.S. economy projected a slight growth of 3.3%¹ and Europe to have a sluggish increase of 1.0%¹.

In 2010, Hong Kong's GDP showed signs of positive turnaround with its growth rate projected at 6.0%¹ compared with a GDP drop of 2.8%¹ for 2009. In April 2010, the Icelandic Volcanic Eruption caused a short term disruption to international air traffic and long haul flights flying in and out Europe, which indirectly affected long haul visitors to Hong Kong. Europe's sovereign debt crisis in April 2010 spilled over into the banking sectors in Europe which, in turn, tightened bank credit and heightened costs of funding in the Euro economies. These factors created negative sentiments with business travellers particularly on long haul flights from Europe.

During the first half of 2010, China's GDP achieved approximately RMB17.3 trillion, or an increase of 11.1% year-on-year²; while the per capita disposable income of China's urban population reached RMB9,757 per annum or an increase of 10.2% year-on-year². The improvement in China's economy promoted positive sentiments for outbound travel for affluent Mainland businessmen.

¹ Source: International Monetary Fund, 'World Economic Outlook Update', 2010 projections, 8th July, 2010.

² Source: Sheng LY, 'National Economy Showed Good Momentum of Development', National Bureau of Statistics of China, 15th July, 2010.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, First Half of 2010 vs. Same Period in 2009³

Visitors to Hong Kong by Geographical Regions / Market Segments	1H 2010 (Percentage of total visitors)	1H 2010 (No. of visitors)	1H 2009 (No. of visitors)	Variance (No. of visitors)	Variance
Mainland China	62.2%	10,487,199	8,261,925	+2,225,274	+26.9%
South & Southeast Asia	9.9%	1,669,299	1,328,236	+341,063	+25.7%
North Asia	6.3%	1,062,771	845,764	+217,007	+25.7%
Taiwan	6.3%	1,056,139	942,566	+113,573	+12.0%
Europe, Africa & the Middle East	6.2%	1,040,271	934,737	+105,534	+11.3%
The Americas	4.9%	836,253	752,378	+83,875	+11.1%
Australia, New Zealand & South Pacific	2.2%	368,287	336,279	+32,008	+9.5%
Macao SAR	2.0%	335,797	294,894	+40,903	+13.9%
Total	100.0%	16,856,016	13,696,779	+3,159,237	+23.1%

Geographical Segmentation

During the first half of 2010, with the global economic rebound, about 16.9 million visitors visited Hong Kong which represented a surge of 23.1% year-on-year. For the month of June 2010, visitor arrivals totalled 2.6 million, with an impressive increase of 43.5% year-on-year. The total number of visitor arrivals to Hong Kong during the first half of 2010 broke the highest ever record in Hong Kong's tourism industry⁴.

Out of the 16.9 million visitor arrivals to Hong Kong during the first half of 2010, 10.5 million were Mainland Chinese, representing 62.2% of the total number of visitors. Visitors from the Asian region (including North Asia, South & Southeast Asia and Taiwan) accounted for 3.8 million or 22.5% of the total number of visitors³. This phenomenon was partially explained by the increase in GDPs in the regional countries and the appreciation of a number of Asian currencies which boosted the travel sentiments for Asian travellers to Hong Kong.

³ Source: Research, Hong Kong Tourism Board, 'Visitor Arrival Statistics - Jun 2010', Jul 2010; the REIT Manager.

⁴ Source: Press release, Hong Kong Tourism Board, 'First Half of 2010, Sees Record-Breaking, Visitor Arrivals of 16 Million', 27th July, 2010.

Visitors from the Americas recorded approximately 0.8 million or 4.9% of the total number of visitors over the six months, representing an increase of 11.1% compared with 2009. Visitors from Europe, Africa and the Middle East aggregated to approximately 1.0 million or represented 6.2% of the total number of visitors to show an increase of 11.3%.

According to the Asia Pacific Travel Intentions Survey conducted by Visa and Pacific Asia Travel Association (PATA), Hong Kong was ranked the third for Mainland China's leisure travellers to consider visiting between 2010 and 2012, after the rankings of Australia and Japan⁵. Affluent Mainland Chinese travellers would be one of the largest group that hotels and tourism trade associates plan to capture for their sustainable business growth based on the changing landscape of development in the hotel and tourism industry for 2010 and beyond.

Business Strategy

In view of the changing landscape in tourism, the Hotel Manager formulated revenue management strategies to boost reservations while enhancing the yield per visitor. This was accomplished through increases in resource allocation on expansion of the Regal Rewards loyalty programme; development of regional and global sales offices at strategic locations; enabling IT and web-based reservation system competitiveness; and deployment of, between the REIT Manager and the Hotel Manager, a joint proactive hotel product revamp strategy to upgrade its hotel products ranging from hotel guestrooms and suites, executive floors, dining venues and facilities and IT enabled operating systems to meet the increasing expectations of visitors.

According to the Hong Kong Tourism Board ("HKTB"), 18.0% of the visitor arrivals in Hong Kong were business travellers while 56.0% were leisure or vacation visitors⁶. To maximise the revenue generating capability and hotel properties' spatial utilisation, certain guestroom floors were converted to Executive Floors to accommodate the needs of business travellers with IT-enhanced equipment and new furniture and fittings while, at the same time, renovating dining outlets to meet the diversified dining preferences of the global visitor mix and local clientele. Various Capital Additions projects were also in place to increase the competitiveness of Regal REIT's investment properties portfolio.

The business strategies deployed by the Hotel Manager attracted an increasing number of long haul and/or business travellers from Europe and the United States. This resulted in an improved segmental revenue mix for the Initial Hotels by having 33.7% of business travellers during the first half of 2010 compared with 18.0% business travellers of the total market by arrival recorded by the HKTB for 2009. Leisure travellers' segment accounted for 53.2% of the Initial Hotels for the first six months of 2010, which was slightly less than the annual figure of 56.0% reported by the HKTB for 2009.

⁵ Source: Visa and Pacific Asia Travel Association (PATA), 'The Visa and Pacific Asia Travel Association Asia Pacific Travel Intentions Survey 2010', 7th July, 2010.

⁶ Source: Hong Kong Tourism Board, 'Visitor Profile Report – 2009', May 2010.

Hotel Supply

During the first half of 2010, six new hotel properties⁷ opened in Hong Kong. This increased the number of hotel guestrooms supply by 477 units or an increase in 0.8%⁷ of the total hotel room inventory in the market. The number of hotel properties in Hong Kong increased from 167 to 173, or an increase of approximately 3.6%⁷.

For Regal REIT's six investment properties, the hotel guestroom inventory would increase to approximately 3,930 after completion of the conversion project of the remaining 10 office floors in Regal iClub Building, Wanchai, by the end of 2010.

Industry Performance

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

Hong Kong Hotel Market Performance (January – June)⁷

Category	Room Occupancy Rates		Average Room Rates		RevPAR	
	2010	2009	2010	2009	2010	2009
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	78	68	1,896	1,816	1,479	1,235
High Tariff B	86	77	879	782	756	602
Medium Tariff	89	75	541	481	481	361
All Hotels	84	74	1,105	1,026	928	759

The overall hotel industry performed well during the first half of 2010 with the room occupancy rate for all hotels rising from 74% to 84% territory-wide, i.e. an increase of about 10 percentage points year-on-year. At the same time, the average room rate increased from HK\$1,026 to HK\$1,105, an increase of HK\$79 per room night or 7.7%⁷. RevPAR increased from HK\$759 to HK\$928, an increase of HK\$169 per room night or 22.3%⁷. The robust rebound in the hotel market in 2010 has demonstrated that Hong Kong is resilient and still serves as one of the most sought-after tourist destinations in the region.

⁷ Source: Research, Hong Kong Tourism Board, 'Hotel Room Occupancy Report – Jun 2010', Jul 2010; the REIT Manager.

Performance of the Initial Hotels

Total Hotel Revenue, Gross Operating Profit and Net Property Income For the Initial Hotels from 1st January, 2010 to 30th June, 2010 vs. Same Period Last Year

	Initial Hotels Combined			
	1st January, 2010 to 30th June, 2010 (HK\$'million)	1st January, 2009 to 30th June, 2009 (HK\$'million)	Variance (HK\$'million)	Variance (%)
Operating Results				
Room revenue	416.9	349.6	67.3	19.3
Food and beverage revenue	194.6	182.9	11.7	6.4
Other income	20.5	18.9	1.6	8.5
Total hotel revenue	632.0	551.4	80.6	14.6
Operating expenses	(352.4)	(313.1)	(39.3)	12.6
Gross operating profit	279.6	238.3	41.3	17.3
Other expenses	(21.9)	(21.0)	(0.9)	4.3
Net rental income	11.6	12.0	(0.4)	(3.3)
Net property income	269.3	229.3	40.0	17.4
Statistics				
Average room rate	HK\$729.23	HK\$740.87	HK\$(11.64)	(1.6)
Occupancy rate	82.5%	73.5%	9.0%	12.2
RevPAR	HK\$601.40	HK\$544.18	HK\$57.22	10.5
Total available room nights	693,230	642,502	50,728	7.9
Occupied room nights	571,688	471,931	99,757	21.1

During the Interim Period, the total hotel revenue of the Initial Hotels rose from HK\$551.4 million to HK\$632.0 million or an increase of 14.6% year-on-year, while gross operating profit increased from HK\$238.3 million to HK\$279.6 million or an increase of 17.3% year-on-year. Likewise, net property income recorded an increase from HK\$229.3 million to HK\$269.3 million or an uplift of 17.4%.

Highlights on Performance of the Initial Hotels

Focused on improving service levels and the yield mix, the Hotel Manager deployed various revenue management strategies and as a result, the occupancy rate of the Initial Hotels experienced an increase of 9 percentage points from 73.5% to 82.5% year-on-year, and RevPAR rose by HK\$57.22 per room night which represented 10.5% growth from HK\$544.18 to HK\$601.40. During the Interim Period, the operating performance of Regal Hongkong Hotel, Regal Kowloon Hotel and Regal Riverside Hotel has been affected by the temporary reduction in the number of available room nights to facilitate guestroom and other upgrading works. Due to the intensified competition in the city and the deployment of the revenue management strategies to increase overall revenue, the average room rate slightly declined by 1.6% from HK\$740.87 to HK\$729.23 year-on-year.

The business performance of the Initial Hotels was overall positive. Subsequent to the completion of the asset enhancement programme for Regal Riverside Hotel in 2009, an addition of 280 guestrooms were in operation which partially contributed to the growth in occupied room nights of the Initial Hotels by 21.1%. The food and beverage revenue of the Initial Hotels improved by 6.4% during the Interim Period. This was mainly attributed to the new Chinese restaurants at Regal Kowloon Hotel and Regal Oriental Hotel where the quality of product and decor improved substantially and to the Hotel Manager's concerted efforts in integrated marketing communications.

Performance of Regal iClub Building

Since its opening in December 2009, Regal iClub Hotel operating at the Regal iClub Building received positive feedback from customers. The occupancy rate of Regal iClub Hotel achieved 89.5% with average room rate of HK\$820.54 per night and RevPAR of HK\$734.66 during the Interim Period. The chic and trendy, IT enabled business model has proven to be well received by business travellers and for the MICE (meetings, incentives, conventions and exhibitions) market. As a green initiative for corporate sustainability, the Hotel Manager introduced effective carbon reduction measures in its operations to target Regal iClub Hotel as Hong Kong's first carbon neutral hotel property.

In view of such positive results, Regal REIT decided to further convert the remaining 10 floors of office space for hotel operations, thereby adding another 49 guestrooms and suites to cope with the increasing demand. The conversion project began in June 2010 and is projected to be completed before end of 2010.

In conclusion, the performance of the investment properties portfolio of Regal REIT showed positive signs of improvement compared with 2009 year-on-year. The management of the REIT Manager expects this can be sustained in the second half of 2010.

Performance of Regal REIT

Gross Rental Revenue and Net Rental Income

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

	1st January, 2010 to 30th June, 2010		1st January, 2009 to 30th June, 2009
	HK\$'million	%	HK\$'million
Base Rent			
Cash Base Rent	390.0	100.0	375.0
Cash Additional Base Rent	4.9	1.2	3.4
Difference in accounting Base Rent and actual contractual cash Base Rent	(33.3)	(8.5)	(18.2)
Other rental-related income			
Furniture, fixtures and equipment reserve contribution	12.6	3.2	11.0
Other	3.9	1.0	3.7
Rent – Regal iClub Building	12.0	3.1	—
Gross rental revenue	390.1	100.0	374.9
Property operating expenses	(5.0)	(1.3)	(4.7)
Net rental income	385.1	98.7	370.2

During the Interim Period, net rental income represented approximately 98.7% of gross rental revenue, after the deduction of property operating expenses. The property management of Regal REIT is handled by the Hotel Manager under the RHIHL Hotel Management Agreements with respect to the Initial Hotels and by the PHL Lessee under the PHL Lease Agreement for the Regal iClub Building. Accordingly, the related expenses are borne by the RHIHL Lessee with respect to the Initial Hotels and by the PHL Lessee for the Regal iClub Building, as opposed to being absorbed by Regal REIT directly.

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\$299.6 million, representing approximately HK\$0.093 per Unit entitled to the interim distribution.

Interim Distribution for 2010

The Directors of the REIT Manager have resolved to declare an interim distribution of HK\$0.086 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 17th September, 2010.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 15th September, 2010 to Friday, 17th September, 2010, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2010, 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 Tuesday, 14th September, 2010. The relevant distribution warrants are expected to be despatched on or about 12th October, 2010.

Valuation of Investment Properties

As at 30th June, 2010, Regal REIT's investment properties portfolio was valued at HK\$14,435.0 million, as compared to the valuation as at 31st December, 2009 of HK\$14,290.0 million.

The valuation of the portfolio of investment properties as at 30th June, 2010 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.

As required by the relevant Hong Kong Financial Reporting Standards, deferred tax liabilities have been provided in the condensed consolidated interim financial statements with regard to the revaluation surplus of Regal REIT's investment properties, which are all in Hong Kong. However, the Directors of the REIT Manager consider that should any such sale of the relevant properties eventuate, any such gain would be regarded as capital in nature and based on the current tax legislation in Hong Kong, would not be subject to capital gains tax in Hong Kong.

Net Asset Value

As at 30th June, 2010, the net asset value (the "NAV") per Unit attributable to Unitholders amounted to HK\$2.597, up HK\$0.004 from the NAV per Unit attributable to Unitholders as at 31st December, 2009, mainly due to the increase in the fair values of Regal REIT's investment properties portfolio during the Interim Period.

If the deferred tax liabilities provided in the condensed consolidated interim financial statements with regard to the revaluation surplus of the investment properties are added back, the proforma NAV compiled on such basis would be HK\$2.920 per Unit as at 30th June, 2010 (HK\$2.913 per Unit as at 31st December, 2009).

Capital Additions Projects

In 2010, Regal REIT would commit a budget of HK\$56.0 million in the Capital Additions projects. During the Interim Period, Capital Additions projects have been committed with an estimated final cost of approximately HK\$39.8 million covering all of the Initial Hotels, of which approximately HK\$25.2 million was related to income generating projects for which Additional Base Rent will be received. During the Interim Period, approximately HK\$4.9 million was received as Additional Base Rent.

Financial Review and Financing Strategy

In adopting a prudent approach, the REIT Manager would ensure that the leverage ratios of Regal REIT would not exceed the thresholds prescribed under the REIT Code and relevant financial facilities.

The REIT Manager monitors interest rate movements in the Hong Kong Interbank Offered Rates ("HIBOR") on an on-going basis and makes judgements with a view to contain fluctuation risks. The REIT Manager intends to continue a conservative hedging strategy to minimise the impact of interest rate fluctuations.

At 30th June, 2010, Regal REIT had loan facilities aggregating HK\$4,711.0 million comprised of a term loan of HK\$4,500.0 million secured by the Initial Hotels and a loan facility of HK\$211.0 million secured by the Regal iClub Building.

The term loan facility of HK\$4,500.0 million secured by the Initial Hotels bears interest at a floating rate of 60 basis points above three-month HIBOR. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements 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 to 18th January, 2012. The HK\$150.0 million balance of this HK\$4,500.0 million term loan is not hedged.

At 30th June, 2010, the net aggregate fair value of the interest rate hedging arrangements was reported as a non-current liability of approximately HK\$189.7 million in the condensed consolidated statement of financial position.

At 30th June, 2010, the loan-to-value ratio of this term loan was 32.3%, being the ratio of the outstanding term loan balance of HK\$4,500.0 million as compared to the aggregate market value of the Initial Hotels of HK\$13,950.0 million, based on the independent valuation as at 30th June, 2010. This loan-to-value ratio is below the 40% allowed under the facility agreement with the lenders.

A loan agreement, secured by the Regal iClub Building, was entered into in October 2009 by a subsidiary of Regal REIT (as the borrower) for loan facilities aggregating HK\$211.0 million comprised of a term loan of HK\$141.0 million and a revolving credit facility of HK\$70.0 million. The term loan was fully drawn down in October 2009 and is subject to eleven consecutive quarterly repayments of HK\$1.5 million and a final repayment of HK\$124.5 million at the end of the 12th quarter period. The revolving credit facility is for a term of 3 years. At 30th June, 2010, the outstanding balance of the term loan was HK\$138.0 million and HK\$3.0 million was drawn down from the revolving credit facility.

At 30th June, 2010, the loan-to-value ratio for such HK\$211.0 million loan facilities was 42.9%, being the ratio of the aggregate amount of the loan outstanding and the undrawn facility totalling HK\$208.0 million as compared to the market value of the Regal iClub Building of HK\$485.0 million, based on the independent valuation as at 30th June, 2010. This loan-to-value ratio is below the 65% allowed under the loan agreement with the lender.

At 30th June, 2010, the gearing ratio of Regal REIT amounted to 31.6%, being the gross amount of the outstanding loans of HK\$4,641.0 million as compared to the total gross assets of Regal REIT of approximately HK\$14,677.8 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$83.1 million in unrestricted and HK\$64.1 million in restricted cash balances and bank deposits as at 30th June, 2010 and, therefore, in the opinion of the Directors of the REIT Manager, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

At 30th June, 2010, Regal REIT's investment properties, with an aggregate carrying value of HK\$14,435.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

Outlook in 2010

The outlook for the second half of 2010 is positive. Hong Kong was ranked as the number 4 international financial center behind New York, London and Tokyo⁸. Hong Kong Government's strategic determination to further position Hong Kong as the events capital of Asia was demonstrated when the Financial Secretary earmarked HK\$100 million to set up the Mega Events Fund in the 2009/10 Budget to host a wide range of attractive arts, cultural and sports events. Seven mega events were approved as at the first half of 2010. All these activities will boost tourist arrivals and are expected to catch global travellers' attention.

To boost green tourism, the Hong Kong National Geopark has added many new promotions to make it a Hong Kong attraction⁹. Regal Riverside Hotel will benefit from its proximity to the Geopark scenic spots in northeastern Hong Kong. To build Hong Kong as an International Cruise Hub, a design and build contract for the Kai Tak Cruise Terminal Building was awarded in May 2010 by the Hong Kong Government, and the first berth is expected to be commissioned in mid 2013 and will be capable of accommodating the world's largest cruise vessels¹⁰. Regal Oriental Hotel, located nearby the Cruise Hub, will benefit from this catchment area.

Regal iClub Hotel and Regal Hongkong Hotel, being easily accessible to the Hong Kong Exhibition and Convention Centre, are likely to continue to benefit from the growth in MICE travellers. MICE visitor arrivals exceeded 280,000 in the first quarter of 2010, a 30% increase compared to the same period last year. The HKTB expects that this upward trend will continue in the next few quarters should the current growth momentum be sustained¹¹ and this will directly benefit Hong Kong's economy. It is estimated that business travellers to Hong Kong in general spend 40% more than leisure travellers¹².

In summary, the hotel and tourism industry's fundamentals are resilient and are supported by numerous positive economic indicators which point towards strong growth in tourist arrivals. With a strong growing volume of tourists to Hong Kong, and forecasts of increase in supply of only about 2,948¹³ additional new hotel rooms per night or an increase of about 4.9% by the end of 2010¹³; it is estimated that both the occupancy rate and average daily room rates in Hong Kong will enjoy modest if not higher growth for the remainder of 2010.

⁸ Source: Wang Y, 'Shanghai shines bright on the financial front', Xinhua Agency News, 9th July, 2010.

⁹ Source: Press statement, Tourism Commission, 'SCED: Geopark a new attraction for tourists', 6th February, 2010.

¹⁰ Source: Press statement, Tourism Commission, 'Contract signed to start construction of Kai Tak Cruise Terminal Building', 8th May, 2010.

¹¹ Source: Press release, Hong Kong Tourism Board, 'MICE Visitor Arrivals Rise by 30% in Q1 2010', 12th May, 2010.

¹² Source: Hao, 'Hong Kong Convention's business travellers increased by 27% during the first four months', Wenweipo, 28th June, 2010.

¹³ Source: Research, Hong Kong Tourism Board, 'Hotel Supply Situation – as at Mar 2010', Apr 2010; the REIT Manager.

The Way Forward

In 2010, Hong Kong's hotel business is being driven largely by the growth in affluent Mainland Chinese travellers due to rapid economic development in the PRC¹⁴ and a number of favorable national policies and regional economic co-operation arrangements. Hong Kong's economy is expected to benefit further from integration in the Pearl River Delta area. Hong Kong's potential as a regional financial center should expand to include an Offshore Renminbi Center, the development of the exhibition industry complementary to Guangdong province, and professional services to the mainland market, which will bring in more visitor arrivals to Hong Kong¹⁵. The potential co-operations between the Hong Kong and Shenzhen Exchanges, Hong Kong's development as a wealth management center and regional co-operations in trade between China and ASEAN Free Trade Agreement will also result in enhancing the competitiveness of Hong Kong as a prominent regional shipping center¹⁶. All these will have a positive impact on Hong Kong's importance as a tourist destination and a key financial center in Asia paving the way for positive and promising hotel and tourism growth in Hong Kong in the second half of 2010 and beyond.

¹⁴ Source: Ministry of Commerce, The People's Republic of China, 'Level of Chinese Urbanization in "the 12th Five-Year Plan" estimated to exceed 50%', 31st March, 2010.

¹⁵ Source: Chairman's Message, the Chinese General Chamber of Commerce, 'The 12th Five-Year Plan – An Opportunity for Hong Kong to Address Deep-rooted Issues', 5th April, 2010, <www.cgcc.org.hk>.

¹⁶ Hong Kong General Chamber of Commerce, 'Submission on the 12th Five Year Plan', 26th February, 2010.

OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2010, the total number of Units outstanding was 3,230,563,800. Refer to note 18 to the condensed consolidated interim financial statements on page 50.

As at 30th June, 2010, based on the 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 26,169,616 new Units allotted and issued to the REIT Manager in payment of REIT Manager fees, no further new Units have been 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 conduct of its business. The Board currently comprises two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors.

On 1st March, 2010, Mr. Kai Ole Ringenson resigned as the Chief Executive Officer and Executive Director of the REIT Manager and was redesignated as a Non-executive Director of the REIT Manager. On the same date, Mr. Francis Chiu and Mr. Eric Man Wai Kong, both acting as Responsible Officers of the REIT Manager, were appointed as Executive Directors 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 (“RHIHL”) (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 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.

In addition, the RHIHL Lessee guaranteed to pay a total Variable Rent, at a minimum of HK\$220.0 million, for the period from 30th March, 2007 to 31st December, 2010 to the Initial Hotel – Property Companies.

On 12th February, 2010, Regal REIT, through the Initial Hotel – Property Companies, entered into supplemental agreements to adjust the amount of the annual Base Rent payable by the RHIHL Lessee for the years 2009 and 2010, respectively, for each Initial Hotel pursuant to the relevant RHIHL Lease Agreements, in order to better reflect the earning capacity of each of the Initial Hotels based on the 2008 year end valuation which included an updated assessment of market conditions, but without affecting (i) the aggregate annual amount of the Base Rents payable by the RHIHL Lessee; (ii) the basis for the calculation of the Variable Rent, which will remain unchanged on an aggregate annual basis; and (iii) the total guaranteed Variable Rent of HK\$220.0 million payable by the RHIHL Lessee. The Base Rent Reallocations took effect as of 1st January, 2009 and 1st January, 2010, respectively.

During the Interim Period, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK\$411.4 million including cash Base Rent, cash Additional Base Rent, FF&E contribution and other rent received.

(ii) RHIHL Hotel 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 the Hotel Manager by entering into a RHIHL Hotel 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 with effect from 16th March, 2007.

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

Regal Asset Holdings Limited, the indirect holding company of each Initial Hotel – Property Company, is a party to the RHIHL Hotel 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 the respective Initial Hotels, to which the RHIHL Lessee will contribute on a monthly basis, from 30th March, 2007 up to 31st December, 2010, and may continue to contribute after 31st December, 2010, if required pursuant to annual rent reviews.

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.

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\$34.3 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, RHIHL Hotel 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

(i) 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 holds Sonnix Limited (the "Regal iClub Building – Property Company") that owns major portions of the commercial building at No. 211 Johnston Road, Wanchai, Hong Kong, which consists of 22 entire floors, a portion of the ground floor, a flat roof on the 3rd floor and the upper roof, out of a total of 26 floors in the building, together with the eastern and western elevations of the external walls and the architectural feature on the roof top of the building ("Regal iClub Building"), for a total consideration of approximately HK\$198.0 million.

Pursuant to the terms of the PHL S&P Agreement, the Trustee as the purchaser (at the direction of the REIT Manager) has, at its own discretion, the option to purchase the remaining 25% of the 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). The aggregate amounts payable by the Trustee are subject to an overall cap of HK\$98.0 million.

The above acquisition was completed on 20th October, 2009. The PHL S&P Agreement contains an undertaking by the PHL Vendor to complete an asset enhancement programme in relation to the conversion of part of the Regal iClub Building into (a) 50 hotel guestrooms for the establishment of "Regal iClub Hotel" and (b) a restaurant named as "iCafé" (the "PHL AEP"). The PHL AEP was completed in December 2009 and the requisite undertaking provided by the PHL Vendor under the PHL S&P Agreement formally released in June 2010.

(ii) PHL Lease Agreement

The Regal iClub Building – Property Company entered into the PHL Lease Agreement in relation to Regal iClub Building with the PHL Lessee on 20th October, 2009. PHL Lessee is a member of the PHL Connected Persons Group. The term of the PHL Lease Agreement expires on 31st December, 2010.

Under the terms of the PHL Lease Agreement, PHL Lessee makes lease payments to the Regal iClub Building – Property Company and is entitled to operate and manage the leasing business at Regal iClub Building and the Regal iClub Hotel owned by the Regal iClub Building – Property Company and, accordingly, all income received from the leasing business at Regal iClub Building and the operation of Regal iClub Hotel, during the term of the PHL Lease Agreement, is retained by the PHL Lessee.

During the Interim Period, the total contractual lease income under the PHL Lease Agreement amounted to HK\$12.0 million.

(iii) PHL Lease Guarantee

Pursuant to a lease guarantee entered into on 20th October, 2009, PHL has guaranteed: (a) the PHL Lessee's obligations to pay to the Regal iClub Building – Property Company and the Trustee, on demand by the Regal iClub Building – Property Company or the Trustee (on behalf of Regal REIT and at the direction of the REIT Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to the Regal iClub Building – Property Company under the PHL Lease Agreement, and (b) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the PHL Lease Agreement to be observed and performed by the PHL Lessee.

(iv) PHL AEP Agency Deed

To facilitate the carrying out of the PHL AEP, the Regal iClub Building – Property Company, Perfect Grand Investment Limited (the “PHL AEP Agent”), a member of the PHL Connected Persons Group, and PHL entered into the PHL AEP agency deed on 20th October, 2009, whereby the Regal iClub Building – Property Company appointed the PHL AEP Agent to enter into the PHL AEP contracts on its behalf. The PHL AEP Agent has undertaken to indemnify the Regal iClub Building – Property Company from and against all costs, losses and liabilities arising from the PHL AEP contracts, and has agreed to, among others, settle all payments on behalf of the Regal iClub Building – Property Company when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the PHL AEP contracts. The PHL AEP was completed in December 2009.

(v) PHL Development Consultant Agreement

On 31st May, 2010, Regal iClub Building – Property Company entered into a development consultant agreement with Paliburg Development Consultants Limited, a member of the PHL Connected Persons Group, to provide development consultancy services (including architectural and interior consultancy, contract administration and site supervision) to Regal iClub Building – Property Company in relation to the conversion of the remaining 10 office floors in Regal iClub Building to add another 49 guestrooms and suites for a total consideration of HK\$0.85 million. Reference can be made to the announcement dated 31st May, 2010 published by the REIT Manager in relation to connected party transactions.

(vi) PHL Registered Contractor Agreement

On 31st May, 2010, Regal iClub Building – Property Company and Chatwin Engineering Limited, a member of the PHL Connected Persons Group, entered into a registered contractor agreement for a total consideration of HK\$3.50 million, pursuant to which Chatwin Engineering Limited agreed to undertake construction works and to co-ordinate with other contractors in relation to the conversion of the remaining 10 office floors in Regal iClub Building to add another 49 guestrooms and suites. Reference can be made to the announcement dated 31st May, 2010 published by the REIT Manager in relation to connected party transactions.

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 new term loan was aggregated with the existing term loan of HK\$4.35 billion and the total term loan is now HK\$4.5 billion. 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 for the term loan 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 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\$1.3 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, 2010, 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, 2010
Century City International Holdings Limited ("CCIHL")	2,406,682,350 (Note i)	74.50%
Century City BVI Holdings Limited ("CCBVI")	2,406,682,350 (Notes i & ii)	74.50%
Paliburg Holdings Limited ("PHL")	2,401,395,350 (Notes iii & iv)	74.33%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,401,395,350 (Notes iii & v)	74.33%
Regal Hotels International Holdings Limited ("RHIHL")	2,401,395,350 (Notes iii & vi)	74.33%
Regal International (BVI) Holdings Limited ("RBVI")	2,401,395,350 (Notes iii & vii)	74.33%
Complete Success Investments Limited	1,817,012,072 (Note viii)	56.24%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.55%

Notes:

- (i) The interests in 2,406,682,350 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 2,401,395,350 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 59.09% shareholding interest in PHL as at 30th June, 2010, 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 49.03% shareholding interest in RHIHL as at 30th June, 2010, 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, 2010, 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, 2010, 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, 2010
Lo Yuk Sui	2,406,682,350 (Note i)	74.50%
Regal Portfolio Management Limited	93,514,209 (Note ii)	2.89%

Notes:

- (i) The interests in 2,406,682,350 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held a 50.66% shareholding interest as at 30th June, 2010.
- (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, 2010, 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, 2010

	Notes	Six months ended 30th June, 2010	Six months ended 30th June, 2009	Six months ended 30th June, 2008	Period from 11th December 2006 (date of establishment) to 30th June, 2007
Net assets attributable to Unitholders (HK\$'million)		8,390.1	8,118.1	10,927.7	10,402.7
Net asset value per Unit attributable to Unitholders (HK\$)		2.597	2.546	3.488	3.350
The highest traded price during the period (HK\$)	1	1.98	1.28	2.37	2.79
The lowest traded price during the period (HK\$)		1.65	0.84	1.50	2.52
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		36.47%	67.01%	57.00%	24.78%
Distribution yield per Unit	2	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, 2010 is calculated by dividing the interim distribution per Unit of HK\$0.086 over the closing price of HK\$1.83 as at 30th June, 2010, 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 34.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2010

	Notes	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Gross rental revenue	4	390,142	374,850
Property operating expenses		(5,020)	(4,682)
Net rental income		385,122	370,168
Other income	4	30	200
Fair value changes on investment properties	10	104,506	—
REIT Manager fees	5	(34,253)	(32,386)
Trust and other expenses	6	(3,783)	(5,444)
Fair value changes on derivative financial instruments		9,282	2,626
Net interest expense on derivative financial instruments		—	(169)
Finance costs - excluding distribution to Unitholders	7	(88,688)	(87,672)
PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		372,216	247,323
Income tax expense	8	(61,084)	(59,815)
PROFIT FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS		311,132	187,508
Non-controlling interest		(2,968)	—
PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		308,164	187,508
Finance costs - distribution to Unitholders		(274,289)	(256,033)
PROFIT/(LOSS) FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		33,875	(68,525)
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	9	HK\$0.096	HK\$0.059

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2010

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
PROFIT FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS	311,132	187,508
Other comprehensive income for the period:		
Cash flow hedges:		
Changes in fair values of cash flow hedges	(51,787)	(47,908)
Transfer from hedging reserve to income statement	66,173	45,360
	14,386	(2,548)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, BEFORE NON-CONTROLLING INTEREST AND DISTRIBUTION TO UNITHOLDERS	325,518	184,960
Represented by:		
Unitholders	322,550	184,960
Non-controlling interest	2,968	—
	325,518	184,960

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2010

	Notes	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Non-current assets			
Investment properties	10	14,435,000	14,290,000
Goodwill		5,940	5,940
Deferred tax assets	17	48,794	64,433
Total non-current assets		<u>14,489,734</u>	<u>14,360,373</u>
Current assets			
Accounts receivable	12	29,470	63,370
Prepayments, deposits and other receivables		4,931	2,496
Tax recoverable		6,484	12,855
Restricted cash	13	64,122	56,454
Cash and cash equivalents		83,068	68,305
Total current assets		<u>188,075</u>	<u>203,480</u>
Total assets		<u>14,677,809</u>	<u>14,563,853</u>
Current liabilities			
Accounts payable	14	7,569	7,595
Deposits received		5,289	5,855
Other payables and accruals		55,145	46,448
Interest-bearing bank borrowings	15	5,413	5,413
Tax payable		17,117	8,564
Total current liabilities		<u>90,533</u>	<u>73,875</u>
Net current assets		<u>97,542</u>	<u>129,605</u>
Total assets less current liabilities		<u>14,587,276</u>	<u>14,489,978</u>

The notes on pages 37 to 56 form part of these condensed consolidated interim financial statements.

	Notes	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Non-current liabilities, excluding net assets			
Interest-bearing bank borrowings	15	4,618,602	4,614,033
Derivative financial instruments	16	189,697	213,365
Deposits received		2,034	540
Due to a related company		64,429	64,429
Deferred tax liabilities	17	1,303,462	1,272,941
Total non-current liabilities		6,178,224	6,165,308
Total liabilities, excluding net assets		6,268,757	6,239,183
Net assets		8,409,052	8,324,670
Represented by:			
Net assets attributable to Unitholders		8,390,145	8,308,731
Non-controlling interest		18,907	15,939
		8,409,052	8,324,670
Number of Units in issue	18	3,230,563,800	3,204,394,184
Net asset value per Unit attributable to Unitholders	19	HK\$2.597	HK\$2.593

The notes on pages 37 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, 2010

	Note	Attributable to Unitholders			Non-controlling Total interest (unaudited) HK\$'000	Total (unaudited) HK\$'000	
		Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profits (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
Total comprehensive income for the period, before distribution to Unitholders		—	14,386	308,164	322,550	2,968	325,518
Finance costs - distribution to Unitholders		—	—	(274,289)	(274,289)	—	(274,289)
As payment of REIT Manager fees:							
Units issued	5	13,874	—	—	13,874	—	13,874
Units to be issued	5	19,279	—	—	19,279	—	19,279
Net assets as at 30th June, 2010		<u>8,395,169</u>	<u>(184,010)</u>	<u>178,986</u>	<u>8,390,145</u>	<u>18,907</u>	<u>8,409,052</u>

For the six months ended 30th June, 2009

	Note	Attributable to Unitholders			Non-controlling Total interest (unaudited) HK\$'000	Total (unaudited) HK\$'000	
		Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profits/ (accumulated losses) (unaudited) HK\$'000			
Net assets as at 1st January, 2009		8,296,809	(172,667)	32,635	8,156,777	—	8,156,777
Total comprehensive income/(loss) for the period, before distribution to Unitholders		—	(2,548)	187,508	184,960	—	184,960
Finance costs - distribution to Unitholders		—	—	(256,033)	(256,033)	—	(256,033)
As payment of REIT Manager fees:							
Units issued	5	13,726	—	—	13,726	—	13,726
Units to be issued	5	18,660	—	—	18,660	—	18,660
Net assets as at 30th June, 2009		<u>8,329,195</u>	<u>(175,215)</u>	<u>(35,890)</u>	<u>8,118,090</u>	<u>—</u>	<u>8,118,090</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2010

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Profit for the period, before distribution to Unitholders	308,164	187,508
Adjustments:		
Difference in accounting Base Rent and actual contractual cash Base Rent	33,286	18,286
Amount set aside on account for the furniture, fixtures and equipment reserve	(12,640)	(11,027)
REIT Manager fees paid/payable in the form of Units	33,153	32,386
Amortisation of debt establishment costs	4,495	4,078
Fair value changes on investment properties	(103,256)	—
Fair value changes on derivative financial instruments	(9,282)	(2,626)
Deferred tax	45,680	51,891
Distributable income for the period ^{(2) & (4)}	299,600	280,496
Distribution per Unit ^{(3) & (4)}	HK\$0.086	HK\$0.085

Notes:

- 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\$0.086 per Unit for the six months ended 30th June, 2010 (six months ended 30th June, 2009: HK\$0.085 per Unit).

2. 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 17th September, 2010 in respect of the interim distribution for the six months ended 30th June, 2010. This interim distribution will be paid out to Unitholders on or about 12th October, 2010. The total distributable amount to be paid to Unitholders for the period of approximately HK\$278.2 million is arrived at based on the interim distribution per Unit of HK\$0.086 and the number of Units expected to be in issue at the Record Date that are entitled to distribution as detailed below.
3. Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "RHIHL AEP Units") pending completion of the Asset Enhancement Programme (the "RHIHL AEP") at the relevant Initial Hotels (as defined hereinafter). Following the completion and hand over of the 280 additional rooms in Regal Riverside Hotel to Regal REIT on 26th June, 2009, all RHIHL AEP commitments were completed and, accordingly, all RHIHL AEP Units became entitled to any distributions for periods commencing from 1st July, 2009.

The number of Units expected to be entitled to distribution for the period from 1st January, 2010 to 30th June, 2010 is calculated as follows:

	Number of Units
In issue as at 30th June, 2010	3,230,563,800
Issued on 30th July, 2010 to the REIT Manager for REIT Manager Base Fees for May 2010	2,069,317
To be issued to the REIT Manager for REIT Manager Base Fees for June 2010	1,895,324
	<hr/>
Units expected to be in issue and entitled to distribution at the Record Date	<u>3,234,528,441</u>

The above calculation 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.

4. The interim distribution of HK\$0.086 per Unit for the six months ended 30th June, 2010, involving a total distributable amount of approximately HK\$278.2 million, was resolved and declared by the REIT Manager on 19th August, 2010. 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, 2010.

The notes on pages 37 to 56 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2010

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Net cash flows from operating activities	336,485	304,903
Net cash flows used in investing activities	(41,790)	(51,525)
Net cash flows used in financing activities	(279,932)	(100,968)
Net increase in cash and cash equivalents	14,763	152,410
Cash and cash equivalents at beginning of period	68,305	173,789
Cash and cash equivalents at end of period	<u>83,068</u>	<u>326,199</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>83,068</u>	<u>326,199</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2010

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 and the fourth supplemental trust deed dated 23rd July, 2010) 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 48, Cheung Kong Center, 2 Queen's Road Central, 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 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, 2009, 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, 2010.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Plan to sell the controlling interest in a subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
<i>Improvements to HKFRSs (2009)</i>	<i>Amendments to a number of HKFRSs</i>

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

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 investment 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 invests in the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"); and (ii) the mixed use property segment which invests in the Regal iClub Building.

During the six months ended 30th June, 2009, all of the Group's investment properties were hotel properties which belonged to the hotel properties segment. Segment results for the six months ended 30th June, 2009 represented the net rental income for that period.

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
Segment results*	472,628	17,000	489,628
Bank interest income			30
REIT Manager fees			(34,253)
Trust and other expenses			(3,783)
Fair value changes on derivative financial instruments			9,282
Finance costs - excluding distribution to Unitholders			(88,688)
Profit before tax and distribution to Unitholders			372,216

* Segment results include the fair value changes on investment properties of the respective operating segments.

Segment assets and liabilities

As at 30th June, 2010, included in the Group's segment assets were the aggregate fair values of investment properties in the hotel properties segment and the mixed use property segment amounting to HK\$13,950,000,000 (31st December, 2009 : HK\$13,810,000,000) and HK\$485,000,000 (31st December, 2009 : HK\$480,000,000), 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, 2010		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditure	40,494	—	40,494

	Year ended 31st December, 2009		
	Hotel Properties HK\$'000	Mixed Use Property HK\$'000	Total HK\$'000
Capital expenditure	72,275	479,000	551,275

Capital expenditure consists of additions to prepaid construction costs and investment properties including additions arising from a business combination.

Information about a major customer

Revenue of approximately HK\$378,142,000 (six months ended 30th June, 2009: approximately HK\$374,850,000) was derived from the lease of the hotel properties to a single lessee.

Geographical information

The Group's investment properties are all located in Hong Kong.

4. GROSS RENTAL REVENUE AND OTHER INCOME

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

An analysis of gross rental revenue and other income is as follows:

	Notes	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Gross rental revenue			
Rental income			
– Initial Hotels	(a)	361,639	360,117
– Regal iClub Building	(b)	12,000	—
Other rental-related income	(c)	12,640	11,027
Other		3,863	3,706
		<u>390,142</u>	<u>374,850</u>
Other income			
Bank interest income		<u>30</u>	<u>200</u>

Notes:

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

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Base Rent:		
Cash Base Rent	390,000	375,000
Cash Additional Base Rent	4,925	3,403
Difference in accounting Base Rent and actual contractual cash Base Rent	<u>(33,286)</u>	<u>(18,286)</u>
	<u>361,639</u>	<u>360,117</u>

Under the terms of the lease agreements with the lessee with respect to the Initial Hotels, the Group is 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 up to the year ending 31st December, 2010. In 2010, the annual cash Base Rent was fixed at HK\$780.0 million (2009: HK\$750.0 million). According to the Group's accounting policy, Base Rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent;
- (ii) cash additional base rent (the "Additional Base Rent"), for capital additions (the "Capital Additions") projects which are proposed by the lessee, are approved and funded by the Group and are intended to increase revenue and rental payment capacity of any one of the Initial Hotels. The Additional Base Rent for such approved Capital Additions projects is payable by the lessee commencing from the date on which the Capital Additions projects have been completed and accepted by the Group, and have been commissioned for operation to the satisfaction of the Group. The Additional Base Rent is payable until the year ending 31st December, 2010 and the Additional Base Rent for each financial year shall be equal to such percentage, as agreed between the Group and the lessee, of the cost of the approved Capital Additions projects to be funded by the Group. Where, with respect to any approved Capital Additions projects in any financial year, the Additional Base Rent is payable with respect to a period that is less than a full financial year, the amount of such Additional Base Rent shall be apportioned according to the number of days in such period, based on a 365-day year; and
- (iii) variable rent (the "Variable Rent"), computed on 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, until the year ending 31st December, 2010, is entitled to and payable semi-annually. Regal REIT was entitled to a share of 100% in 2007, 70% in 2008, 60% in 2009 and 50% in 2010. No Variable Rent was earned in the six months ended 30th June, 2010 and the year ended 31st December, 2009.

For the years from 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.

- (b) Under the terms of the lease agreement with the lessee with respect to the Regal iClub Building, a subsidiary of Regal REIT receives 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. Further details of which are included in note 20 to the condensed consolidated interim financial statements.
- (c) Other rental-related income represents contributions to the furniture, fixtures and equipment reserve (the "FF&E Reserve") which are received from the lessee of the Initial Hotels in accordance with the terms of the lease agreements. The FF&E Reserve contributions are for additions to and replacements of furniture, fixtures and equipment for the Initial Hotels.

5. REIT MANAGER FEES

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Base Fees:		
In the form of Units	20,926	20,703
In the form of cash	740	—
Variable Fees:		
In the form of Units	12,227	11,683
In the form of cash	360	—
	<u>34,253</u>	<u>32,386</u>
Total REIT Manager Fees:		
In the form of Units	33,153	32,386
In the form of cash	1,100	—
	<u>34,253</u>	<u>32,386</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 Units for the Initial Hotels and in the form of cash for Regal iClub Building) 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 Building, which is payable annually.

During the six months ended 30th June, 2010, REIT Manager fees of approximately HK\$13.9 million (six months ended 30th June, 2009: approximately HK\$13.7 million) were settled by 7,546,005 Units (six months ended 30th June, 2009: 13,794,678 Units). REIT Manager fees of approximately HK\$19.3 million (six months ended 30th June, 2009: approximately HK\$18.7 million), comprising related Base Fees for May 2010 and June 2010 and related Variable Fees for the period from 1st January, 2010 to 30th June, 2010, are to be settled in Units subsequent to the end of the reporting period in accordance with the terms of the Trust Deed.

6. TRUST AND OTHER EXPENSES

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Auditors' remuneration	600	600
Legal and other professional fees	1,355	3,480
Trustee fees	1,347	870
Other expenses	481	494
	<u>3,783</u>	<u>5,444</u>

7. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	17,898	38,153
Fair value changes on derivative financial instruments - cash flow hedges (transfer from hedging reserve)	66,173	45,360
Amortisation of debt establishment costs	4,569	4,078
Loan commitment fees	48	81
	<u>88,688</u>	<u>87,672</u>

8. 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, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Charge for the period	14,924	7,924
Deferred (note 17)	46,160	51,891
Total tax charge for the period	<u>61,084</u>	<u>59,815</u>

9. 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\$308,164,000 (six months ended 30th June, 2009: approximately HK\$187,508,000) and the weighted average of 3,214,791,176 Units (six months ended 30th June, 2009: 3,160,869,813 Units) in issue during the period. The basic earnings per Unit attributable to Unitholders for the period amounted to HK\$0.096 (six months ended 30th June, 2009: HK\$0.059).

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.

10. INVESTMENT PROPERTIES

	Completed HK\$'000	Properties under renovation HK\$'000	Total HK\$'000
At 1st January, 2009	13,020,000	—	13,020,000
Transfers from construction in progress	—	16,743	16,743
Additions through a business combination (note 20)	404,000	—	404,000
Fair value changes	271,982	—	271,982
Transfers from prepaid construction costs (note 11)	505,000	—	505,000
Capital expenditure for the year	54,979	17,296	72,275
Transfers upon completion of construction	34,039	(34,039)	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2009 and 1st January, 2010	14,290,000	—	14,290,000
Fair value changes	104,506	—	104,506
Capital expenditure for the period	40,494	—	40,494
	<hr/>	<hr/>	<hr/>
At 30th June, 2010	<u>14,435,000</u>	<u>—</u>	<u>14,435,000</u>

The Group's investment properties were valued on 30th June, 2010 by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$14,435,000,000 on an open market value, existing use basis. The investment properties are leased to related parties 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 15).

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

11. PREPAID CONSTRUCTION COSTS

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
At beginning of the period/year	—	430,000
Additions through a business combination (note 20)	—	75,000
Transfers to investment properties (note 10)	—	(505,000)
	<hr/>	<hr/>
At end of the period/year	<u>—</u>	<u>—</u>

12. ACCOUNTS RECEIVABLE

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	27,374	60,660
FF&E Reserve contribution receivables	2,096	2,710
	<hr/>	<hr/>
	29,470	63,370
	<hr/> <hr/>	<hr/> <hr/>

The difference in accounting Base Rent and actual contractual cash Base Rent is recognised as revenue in the income statement on the straight-line basis over the lease term in accordance with the Group's accounting policy.

The FF&E Reserve contribution receivables represent amounts due from a related company. The amounts are unsecured and repayable within one year in accordance with the terms of the respective agreements.

The Group's accounts receivable are neither past due nor impaired and are due from a related company which has no recent history of default.

13. RESTRICTED CASH

At 30th June, 2010, the Group had approximately HK\$64.1 million (31st December, 2009: approximately HK\$56.5 million) of cash which was restricted 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 furniture, fixtures and equipment reserve for use in the Initial Hotels and deposits of certain tenants in respect of the Regal iClub Building. 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.

14. ACCOUNTS PAYABLE

This represents amounts due to related companies which are unsecured, interest-free and repayable on demand.

15. INTEREST-BEARING BANK BORROWINGS

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Interest-bearing bank borrowings	4,641,000	4,641,000
Debt establishment costs	(16,985)	(21,554)
	<u>4,624,015</u>	<u>4,619,446</u>
Portion classified as current liabilities	(5,413)	(5,413)
Non-current portion	<u>4,618,602</u>	<u>4,614,033</u>
Analysed into bank loans repayable:		
Within one year	5,413	5,413
In the second year	4,489,778	5,413
In the third to fifth years, inclusive	128,824	4,608,620
	<u>4,624,015</u>	<u>4,619,446</u>

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 is 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 16 to the condensed consolidated interim financial statements.

During the year ended 31st December, 2009, the Group was granted another banking facility aggregating HK\$211.0 million, comprised of a term loan of HK\$141.0 million and a revolving credit facility of HK\$70.0 million (the "New Facility"). At the end of the reporting period, the term loan was fully drawn down and is repayable quarterly with the final payment being due on 22nd October, 2012. In addition, an amount of HK\$3.0 million was drawn down from the revolving credit facility at the end of the reporting period. The New Facility bears interest at rates ranging from 215 to 230 basis points above HIBOR where HIBOR can be on a 1, 2 or 3 month basis as selected by the borrower.

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 and the bank borrowings under the New Facility are guaranteed by Regal REIT and Paliburg Holdings Limited on proportions of 75% and 25%, respectively, on a several basis.

The Initial Facility and the New Facility are also secured by, amongst others:

- (i) legal charges and debentures over the relevant investment 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 investment 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.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Liabilities	
	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Interest rate swaps - cash flow hedges	<u>189,697</u>	<u>213,365</u>

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 15). The full fair value of these cash flow hedges is classified as a non-current item as the remaining maturities of the hedged items extend for more 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.

17. DEFERRED TAX

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

	Depreciation allowances in excess of related depreciation HK\$'000	Fair value adjustments arising from revaluations of investment properties taxable HK\$'000	Losses available for offsetting against future profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2009	(180,002)	(964,832)	84,638	(1,060,196)
Additions through a business combination (note 20)	(2,466)	(22,110)	10,130	(14,446)
Deferred tax charged to the income statement during the year	(59,528)	(44,877)	(29,461)	(133,866)
	<u>(241,996)</u>	<u>(1,031,819)</u>	<u>65,307</u>	<u>(1,208,508)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2009 (audited)	<u>(241,996)</u>	<u>(1,031,819)</u>	<u>65,307</u>	<u>(1,208,508)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2010	(241,996)	(1,031,819)	65,307	(1,208,508)
Deferred tax charged to the income statement during the period	(14,188)	(17,243)	(14,729)	(46,160)
	<u>(256,184)</u>	<u>(1,049,062)</u>	<u>50,578</u>	<u>(1,254,668)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2010 (unaudited)	(256,184)	(1,049,062)	50,578	(1,254,668)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the condensed consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Recognised in the condensed consolidated statement of financial position:		
Net deferred tax assets	48,794	64,433
Net deferred tax liabilities	(1,303,462)	(1,272,941)
	<u>(1,254,668)</u>	<u>(1,208,508)</u>

The deferred tax liabilities and assets set out above primarily relate to the deferred tax calculated on the revaluation surplus/deficit on the investment properties in accordance with HKAS 12 *Income Tax*. However, based on the current tax legislation in Hong Kong, no capital gains tax is payable upon disposal of the investment properties.

18. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2010 (unaudited)	31st December, 2009 (audited)
Units in issue:		
At beginning of the period/year	3,204,394,184	3,142,196,102
REIT Manager fees paid in the form of Units	26,169,616	62,198,082
At end of the period/year	3,230,563,800	3,204,394,184

19. 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, 2010 of approximately HK\$8,390,145,000 (31st December, 2009: approximately HK\$8,308,731,000) by the number of Units in issue of 3,230,563,800 (31st December, 2009: 3,204,394,184) as of that date.

20. BUSINESS COMBINATION

On 20th October, 2009, Regal REIT acquired 75% of the total issued share capital (the "Acquisition") of Twentyfold Investments Limited ("Twentyfold") for a total consideration of approximately HK\$198.0 million from Paliburg Development BVI Holdings Limited (the "PHL Vendor"), a wholly-owned subsidiary of Paliburg Holdings Limited ("PHL"). Twentyfold together with its subsidiary (the "Twentyfold Group") holds the Regal iClub Building. Pursuant to the sale and purchase agreement, Regal REIT (at the direction of the REIT Manager) shall, at its own discretion, have the option to purchase the remaining 25% of the issued share capital of Twentyfold. The consideration shall be equal to 25% of the adjusted net asset value (subject to certain agreed adjustments) of the Twentyfold Group.

In addition, the PHL Vendor undertook to complete, at its cost, the asset enhancement programme with respect to the Regal iClub Building (the "PHL AEP") including renovation costs, fit-out costs of converting 50 hotel rooms in the Regal iClub Building and any other costs in respect of the PHL AEP for a consideration of HK\$75.0 million. PHL has guaranteed the PHL Vendor's obligations on the PHL AEP to Regal REIT.

The fair values of the identifiable assets and liabilities of the Twentyfold Group at the date of completion of the Acquisition are summarised as follows:

	HK\$'000
Investment properties (note 10)	404,000
Prepaid construction costs for the PHL AEP (note 11)	75,000
Current assets	3,384
Other current liabilities	(1,504)
Other non-current liabilities	(401)
Due to a related company	(46,929)
Deferred tax liabilities (note 17)	(14,446)
Interest-bearing bank borrowings	(209,945)
Non-controlling interest	(17,093)
	<hr/>
	192,066
Goodwill on the Acquisition	5,940
	<hr/>
Total cost of the Acquisition	<u>198,006</u>

The above acquisition cost was satisfied by cash and included the assumption of 75% of a shareholder's loan due to a related company in the amount of approximately HK\$140,786,000 upon completion of the Acquisition together with costs directly attributable to the Acquisition of approximately HK\$3,355,000.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 10, under operating lease arrangements. At 30th June, 2010, the total future minimum lease receivables under non-cancellable operating leases with its lessees fall due as follows:

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Within one year	528,854	935,222
In the second to fifth years, inclusive	10,129	1,004
After five years	1,048	—
	<u>540,031</u>	<u>936,226</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 were entered into by the Group on behalf of a related company.

(b) As lessee

The Group leases certain premises under operating lease arrangements with terms ranging from years 2010 to 2022. At 30th June, 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Within one year	157	835
In the second to fifth years, inclusive	629	—
After five years	1,048	—
	<u>1,834</u>	<u>835</u>

During the six months ended 30th June, 2010, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK\$887,000 (six months ended 30th June, 2009: HK\$3,706,000) 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, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Authorised and contracted for	37,851	775
Authorised, but not contracted for	13,135	21,062
	<u>50,986</u>	<u>21,837</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, 2010 (unaudited) HK\$'000	Six months ended 30th June, 2009 (unaudited) HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	411,428	393,136
Contractual rental and rental-related income received/receivable from the PHL Group	(ii)	12,000	—
Interest expense charged by the Deutsche Bank Group	(iii)	(30,421)	(20,874)
REIT Manager fees	(iv)	(34,253)	(32,386)
Trustee fees	(v)	(1,347)	(870)
Valuation fees paid/payable to the Valuer	(vi)	(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) The rental and rental-related income are earned by the Group in accordance with the lease with respect to the Regal iClub Building, details of which, including the terms, are set out in note 4 to the condensed consolidated interim financial statements.
 - (iii) 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.
 - (iv) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 5 to the condensed consolidated interim financial statements.
 - (v) 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.
 - (vi) The valuation fees are 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, 2010 (unaudited) HK\$'000	31st December, 2009 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Cash Additional Base Rent receivables, FF&E Reserve contribution receivables and other receivables	(i)	2,206	2,739
Accounts payable to related companies	(ii)	(7,569)	(7,595)
Amount due to a related company	(ii)	—	(89)
Net amounts due from/(to) the PHL Group:			
Advance from a related company	(iii)	(64,429)	(64,429)
Deposits paid	(ii)	1,212	1,212
Deposits received	(iv)	(4,689)	(4,689)
Others	(ii)	137	—
Net amounts due to:			
The Trustee	(v)	(634)	(679)
The Valuer	(vi)	(180)	(660)
Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group	(vii)	12,557	24,782

Notes:

- (i) Details of the balance are set out in note 12 to the condensed consolidated interim financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand.
 - (iii) The amount is unsecured, interest-free and not repayable within one year.
 - (iv) The amount was paid by the lessee with respect to the lease of the Regal iClub Building and is repayable within one year.
 - (v) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (vi) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vii) 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. In addition, under the terms of the lease agreements, the RHIHL Group has guaranteed to pay a minimum total of Variable Rent of HK\$220.0 million for the period from 30th March, 2007 to 31st December, 2010.
- (d) Under a deed of trade mark licence, the RHIHL Group had 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) Pursuant to the lease of the Regal iClub Building, the PHL Group has guaranteed (i) the lessee's obligations to pay to a subsidiary of Regal REIT and the Trustee, on demand by a subsidiary of Regal REIT or the Trustee (on behalf of Regal REIT and at the direction of the REIT Manager), all amounts (including, without limitation, all rents, other charges and outgoings, interest, default interest, fees and costs) from time to time owing or payable to a subsidiary of Regal REIT under the lease of the Regal iClub Building, and (ii) the due observance and performance of, all terms, conditions, covenants, agreements and obligations contained in the lease of the Regal iClub Building to be observed and performed by the lessee.

24. EVENTS AFTER THE REPORTING PERIOD

- (a) On 30th July, 2010, 2,069,317 new Units were issued to the REIT Manager at HK\$1.732 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$3.6 million for May 2010.
- (b) In accordance with the terms of the Trust Deed, 1,895,324 new Units will be issued to the REIT Manager at HK\$1.83 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$3.5 million for June 2010.

25. CONTINGENCIES

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"). The Plaintiff is currently in the process of examining the bill of costs of the Claims communicated by the defendant on 19th July, 2010 and the amount, if any, to be borne by the Group cannot be determined reliably at this stage.

Having considered opinions from the Group's legal counsel, the Directors take the view that the subsidiary has reasonable grounds to make an appeal against 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 of the appeal is scheduled in early 2011. If the Plaintiff prevails at the appeal, the Court of Appeal is expected to make a costs award in favour of the Plaintiff. Accordingly, the Group has not provided for any losses which could arise from the Judgement, other than its own related legal and other costs.



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, 2010 to 30th June, 2010, in conjunction with the 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 29 to 56 which comprises the condensed consolidated statement of financial position as at 30th June, 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in net assets attributable to unitholders, 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

19th August, 2010

INVESTMENT PROPERTIES PORTFOLIO

As at 30th June, 2010

	Description	Use	Lease	Gross Floor Area (sq.ft.)	Approx Covered Floor Area (sq.ft.)	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	774,880	897,900	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	269,988	343,900	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	341,714	468,400	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	254,279	294,200	100

	Description	Use	Lease	Gross Floor Area <i>(sq.ft.)</i>	Approx Covered Floor Area <i>(sq.ft.)</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	642,263	743,500	100
(6)	Regal iClub Building 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	58,196	59,600	75

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