



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)



2013 INTERIM REPORT

Managed by



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

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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
Lo Po Man
Kenneth Ng Kwai Kai

Executive Directors

Francis Chiu
Simon Lam Man Lim

Independent Non-executive Directors

John William Crawford, JP
Alvin Leslie Lam Kwing Wai
Kai Ole Ringenson
Abraham Shek Lai Him, GBS, 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
Kenneth Ng Kwai Kai

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

Savills Valuation and Professional Services Limited

PRINCIPAL BANKERS

Australia and New Zealand Banking Group Limited
The Bank of East Asia, Limited
Cathay United Bank Company, Limited, Hong Kong Branch
Chinatrust Commercial Bank, Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation, Hong Kong Branch
Crédit Agricole Corporate & Investment Bank,
Hong Kong Branch
Hang Seng Bank Limited
Mega International Commercial Bank Company Limited
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Taiwan Cooperative Bank, Ltd., Hong Kong Branch
United Overseas Bank Limited

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Dear Unitholders,

I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2013 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2013, Regal REIT attained an unaudited consolidated profit before distribution to Unitholders of HK\$335.4 million, as compared to the profit of HK\$675.2 million recorded in the corresponding period in 2012. Based on the market valuations as of 30th June, 2013, there was an increase of HK\$124.8 million in the fair value of Regal REIT's investment properties portfolio which is reflected in the results for the period under review, while for the comparative period last year, a gain of HK\$446.6 million was included in respect of such fair value changes.

Total distributable income for the Interim Period amounted to HK\$222.7 million, which was equivalent to HK\$0.0684 per Unit, and represents an increase of HK\$0.9 million over the HK\$ 221.8 million attained for the same period last year. In accordance with Regal REIT's policy of distributing no less than 90% of the distributable income, the Directors of the REIT Manager have declared an interim distribution of HK\$0.067 per Unit for the six months ended 30th June, 2013, representing an increase of 6.3% over the interim distribution of HK\$0.063 per Unit in 2012 and a distribution ratio of approximately 98.0% for the Interim Period.

The growth in the global economy so far in 2013 has remained slow and subdued. There are recently some signs that the economy in the United States is recovering gradually but this has, in turn, led to concerns that its quantitative easing programme might start to taper off later this year. The growth in the GDP of China, as the world's second largest economy, has reduced modestly to about 7.6% in the first half of 2013, though still considerably higher than those achieved by the developed countries. The economy of Hong Kong has continued to show resilience and grew moderately during the period under review, with GDP rising by about 3.3% in real terms in the second quarter of 2013 over the same period in the preceding year. The global economic environment is still full of uncertainties and will continue to be driven by capital flows and interest rates movements.

Benefiting from the strong growth in visitors from China, the overall number of tourist arrivals to Hong Kong for the first six months of 2013 hit another historical record of 25.4 million, which was an increase of 13.6% over the corresponding half year in 2012. Although visitors from all other markets as a whole have slightly declined by about 2.8%, China's visitors alone made up to 18.8 million, representing a year-on-year increase of 20.7%, and accounted for about 74.2% of the total tourist arrivals for the period. Based on the information published by the Hong Kong Tourism Board, the average hotel room occupancy for all the surveyed hotels under different categories in Hong Kong for the half year ended 30th June, 2013 was maintained at the same level last year of 87%, while the average achieved hotel room rate dropped by about 1.6%.

Despite some softer periods and a relatively more competitive environment in the hotel market overall, the five Initial Hotels in Hong Kong, which are under lease to a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), managed to maintain a combined average occupancy of 87.3% during the period under review, which was approximately the same level as that of the prior year comparative period, while the combined average room rate gained by about 0.9%.

The prevailing base rent for the lease of the Initial Hotels for 2013 is HK\$734.0 million, with equal sharing of the excess of their aggregate net property income over the annual base rent. The aggregate net property income of these five hotels for the half year under review amounted to HK\$406.6 million, which exceeded the prorated base rent by HK\$39.6 million, and 50% of this excess is attributed to Regal REIT as variable rent. As the latter part of the year is traditionally the higher season for the hotel market in Hong Kong, the variable rent sharing for the second half of 2013 is anticipated to surpass that attained in the first half.

The Regal iClub Hotel in Wanchai, the sixth Regal Hotel in Hong Kong that is owned and operated by Regal REIT, has continued to perform satisfactorily. For the first half of 2013, the hotel has been operating at close to full occupancy, as compared to 96.7% for the corresponding period in 2012, although due to keener price competition, the achieved RevPAR trailed behind the same period last year by about 5.0%.

The works for the conversion of part of the 14th Floor of Regal Oriental Hotel, which was previously used as food and beverage areas, into 27 additional guestrooms have been completed and the new rooms are now already operating for business. Meanwhile, the conversion works at the 2nd Floor of this hotel to add another 28 guestrooms are in progress and scheduled to be completed before the end of this year. In addition, a total of around 470 guestrooms and suites in the other four Initial Hotels have been taken out from operation at different times during the period under review for renovation and upgrading works under the ongoing asset enhancement programme, which has to certain extent affected the hotel operating results for the first half of 2013. All the six Regal Hotels in Hong Kong are presently managed by Regal Hotels International Limited, the management arm of RHIHL, as the hotel manager. As at 30th June, 2013, the properties portfolio of Regal REIT, comprising the six Regal Hotels in Hong Kong, had a total valuation of HK\$21,150.0 million, as compared to HK\$21,032.0 million as at 31st December, 2012.

Taking advantage of the favourable environment in the debt capital market at the time, Regal REIT established in January 2013 a US\$1 billion Medium Term Note Programme (the "MTN Programme") to serve as a funding platform for its expansion plans. Regal REIT has since issued under the MTN Programme a series of unsecured 5-year term notes for an aggregate nominal principal amount of HK\$775.0 million in March 2013 and another series of unsecured 5-year term notes for an aggregate nominal principal amount of US\$150.0 million in May 2013, raising total net proceeds of approximately HK\$1,920.9 million.

In the roll out of its expansion plans, Regal REIT entered into on 28th June, 2013 a Share Purchase Agreement and an Option Agreement with P&R Holdings Limited ("P&R Holdings"), a joint venture equally owned by Paliburg Holdings Limited and RHIHL, with respect to the hotels being developed by P&R Holdings in Sheung Wan and North Point, respectively.

Under the Share Purchase Agreement, Regal REIT has agreed to acquire the new hotel located at Nos. 132-140 Bonham Strand, Sheung Wan, under development by P&R Holdings at a consideration of HK\$1,580.0 million, based on the valuation of the hotel property as of 25th June, 2013 by an independent valuer on an as-completed basis. The Sheung Wan Hotel has a gross floor area of approximately 77,440 square feet and a covered floor area of approximately 103,500 square feet, and will have 34 storeys with 248 guestrooms and suites. The purchase transaction is expected to be completed before the end of this year after the occupation permit for the hotel has been obtained.

Pursuant to the Option Agreement with P&R Holdings, Regal REIT has been granted an option to acquire another new hotel located at Nos. 14-20 Merlin Street, North Point, being developed by P&R Holdings at an initial exercise price of HK\$1,650.0 million, likewise based on the valuation of the property as of 25th June, 2013 by the independent valuer on an as-completed basis. To protect the interests of Regal REIT in the event of a material fluctuation in the value of the hotel property, the exercise price will be subject to final adjustment based on an updated appraised value to be conducted by the same independent valuer at the time when the hotel development is completed. If there is any decrease in the updated appraised value as compared to the initial valuation, the exercise price will be fully adjusted downwards for the benefit of Regal REIT, while in the case of an increase in the updated appraised value, the exercise price will only be adjusted upwards by 50% of the increase. The North Point Hotel has a gross floor area of approximately 73,700 square feet and a covered floor area of approximately 101,100 square feet, and will have 32 storeys with 338 guestrooms. The occupation permit for the North Point Hotel is estimated to be granted in the second quarter of 2014 and if Regal REIT at its discretion decides to exercise the option, the sale and purchase under the Option Agreement is expected to be completed in the third quarter of 2014, subject to requisite approvals and compliance requirements.

These two new hotels will be leased to the RHIHL Group for an initial 5-year term from their respective dates of completion of the sale and purchase, which is renewable at the option of Regal REIT for a further term of 5 years. The rentals for the first 3 years of the initial term will be fixed at 5.00%, 5.25% and 5.50%, respectively, of the purchase considerations and the rentals for the subsequent years will be determined annually by a jointly appointed independent valuer. The two hotels will also be managed by the RHIHL Group and will be operated under the upscale select-service brand of “iclub by Regal”, modeling on the successful operating mode of the Regal iClub Hotel in Wanchai.

The proposed transactions have received the approvals by the independent unitholders of Regal REIT and the independent shareholders of RHIHL at their respective general meetings held on 18th July, 2013. Total deposit and refundable cash collateral of HK\$1,938.0 million and an option fee of HK\$10.0 million have been paid by Regal REIT to P&R Holdings under the terms of the Share Purchase Agreement and the Option Agreement, which were funded by the proceeds raised through the issue of notes under the MTN Programme earlier this year. P&R Holdings will pay interest to Regal REIT on the deposit and refundable cash collateral received at a rate of 4.3047% per annum, representing the weighted average effective interest cost to Regal REIT on the notes issued, which helps to address the negative interest carry to Regal REIT if the funds were continued to be placed on bank deposits before actual utilisation. Full details of the above transactions are contained in the circular to the Unitholders of Regal REIT dated 29th June, 2013.

Recently in July 2013, Regal REIT concluded the arrangement for HK\$4.8 billion 5-year term and revolving loan facilities with a syndicate of local and international financial institutions. The new loan was arranged primarily to early refinance the existing 3-year term loan, which is due to mature in March 2015, to take benefit of a longer loan term and lower interest costs. Moreover, the new loan will only be secured on three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel, and upon full repayment of the existing term loan, the other two Initial Hotels, namely, the Regal Kowloon Hotel and the Regal Oriental Hotel, will be free of mortgages and held on an unencumbered basis.

The proposed acquisitions of the Sheung Wan Hotel and the North Point Hotel will increase the number of hotels owned by Regal REIT in Hong Kong to eight and its total hotel room inventory from 3,984 (including the 28 additional rooms at Regal Oriental Hotel to be completed before the end of this year) by approximately 14.7% to a total of 4,570 guestrooms and suites. Regal REIT will seek to continue to build up its asset portfolio with the objective of maintaining its strategic position as one of the pre-eminent hotel owners in Hong Kong. With the establishment of the MTN Programme and the arrangement of the new loan facilities, Regal REIT is well positioned to pursue further suitable acquisitions, both in Hong Kong as well as in other parts of Greater China, if the market environment is considered to be favourable.

Overall, the Directors of the REIT Manager are hopeful that the planned business expansion of Regal REIT will bring to its Unitholders continuing growth in the future distributions and capital value appreciation of the Units.

Lo Yuk Sui
Chairman

Regal Portfolio Management Limited
(as the REIT Manager of Regal REIT)

Hong Kong, 26th August, 2013

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, 2013 to 30th June, 2013 (the "Interim Period").

LONG-TERM OBJECTIVES AND VISION OF REGAL REIT

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

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

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

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

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

Regal Hotels International Limited, a wholly-owned subsidiary of RHIHL, was appointed as the hotel manager (the "Hotel Manager") under long-term hotel management agreements to operate the Initial Hotels (the "Initial Hotels Management Agreements") for a term of 20 years from 16th March, 2007. In December 2010, Regal REIT entered into another hotel management agreement with the Hotel Manager for the operation of the hotel portion of Regal iClub Hotel for a term of 10 years from 1st January, 2011 to 31st December, 2020 (the "iClub Hotel Management Agreement"). Since 1st January, 2011, the operating results of the Regal iClub Hotel have been accounted for directly by Regal REIT.

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

RENTAL AND REVENUE STRUCTURE

Initial Hotels - Rental Structure and Market Rental Package

Market Rental Package for 2013

Mr. David Faulkner, as an independent professional property valuer, was jointly appointed in June 2012 to conduct a rent review for the Initial Hotels for the year 2013. According to the determination of the Market Rental Package for the year 2013, the aggregate amount payable by the RHIHL Lessee as Base Rent for the Initial Hotels was determined to be HK\$734.0 million with Variable Rent calculated based on a sharing of 50% of the excess of the aggregate net property income ("NPI") of the five Initial Hotels over the aggregate Base Rent from the operations thereof in 2013. According to the Market Rental Package for 2013, no FF&E Reserve is required to be contributed by the RHIHL Lessee and the obligation for such contribution rests with Regal REIT. The RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$367.0 million, which is equivalent to six months' Base Rent for the year 2013, issued by a licensed bank in Hong Kong. Details of the Market Rental Package for 2013 can be referred to in an announcement published on 27th August, 2012.

Base Rent

Regal REIT receives Base Rent in the form of cash for each Initial Hotel on a monthly basis. During the Interim Period, Regal REIT received an aggregate of HK\$367.0 million cash Base Rent for the first six months of 2013.

Variable Rent

Regal REIT received Variable Rent through the sharing of aggregate profits from the Initial Hotels' operations over the Base Rent payments. During the Interim Period, as the NPI from hotel operations of the Initial Hotels was HK\$406.6 million, which exceeded the provided Base Rent by HK\$39.6 million, resulting a Variable Rent of HK\$19.8 million which was 50% sharing of the excess of the aggregate NPI over the Base Rent.

Rent Review of Market Rental Package for 2014

Pursuant to the RHIHL Lease Agreements, an independent professional property valuer is to be jointly appointed to conduct annual rent reviews for the Initial Hotels, with the related expenses to be split equally between the RHIHL Lessee and Regal REIT. Mr. David Faulkner, who determined the Market Rental Packages for 2011, 2012 and 2013, was jointly appointed in June 2013 to carry out the rental review process for 2014. This rental review exercise has recently been concluded and the annual base rent for 2014 has been determined to be HK\$743.0 million, with the Variable Rent being retained at 50% of the aggregate NPI excess over the annual Base Rent. Full details of the Market Rental Package for 2014 are contained in a separate announcement released by the REIT Manager on 26th August, 2013.

Regal iClub Hotel - Revenue Structure

Hotel Portion

For the six months ended 30th June, 2013, Regal iClub Hotel - Hotel portion contributed gross hotel revenue of HK\$21.0 million and incurred operating costs and expenses amounting to HK\$9.1 million.

Non-hotel Portions

Regal iClub Hotel - Non-hotel portions, comprising a portion of the ground floor and the 27th to 29th floors of the premises, are let out to independent third parties which generated rental income of HK\$2.4 million for the period under review.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under the respective RHHL Lease Agreements and iClub Hotel Management Agreement to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels and Regal iClub Hotel - Hotel portion, respectively. To maintain this reserve, Regal REIT contributes an amount equal to 2% of the total hotel revenue (i.e. the total of room revenue, food and beverage revenue and other income in the hotel operations) for each month. During the Interim Period, HK\$18.2 million was contributed to the reserve, and HK\$18.8 million has been expended for the purposes intended.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the Interim Period are set out in the condensed consolidated financial statements on pages 25 to 53.

Hotel Industry Conditions in Hong Kong

Visitor Arrivals to Hong Kong, 1H 2013 versus 1H 2012¹

Visitors to Hong Kong by Geographical Regions	1H 2013 (Percentage of total visitors)	1H 2013 (No. of visitors)	1H 2012 (No. of visitors)	Variance (No. of visitors)	Variance (%)
Mainland China	74.2	18,815,195	15,582,767	3,232,428	20.7
South & Southeast Asia	7.1	1,790,858	1,800,950	(10,092)	(0.6)
North Asia	4.0	1,019,312	1,180,753	(161,441)	(13.7)
Taiwan	4.0	1,003,792	993,538	10,254	1.0
Europe, Africa & the Middle East	4.4	1,117,671	1,102,598	15,073	1.4
The Americas	3.3	835,381	898,946	(63,565)	(7.1)
Australia, New Zealand & South Pacific	1.4	353,848	369,754	(15,906)	(4.3)
Macau SAR	1.7	429,796	393,448	36,348	9.2
Total	(rounded)100.0	25,365,853	22,322,754	3,043,099	13.6

The overall tourism market of Hong Kong continued to grow sustainably amidst the world's economy casted with subdued growth. Tourism Performance in the first half of 2013 continued with the solid foundation extended beyond 2012. This exhibits that Hong Kong remains an attractive travel destination. Total visitor arrivals in the first half of 2013 broke another record of 25.4 million, with cumulative arrivals rose by 13.6% from 22.3 million for the preceding period under review. In July 2013, the United Nations World Tourism Organization (UNWTO) announced that Hong Kong was ranked no. 9 amongst the world in terms of international tourism receipts in 2012².

The tourism industry was boosted by the strong arrivals from China, amounted to 18.8 million visitors, exhibiting a continued growth of 20.7% over the same period last year. Out of the total arrivals, 74.2% originated from Mainland tourists, contributing positively to the tourism growth in Hong Kong.

For short-haul markets, visitor arrivals from other Asian regions (including North Asia, South & Southeast Asia, Taiwan and Macau SAR) noted a mild decrease of 2.9% at a level of 4.2 million visitors.

Visitors from long-haul markets were affected by challenging economic conditions. Visitors from the Americas reported a slender drop of 7.1% to 0.8 million thus taking up 3.3% of the total arrivals. On the other hand, the Europe, Africa and the Middle East market showed positive growth and went up by 1.4%, bringing the region's arrivals to 1.1 million and representing 4.4% of the aggregate arrivals.

1 Source: Research, Hong Kong Tourism Board, "Visitor Arrival Statistics – Jun 2013", July 2013; the REIT Manager.

2 Source: Publications, United Nations World Tourism Organization, "UNWTO Tourism Highlights, 2013 Edition", July 2013.

Review of Hotel Rooms Supply in Hong Kong

As of the first quarter of 2013, Hong Kong's hotel room supply grew by 4,151 units from 64,152 to 68,303 rooms, representing a moderate increase of 6.5%. During the period, the number of hotel properties in Hong Kong went up from 199 to 215, showing a growth of 8.0%. By the end of 2013, it is estimated that another 28 new hotels are expected to be opened, representing an increase of further 3,656 rooms and bringing up the hotel room supply by 5.4%. By then, the total supply of hotel rooms is expected to increase to 71,959 units (FY2012: 67,394 units) representing a projection of year-on-year increase by 6.8%³. This increase in supply might be taken up by the anticipated increase in cumulative visitor arrivals to Hong Kong in 2013.

Industry Performance

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

Category	Hong Kong Hotel Market Performance (1H 2013 versus 1H 2012) ⁴					
	Room Occupancy Rates		Average Room Rates		RevPAR	
	1H 2013	1H 2012	1H 2013	1H 2012	1H 2013	1H 2012
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	84	82	2,368	2,423	1,989	1,987
High Tariff B	88	89	1,168	1,186	1,028	1,056
Medium Tariff	90	91	733	730	660	664
All Hotels	87	87	1,423	1,446	1,238	1,258

During the first half of 2013, all hotels in Hong Kong achieved an average occupancy rate of 87%, maintained at a similar level compared with the same period last year. On the other hand, the hotel industry's average room rate recorded a mild drop by HK\$23 per night or 1.6%. Both factors brought down the hotel industry's RevPAR by HK\$20 or 1.6% year-on-year.

³ Source: Research, Hong Kong Tourism Board, "Hotel Supply Situation – as at Mar 2013", May 2013; "Hotel Supply Situation – as at Jun 2012", August 2012; "Hotel Supply Situation - as at Dec 2012", February 2013; the REIT Manager.

⁴ Source: Research, Hong Kong Tourism Board, "Hotel Room Occupancy Report – Jun 2013", July 2013; the REIT Manager.

Performance Highlights of Regal REIT

Regal REIT currently has an aggregate of 3,956 guestrooms and suites with six hotel properties. The total property valuation of Regal REIT amounted to HK\$21,150.0 million as at 30th June, 2013, representing an increase of HK\$118 million as compared to the valuation of HK\$21,032.0 million as at 31st December, 2012.

Overall, the properties portfolio of Regal REIT achieved satisfactory performance during the period under review, as compared with the first half of 2012 as set out below.

Performance of the Initial Hotels

Total Hotel Revenue, Gross Operating Profit and Net Property Income For the Initial Hotels for 1H 2013 versus 1H 2012

	1H 2013 (HK\$'million)	1H 2012 (HK\$'million)	Variance (HK\$'million)	Variance (%)
Operating Results				
Room revenue	611.5	610.7	0.8	0.1
Food and beverage revenue	254.7	243.4	11.3	4.6
Other income	22.4	23.0	(0.6)	(2.6)
Total hotel revenue	888.6	877.1	11.5	1.3
Operating expenses	(464.8)	(454.7)	(10.1)	2.2
Gross operating profit	423.8	422.4	1.4	0.3
Other expenses	(33.0)	(29.0)	(4.0)	13.8
Net rental income	15.8	12.7	3.1	24.4
Net property income	406.6	406.1	0.5	0.1
Statistics				
Average room rate	HK\$1,010.36	HK\$1,001.17	HK\$9.19	0.9
Occupancy rate	87.3%	87.5%	(0.2%)	(0.2)
RevPAR	HK\$882.15	HK\$876.09	HK\$6.06	0.7
Total available room nights	693,230	697,060	(3,830)	(0.5)
Occupied room nights	605,263	609,969	(4,706)	(0.8)

During the period under review, the five Initial Hotels in Hong Kong leased to the RHIHL Group continued to achieve steady performance. Total hotel revenue of the Initial Hotels rose to HK\$888.6 million (1H2012: HK\$877.1 million), an increase of 1.3% over the corresponding period last year. Gross operating profit reached HK\$423.8 million (1H2012: HK\$422.4 million), an increase of HK\$1.4 million. Likewise, net property income stayed at a similar level of HK\$406.6 million (1H2012: HK\$406.1 million).

During the Interim Period, the average occupancy rate of the Initial Hotels stood at 87.3% (1H2012: 87.5%), while the average room rate attained HK\$1,010.36 (1H2012: HK\$1,001.17) or an increase of HK\$9.19. The RevPAR reached HK\$882.15 (1H2012: HK\$876.09) with an increase of HK\$6.06.

The management considered that continual investments in upgrading the lodging facilities and other hotel facilities help achieve better performance and enhance competitiveness in the long term. During the first half of 2013, a certain number of hotel guestrooms and suites in the four Initial Hotels have been taken out from operation at different time for renovation and upgrading works, which to a certain extent, affected the hotel operating results for the period.

Performance of Regal iClub Hotel

During the period under review, Regal iClub Hotel achieved an occupancy rate of nearly 100.0%, with average room rate and RevPAR both reaching around HK\$1,163.

Net Rental and Hotel Income

An analysis of the net rental and hotel income for the Interim Period compared to the corresponding period in 2012 is set out below.

	1st January, 2013 to 30th June, 2013	%	1st January, 2012 to 30th June, 2012
	HK\$'million		HK\$'million
Cash Base Rent	367.0	88.4	322.5
Variable Rent	19.8	4.8	41.8
Other rental income	5.1	1.2	4.6
Regal iClub Hotel			
Gross hotel revenue	21.0	5.1	22.2
Rental income	2.4	0.5	2.3
Gross rental and hotel revenue	415.3	100.0	393.4
Property operating expenses	(5.5)	(1.3)	(5.7)
Hotel operating expenses	(9.1)	(2.2)	(8.8)
Net rental and hotel income	400.7	96.5	378.9

During the Interim Period, net rental and hotel income represented 96.5% of the gross rental and hotel revenue after the deduction of property and hotel operating expenses. The property management of Regal REIT is handled by the hotel manager under the relevant hotel management agreements with respect to the Initial Hotels and Regal iClub Hotel – Hotel portion.

Distributable Income and Distribution Policy

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of its total distributable income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders 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 HK\$222.7 million, representing an approximate HK\$0.0684 per Unit entitlement for the interim distribution.

Interim Distribution for 2013

The Directors of the REIT Manager have resolved to declare a distribution of HK\$0.067 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 13th September, 2013.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 11th September, 2013 to Friday, 13th September, 2013, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2013, 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, 10th September, 2013. The relevant distribution warrants are expected to be despatched on or about 9th October, 2013.

Valuation of the Properties Portfolio

As at 30th June, 2013, the overall properties portfolio of Regal REIT was valued at HK\$21,150.0 million (31st December, 2012: HK\$21,032.0 million). The properties portfolio comprised five Initial Hotels and non-hotel portions of Regal iClub Hotel that were classified as investment properties; and the owner-occupied hotel portion of Regal iClub Hotel that was classified as property, plant and equipment.

The valuation of the properties portfolio as at 30th June, 2013 was conducted by Savills Valuation and Professional Services Limited ("Savills"), the principal valuer of Regal REIT appointed by the Trustee in accordance with the provisions of the REIT Code.

Savills, an independent professional property valuer, assessed the market values of the properties portfolio subject to the lease agreements, hotel operations and the hotel management agreements and in accordance with "The HKIS Valuation Standards (2012 Edition)", the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Code on Real Estate Investment Trusts (the "REIT Code"). Savills 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 was also used as a check on the valuation arrived at from the DCF method.

Initial Hotels

As at 30th June, 2013, the aggregate fair value of the five Initial Hotel properties was HK\$20,300.0 million, as compared to the valuation of HK\$20,130.0 million as at 31st December, 2012.

Regal iClub Hotel

As at 30th June, 2013, the aggregate fair value of Regal iClub Hotel, comprised of the investment property of the non-hotel portions and the property, plant and equipment of the hotel portion of the Regal iClub Hotel, was HK\$850.0 million, as compared to the valuation of HK\$902.0 million as at 31st December, 2012. The fair value of the property was derived using the DCF method as outlined above. The revaluation model was also adopted for the property, plant and equipment to ensure Regal REIT fully complied with the REIT Code in respect of valuing all its real estate held under the scheme.

In the unaudited financial statements herein presented, aggregate depreciation provided for the period under review amounting to approximately HK\$4.2 million has been charged to the income statement for the Interim Period in accordance with HKAS 16 *Property, Plant and Equipment*, but this has no actual impact on the operating cash flows.

Net Asset Value

As at 30th June, 2013, the net asset value (the "NAV") per Unit attributable to Unitholders amounted to HK\$4.904, as compared to HK\$4.891 per Unit as at 31st December, 2012, which was mainly attributable to the fair values change of Regal REIT's investment properties portfolio during the Interim Period.

Capital Additions Projects

The works for the conversion of part of the 14th Floor of Regal Oriental Hotel, which was previously used as food and beverage areas, into 27 additional guestrooms have been completed and the new rooms are now already operating for business. Meanwhile, the conversion works at the 2nd Floor of this hotel to add another 28 guestrooms are in progress and now scheduled to be completed before the end of this year. In the meantime, the new centralised property management system connecting all the hotels owned in Hong Kong, which will enhance internet connectivity and overall operational efficiencies, is anticipated to be completed by the third quarter of this year. In addition, a total of around 470 guestrooms and suites in the other four Initial Hotels have been taken out from operation at different times during the period under review for renovation and upgrading works under the ongoing asset enhancement programme, which has to certain extent affected the hotel operating results for the first half of 2013.

Financial Review and Financing Strategy

At 30th June, 2013, Regal REIT had loan facilities aggregating HK\$4,840.0 million comprised of a term loan of HK\$4,500.0 million secured by the Initial Hotels and a loan facility of HK\$340.0 million secured by the Regal iClub Hotel.

Regal REIT Medium Term Note Programme and Notes Issuance

On 11th January, 2013, Regal REIT announced the establishment and listing of a US\$1 billion medium term note programme (the "MTN Programme"), which is intended to serve as a funding platform to finance the planned expansion of Regal REIT.

In March 2013, by way of private placements under the MTN Programme, a series of unsecured 5-year term notes due 2018 for an aggregate nominal principal amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum were issued (the "March 2013 Notes"). In May 2013, by way of syndicated placements, another series of unsecured 5-year term notes due 2018 for an aggregate nominal principal amount of US\$150.0 million at a coupon interest rate of 4.10% per annum were issued (the "May 2013 Notes"). The aggregate net proceeds of these two notes amounted to approximately HK\$1,920.9 million, which have been used for the payments of the deposit and refundable cash collateral in relation to the proposed acquisitions of the Sheung Wan Hotel and North Point Hotel.

Subsequent to the Interim Period, the payments of the deposit and refundable cash collateral were effected on 22nd July, 2013, after approval of the transactions by the independent Unitholders. According to the terms of the share purchase agreement and the option agreement in respect of the proposed acquisitions of two hotels located in Sheung Wan and North Point, P&R Holdings Limited ("P&R Holdings") will pay interest quarterly to Regal REIT at a rate of 4.3047% per annum on the deposit and the refundable cash collateral, from the dates of payment up to the respective date when the deposit or the refundable cash collateral are refunded to the Trustee.

Financing for the Initial Hotels

The agreement for the existing term loan facility of HK\$4,500.0 million (the “Existing Term Loan Facility”) was entered into on 7th March, 2012 by Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of three years to March 2015, and was secured by the Initial Hotels, bearing interest at 2.10% above the Hong Kong Interbank Offered Rates (“HIBOR”).

The REIT Manager has continued to take a prudent approach in managing the risks arising due to fluctuations in interest rates. As at 30th June, 2013, the interest cost for approximately 67% of the debt exposure in respect of the Existing Term Loan Facility has been set at fixed rates through various plain vanilla interest rate swaps against floating HIBOR. The fixed rates payable to the hedging banks range from 0.355% per annum to 0.483% per annum, with maturities up to March 2015.

Subsequent to the Interim Period, on 23rd July, 2013, Regal REIT entered into the new facility agreement (the “New Facility Agreement”) for a new term loan facility of up to HK\$4,500.0 million (the “New Term Loan Facility”) and a revolving facility of up to HK\$300.0 million (the “Revolving Facility”) (together, the “New Facilities”). The New Facilities will bear interest at HIBOR plus 1.62% per annum. The final maturity of the New Facilities is on 20th July, 2018, which is approximately five years from the date of execution of the New Facility Agreement. The New Term Loan Facility will be wholly used to early refinance the Existing Term Loan Facility of the same principal amount to take benefit of a longer loan term and lower interest costs, while the Revolving Facility will be used for general corporate funding purposes of Regal REIT. Moreover, the New Facilities will only be secured on three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. Upon drawdown of the New Term Loan Facility and repayment of the Existing Term Loan Facility, two of the Initial Hotels, namely, Regal Kowloon Hotel and Regal Oriental Hotel, will be free of mortgages and held on an unencumbered basis.

Financing for Regal iClub Hotel

Regal REIT, through its wholly-owned subsidiary, Sonnix Limited, has a bilateral loan facility of HK\$340.0 million (the “iClub Facility”) for Regal iClub Hotel. The iClub Facility has a term of three years to February 2015, bears HIBOR-based interest and has no interest rate hedging in place.

Gearing and Cash

As at 30th June, 2013, the gearing ratio of Regal REIT was 29.2%, being the gross amount of the outstanding loans and debts aggregating HK\$6,769.4 million, which takes into account: (a) the new debts in relation to the March 2013 Notes and the May 2013 Notes issued under the MTN Programme; and (b) the Existing Term Loan Facility of HK\$4,500.0 million and the iClub Facility of HK\$331.0 million, as compared to the total gross assets of Regal REIT of HK\$23,197.6 million, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of HK\$1,965.6 million in unrestricted and HK\$53.4 million in restricted cash balances and bank deposits as at 30th June, 2013. The high level of unrestricted cash balance was due to the proceeds received from the March 2013 Notes and the May 2013 Notes, which have since been utilised for the payments of the deposit and refundable cash collateral in relation to the proposed acquisitions of the new hotels. These payments were made on 22nd July, 2013 after obtaining the approval of the transactions from the independent Unitholders. Regal REIT maintains sufficient cash reserves and receives timely payments of rental income to satisfy its financial commitments and working capital requirements on an on-going basis.

As at 30th June, 2013, Regal REIT’s properties, with an aggregate carrying value of HK\$21,150.0 million, were pledged to secure bank loan facilities granted to Regal REIT.

OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2013, the total number of Units outstanding was 3,257,431,189. Refer to note 20 to the condensed consolidated financial statements on page 47.

As at 30th June, 2013, based on information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders.

NEW UNITS ISSUED

There were no new Units 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

On 28th June, 2013, Regal REIT, acting through the Trustee, entered into the following agreements with P&R Holdings Limited ("P&R Holdings"), a joint venture equally owned by PHL and RHIHL:

- (1) Share Purchase Agreement, pursuant to which the Trustee agreed to acquire 100% of the issued share capital of Plentiful Investments Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly holds the new hotel located at Nos. 132-140 Bonham Strand, Sheung Wan (the "Sheung Wan Hotel") under development for a total consideration of HK\$1,580 million, based on the valuation of the hotel property as of 25th June, 2013 by an independent valuer on an as-completed basis. This purchase transaction is expected to be completed before the end of 2013 after the occupation permit for the Sheung Wan Hotel has been obtained; and
- (2) Option Agreement, pursuant to which P&R Holdings granted a call option to the Trustee, exercisable at the REIT Manager's sole discretion, to acquire the 100% of the issued share capital of Fortune Mine Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly holds the new hotel located at Nos. 14-20 Merlin Street, North Point (the "North Point Hotel"), being developed by P&R Holdings, at an initial exercise price of HK\$1,650.0 million, likewise based on the valuation of the property as of 25th June, 2013 by the independent valuer on an as-completed basis. The occupation permit for the North Point Hotel is estimated to be granted in the second quarter of 2014 and, if Regal REIT at its discretion decides to exercise the option, the sale and purchase under the Option Agreement is expected to be completed in the third quarter of 2014, subject to requisite approvals and compliance requirements.

Full details of these two transactions can be referred to the related announcement and circular to the Unitholders both dated 29th June, 2013 published by the REIT Manager.

Saved as disclosed herein, Regal REIT did not enter into any real estate acquisition or disposal transactions during the Interim Period.

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

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

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

BOARD OF DIRECTORS OF THE REIT MANAGER

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

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

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

CONNECTED PARTY TRANSACTIONS

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

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

RHIHL CONNECTED PERSONS GROUP

(i) RHIHL Lease Agreements

Each of Bauhinia Hotels Limited, in relation to Regal Airport Hotel, Cityability Limited, in relation to Regal Hongkong Hotel, Gala Hotels Limited, in relation to Regal Oriental Hotel, Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel and Ricobem Limited, in relation to Regal Kowloon Hotel, the direct owners of the Initial Hotels, respectively, (collectively, the “Initial Hotel – Property Companies” and each referred to as the “Initial Hotel – Property Company”) entered into separate 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 shall, during the term of the RHIHL Lease Agreements, be retained by the RHIHL Lessee.

During the Interim Period, the total contractual lease income under the RHIHL Lease Agreements amounted to approximately HK\$391.9 million including cash Base Rent, Variable Rent and other rental income.

(ii) Initial Hotels Management Agreements

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

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

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

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

(iii) RHIHL Lease Guarantees

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

(iv) RHIHL Deed of Trade Mark Licence

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

(v) iClub Hotel Management Agreement

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

REIT Manager Fees

Regal Portfolio Management Limited, a member of the RHIHL Connected Persons Group, was appointed as the REIT Manager of Regal REIT. REIT Manager fees aggregating approximately HK\$43.8 million for such services rendered during the Interim Period were settled and/or are to be settled pursuant to the provisions of the Trust Deed.

Waiver from Strict Compliance

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

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

RHIHL CONNECTED PERSONS GROUP AND PHL CONNECTED PERSONS GROUP

(i) Share Purchase Agreement

On 28th June, 2013, Regal REIT, acting through the Trustee, entered into share purchase agreement with P&R Holdings Limited ("P&R Holdings"), a joint venture equally owned by PHL and RHIHL, in turn, being a member of the PHL Connected Persons Group and RHIHL Connected Persons Group, pursuant to which the Trustee agreed to acquire 100% of the issued share capital of Plentiful Investments Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly holds the new hotel located at Nos. 132-140 Bonham Strand, Sheung Wan (the "Sheung Wan Hotel") under development for a total consideration of HK\$1,580 million, based on the valuation of the hotel property as of 25th June, 2013 by an independent valuer on an as-completed basis (the "SW Transaction"). This purchase transaction is expected to be completed before the end of 2013 after the occupation permit for the Sheung Wan Hotel has been obtained. This transaction has received the approval by the independent Unitholders at the general meeting held on 18th July, 2013. References can be made to the related announcement and circular to the Unitholders both dated 29th June, 2013 published by the REIT Manager for further details of this transaction.

(ii) Option Agreement

On 28th June, 2013, Regal REIT, acting through the Trustee, entered into the Option Agreement with P&R Holdings, a member of the PHL Connected Persons Group and RHIHL Connected Persons Group, pursuant to which P&R Holdings granted a call option to the Trustee, in the REIT Manager's sole discretion, to acquire the 100% of the issued share capital of Fortune Mine Limited, a wholly-owned subsidiary of P&R Holdings, which indirectly holds the new hotel located at Nos. 14-20 Merlin Street, North Point (the "North Point Hotel"), being developed by P&R Holdings, at an initial exercise price of HK\$1,650.0 million, likewise based on the valuation of the property as of 25th June, 2013 by the independent valuer on an as-completed basis (the "NP Transaction"). The occupation permit for the North Point Hotel is estimated to be granted in the second quarter of 2014 and, if Regal REIT at its discretion decides to exercise the option, the sale and purchase under the Option Agreement will, subject to requisite approvals and compliance requirements, expect to be completed in the third quarter of 2014. This transaction has received the approval by the independent Unitholders at the general meeting held on 18th July, 2013. References can be made to the related announcement and circular to the Unitholders both dated 29th June, 2013 published by the REIT Manager for further details of this transaction.

Waiver from Strict Compliance

A waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in relation to the new lease agreements, the new lease guarantees and the new hotel management agreements in respect of the Sheung Wan Hotel and the North Point Hotel to be entered into between members of Regal REIT Group and members of the RHIHL Connected Persons Group upon and after the completion of the SW Transaction and the NP Transaction, was granted by the SFC on 17th July, 2013 subject to the terms and conditions as set out in the announcement dated 18th July, 2013 issued by the REIT Manager.

TRUSTEE CONNECTED PERSON GROUP

Ordinary Banking Services

Regal Asset Holdings Limited engaged Deutsche Bank AG, a member of the Trustee Connected Persons Group, to provide ordinary banking and financial services such as bank deposits and distribution payment 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\$2.0 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, 2013, 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, 2013
Century City International Holdings Limited ("CCIHL")	2,434,282,102 (Note i)	74.73%
Century City BVI Holdings Limited ("CCBVI")	2,434,282,102 (Notes i & ii)	74.73%
Paliburg Holdings Limited ("PHL")	2,428,995,102 (Notes iii & iv)	74.57%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,428,995,102 (Notes iii & v)	74.57%
Regal Hotels International Holdings Limited ("RHIHL")	2,428,262,739 (Notes vi & vii)	74.55%
Regal International (BVI) Holdings Limited ("RBVI")	2,428,262,739 (Notes vi & viii)	74.55%
Complete Success Investments Limited	1,817,012,072 (Note ix)	55.78%
Great Prestige Investments Limited	373,134,326 (Note ix)	11.45%

Notes:

- (i) The interests in 2,434,282,102 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI, PDBVI and RBVI, respectively.
- (ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.

- (iii) The interests in 2,428,995,102 Units held by each of the PHL and PDBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of PDBVI and RBVI.
- (iv) PHL is a listed subsidiary of CCBVI, which held approximately 62.17% shareholding interest in PHL as at 30th June, 2013, and PHL's interests in Units are deemed to be the same interests held by CCBVI.
- (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) The interests in 2,428,262,739 units held by each of RHIHL and RBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.
- (vii) RHIHL is a listed subsidiary of PDBVI, which held approximately 51.28% shareholding interest in RHIHL as at 30th June, 2013, and its interests in Units are deemed to be the same interests held by PDBVI.
- (viii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (ix) 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, 2013, 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, 2013, 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, 2013
Lo Yuk Sui	2,434,282,102 (Note i)	74.73%
Regal Portfolio Management Limited	120,381,598 (Note ii)	3.70%

Notes:

- (i) The interests in 2,434,282,102 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held approximately 58.16% shareholding interest as at 30th June, 2013.
- (ii) Regal Portfolio Management Limited is the manager of Regal REIT (as defined under the REIT Code).

Save as disclosed herein, as at 30th June, 2013, 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, 2013

		Six months ended	Six months ended	Six months ended	Six months ended	Six months ended
	Notes	30th June, 2013	30th June, 2012	30th June, 2011	30th June, 2010	30th June, 2009
Net assets attributable to Unitholders (HK\$'million)		15,975.2	13,174.2	11,680.5	9,427.5	9,082.9
Net asset value per Unit attributable to Unitholders (HK\$)		4.904	4.044	3.586	2.918	2.849
The highest traded price during the period (HK\$)	1	2.75	2.18	2.66	1.98	1.28
The lowest traded price during the period (HK\$)		2.15	1.68	2.24	1.65	0.84
The highest discount of the traded price to net asset value per Unit attributable to Unitholders		56.16%	58.46%	37.53%	43.45%	70.52%
Distribution yield per Unit	2	2.85%	3.50%	2.25%	4.70%	7.59%

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, 2013 is calculated by dividing the interim distribution per Unit of HK\$0.067 over the closing price of HK\$2.35 as at 28th June, 2013, 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 30.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2013

	Notes	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Revenue			
Gross rental revenue	4	394,319	371,189
Gross hotel revenue	4	20,990	22,219
		<u>415,309</u>	<u>393,408</u>
Property and hotel operating expenses		<u>(14,587)</u>	<u>(14,494)</u>
Net rental and hotel income	4	400,722	378,914
Other income and gain	5	1,692	538
Depreciation	11	(4,164)	(2,541)
Fair value changes on investment properties	12	124,793	446,645
REIT Manager fees	6	(43,848)	(38,474)
Trust, professional and other expenses	7	(11,197)	(4,441)
Finance costs - excluding distribution to Unitholders	8	<u>(86,616)</u>	<u>(60,672)</u>
PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		381,382	719,969
Income tax expense	9	<u>(45,974)</u>	<u>(44,814)</u>
PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		335,408	675,155
Finance costs - distribution to Unitholders		<u>(250,822)</u>	<u>(205,219)</u>
PROFIT FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		84,586	469,936
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	10	<u>HK\$0.103</u>	<u>HK\$0.207</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	Notes	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		335,408	675,155
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges:			
Changes in fair values of cash flow hedges		4,807	26,079
Transfer from hedging reserve to condensed consolidated income statement		2,903	5,912
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		7,710	31,991
Items not to be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on revaluation of property	11	(57,622)	24,480
Income tax effect	19	9,508	(4,039)
Net other comprehensive income/(loss) not being reclassified to profit or loss in subsequent periods		(48,114)	20,441
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		(40,404)	52,432
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		295,004	727,587

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2013

	Notes	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	680,000	740,000
Investment properties	12	20,470,000	20,292,000
Derivative financial instruments	18	4,962	—
Total non-current assets		<u>21,154,962</u>	<u>21,032,000</u>
Current assets			
Accounts receivable	13	20,890	98,216
Prepayments, deposits and other receivables		2,712	1,939
Restricted cash	14	53,449	44,237
Cash and cash equivalents		<u>1,965,617</u>	<u>25,364</u>
Total current assets		<u>2,042,668</u>	<u>169,756</u>
Total assets		<u>23,197,630</u>	<u>21,201,756</u>
Current liabilities			
Accounts payable	15	25,021	73,354
Deposits received		124	131
Due to related companies		199	210
Other payables and accruals		50,717	14,058
Interest-bearing bank borrowings	16	4,794	4,794
Tax payable		<u>57,682</u>	<u>25,362</u>
Total current liabilities		<u>138,537</u>	<u>117,909</u>
Net current assets		<u>1,904,131</u>	<u>51,847</u>
Total assets less current liabilities		<u>23,059,093</u>	<u>21,083,847</u>

		30th June, 2013	31st December, 2012
	Notes	(unaudited)	(audited)
		HK\$'000	HK\$'000
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	16	4,784,698	4,776,065
Other borrowings	17	1,921,060	—
Derivative financial instruments	18	—	2,778
Deposits received		2,550	2,547
Deferred tax liabilities	19	375,557	371,411
Total non-current liabilities		7,083,865	5,152,801
Total liabilities, excluding net assets attributable to Unitholders		7,222,402	5,270,710
Net assets attributable to Unitholders		15,975,228	15,931,046
Number of Units in issue	20	3,257,431,189	3,257,431,189
Net asset value per Unit attributable to Unitholders	21	HK\$4.904	HK\$4.891

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the six months ended 30th June, 2013

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets as at 1st January, 2013	8,432,356	15,876	(1,497)	261,163	7,223,148	15,931,046
Profit for the period	—	—	—	—	335,408	335,408
Other comprehensive loss for the period:						
Cash flow hedges	—	—	7,710	—	—	7,710
Loss on revaluation of property, net of tax	—	—	—	(48,114)	—	(48,114)
Total comprehensive income for the period, before distribution to Unitholders	—	—	7,710	(48,114)	335,408	295,004
Transfer of depreciation on hotel properties	—	—	—	(1,285)	1,285	—
Finance costs - distribution to Unitholders	—	—	—	—	(250,822)	(250,822)
Net assets as at 30th June, 2013	<u>8,432,356</u>	<u>15,876</u>	<u>6,213</u>	<u>211,764</u>	<u>7,309,019</u>	<u>15,975,228</u>

For the six months ended 30th June, 2012

	Units (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets as at 1st January, 2012	8,432,356	15,876	(31,991)	152,735	4,082,873	12,651,849
Profit for the period	—	—	—	—	675,155	675,155
Other comprehensive income for the period:						
Cash flow hedges	—	—	31,991	—	—	31,991
Gain on revaluation of property, net of tax	—	—	—	20,441	—	20,441
Total comprehensive income for the period, before distribution to Unitholders	—	—	31,991	20,441	675,155	727,587
Finance costs - distribution to Unitholders	—	—	—	—	(205,219)	(205,219)
Net assets as at 30th June, 2012	<u>8,432,356</u>	<u>15,876</u>	<u>—</u>	<u>173,176</u>	<u>4,552,809</u>	<u>13,174,217</u>

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2013

	Notes	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Profit for the period, before distribution to Unitholders		335,408	675,155
Adjustments:			
Amounts set aside for furniture, fixtures and equipment reserve	(e)	(18,191)	(35,974)
Amortisation of debt establishment costs		12,482	10,957
Fair value changes on investment properties		(124,793)	(446,645)
Depreciation		4,164	2,541
Deferred tax charge		13,654	15,742
Distributable income for the period	(a)&(b)	222,724	221,776
Distribution per Unit	(a),(b),(c)&(d)	HK\$0.067	HK\$0.063

Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income as defined in the Trust Deed ("Total Distributable Income") for each financial year. The current policy of the REIT Manager is to distribute to Unitholders 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\$0.067 per Unit for the six months ended 30th June, 2013 (six months ended 30th June, 2012: HK\$0.063 per Unit).
- (b) Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 13th September, 2013 in respect of the interim distribution for the six months ended 30th June, 2013. This interim distribution will be paid out to Unitholders on or about 9th October, 2013. The total distributable amount to be paid to Unitholders for the period of HK\$218.2 million is arrived at based on the interim distribution per Unit of HK\$0.067 and the number of Units expected to be in issue at the Record Date that are entitled to distribution as detailed in note (c) below.
- (c) The number of Units expected to be entitled to distribution for the period from 1st January, 2013 to 30th June, 2013 is 3,257,431,189. This does not take into consideration any Units which may be repurchased and cancelled or any other changes in the number of the issued Units subsequent to the approval of the condensed consolidated financial statements but before the Record Date.
- (d) The interim distribution of HK\$0.067 per Unit for the six months ended 30th June, 2013, involving a total distributable amount of HK\$218.2 million, was resolved and declared by the REIT Manager on 26th August, 2013. Accordingly, the distribution is not reflected as a distribution payable in the condensed consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2013.
- (e) Amounts set aside by Regal REIT for furniture, fixtures and equipment reserve ("FF&E Reserve") with respect to Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel, Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as the "Initial Hotel"), and Regal iClub Hotel aggregated HK\$18.2 million (six months ended 30th June, 2012: HK\$36.0 million). The amounts for the six months ended 30th June, 2012 included an additional contribution of HK\$18.0 million set aside in FF&E Reserve, pursuant to the provisions in the Trust Deed in relation to the determination of Total Distributable Income, as approved by the REIT Manager on 27th August, 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2013

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Net cash flows from operating activities	338,421	208,680
Net cash flows used in investing activities	(63,774)	(7,625)
Net cash flows from/(used in) financing activities	1,665,606	(175,425)
Net increase in cash and cash equivalents	1,940,253	25,630
Cash and cash equivalents at beginning of period	25,364	23,797
Cash and cash equivalents at end of period	<u>1,965,617</u>	<u>49,427</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	813,910	49,427
Time deposits with original maturity of less than three months when acquired	1,151,707	—
	<u>1,965,617</u>	<u>49,427</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. In addition, the condensed consolidated 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 financial statements have been prepared on the historical cost basis, except for investment properties, property, plant and equipment and derivative financial instruments, which have been measured at fair values. These condensed consolidated 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 financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2012, 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, 2013.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK (IFRIC) - Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 13 and HKAS 1 Amendments, the adoption of the new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The application of HKFRS 13 has not materially impacted the fair value measurements carried out by the Group.

HKFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards including HKFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments in the condensed consolidated financial statements. The Group provides these disclosures in the notes to the condensed consolidated financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affect presentation only and have no impact on the financial position or performance.

3. OPERATING SEGMENT INFORMATION

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

The operating segments of the Group for the six months ended 30th June, 2013 are as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	391,885	2,434	394,319
Gross hotel revenue	—	20,990	20,990
Total	<u>391,885</u>	<u>23,424</u>	<u>415,309</u>
Segment results	<u>386,653</u>	<u>14,069</u>	400,722
Fair value changes on investment properties	116,793	8,000	124,793
Depreciation	—	(4,164)	(4,164)
Bank interest income			1,674
Other income and gain			18
REIT Manager fees			(43,848)
Trust, professional and other expenses			(11,197)
Finance costs - excluding distribution to Unitholders			<u>(86,616)</u>
Profit before tax and distribution to Unitholders			<u>381,382</u>

The operating segments of the Group for the six months ended 30th June, 2012 were as follows:

	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Segment revenue			
Gross rental revenue	368,929	2,260	371,189
Gross hotel revenue	—	22,219	22,219
Total	<u>368,929</u>	<u>24,479</u>	<u>393,408</u>
Segment results	<u>363,414</u>	<u>15,500</u>	378,914
Fair value changes on investment properties	440,913	5,732	446,645
Depreciation	—	(2,541)	(2,541)
Bank interest income			108
Other income			430
REIT Manager fees			(38,474)
Trust, professional and other expenses			(4,441)
Finance costs - excluding distribution to Unitholders			(60,672)
Profit before tax and distribution to Unitholders			<u>719,969</u>

Segment assets and liabilities

As part of the Group's performance assessment, the fair values of investment properties and property, plant and equipment are reviewed by the Group's chief operating decision-maker.

As at 30th June, 2013, the Group's segment assets, comprised of aggregate fair values of the investment properties and property, plant and equipment in the hotel properties segment and the mixed use property segment, amounted to HK\$20,300,000,000 (31st December, 2012: HK\$20,130,000,000) and HK\$850,000,000 (31st December, 2012: HK\$902,000,000), 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, 2013		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>53,207</u>	<u>1,786</u>	<u>54,993</u>

	Six months ended 30th June, 2012		
	Hotel Properties (unaudited) HK\$'000	Mixed Use Property (unaudited) HK\$'000	Total (unaudited) HK\$'000
Capital expenditures	<u>19,087</u>	<u>329</u>	<u>19,416</u>

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

Information about a major customer

Revenue of HK\$391,885,000 (six months ended 30th June, 2012: HK\$368,929,000) was derived from the lease of the hotel properties to a single lessee which is a related company.

Geographical information

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

4. NET RENTAL AND HOTEL INCOME

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

The net rental and hotel income represents the aggregate of:

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

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

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Gross rental revenue		
Rental income - Initial Hotels (Note)	386,809	364,319
- Regal iClub Hotel - Non-hotel portions	2,434	2,260
Others	5,076	4,610
	394,319	371,189
Property operating expenses	(5,471)	(5,727)
Net rental income	388,848	365,462
Gross hotel revenue	20,990	22,219
Hotel operating expenses	(9,116)	(8,767)
Net hotel income	11,874	13,452
Net rental and hotel income	400,722	378,914

Note:

An analysis of the rental income is as follows:

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Cash Base Rent	367,000	322,500
Variable Rent	19,809	41,819
	386,809	364,319

5. OTHER INCOME AND GAIN

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Bank interest income	1,674	108
Foreign exchange differences, net	3	–
Sundry	15	430
	<u>1,692</u>	<u>538</u>

6. REIT MANAGER FEES

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Base Fees in the form of cash	31,541	26,810
Variable Fees in the form of cash	12,307	11,664
	<u>43,848</u>	<u>38,474</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 and/or cash) 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 Regal iClub Hotel, which is payable annually.

For the financial year 2013, the REIT Manger elected to receive its Base Fees and Variable Fees in the form of cash, details of which can be referred to an announcement of Regal REIT published on 14th December, 2012.

7. TRUST, PROFESSIONAL AND OTHER EXPENSES

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Auditors' remuneration	860	815
Legal and other professional fees	7,258	1,159
Trustee fees	1,995	1,779
Other expenses	1,084	688
	<u>11,197</u>	<u>4,441</u>

8. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Total interest expenses on financial liabilities not at fair value through profit or loss:		
Interest expenses on interest-bearing bank borrowings wholly repayable within five years	56,550	43,553
Interest expenses on other borrowings wholly repayable within five years	14,431	–
Amortisation of debt establishment costs	12,482	10,957
	<u>83,463</u>	<u>54,510</u>
Fair value changes on derivative financial instruments		
– cash flow hedges (transfer from hedging reserve)	2,903	5,912
Loan agency fee	250	250
	<u>86,616</u>	<u>60,672</u>

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30th June, 2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Charge for the period	32,320	29,072
Deferred (note 19)	13,654	15,742
Total tax charge for the period	45,974	44,814

10. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit attributable to Unitholders is based on the profit for the period before distribution to Unitholders of HK\$335,408,000 (six months ended 30th June, 2012: HK\$675,155,000), and the weighted average of 3,257,431,189 Units (six months ended 30th June, 2012: 3,257,431,189 Units) in issue during the period. The basic earnings per Unit attributable to Unitholders for the period amounted to HK\$0.103 (six months ended 30th June, 2012: HK\$0.207).

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 (six months ended 30th June, 2012: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties HK\$'000
At 1st January, 2012	615,000
Additions	238
Surplus on revaluation	132,144
Depreciation provided during the year	(7,382)
At 31st December, 2012 (audited) and 1st January, 2013	740,000
Additions	1,786
Deficit on revaluation	(57,622)
Depreciation provided during the period	(4,164)
At 30th June, 2013 (unaudited)	680,000

The Group's property, plant and equipment represents the value of land and building together with furniture, fixtures and equipment of Regal iClub Hotel for the hotel portion. The property, plant and equipment was revalued on 30th June, 2013 by Savills Valuation and Professional Services Limited, an independent professional property valuer and the principal valuer of Regal REIT, at HK\$680,000,000 on an open market value, highest and best use basis. A revaluation deficit of HK\$57,622,000 resulting from the 30th June, 2013 valuation has been charged to other comprehensive income.

The Regal iClub Hotel is situated in Hong Kong and is held under a long term lease, and has been pledged to secure banking facilities granted to the Group (note 16).

The carrying amount of the Group's property, plant and equipment would have been HK\$426,390,000 had such assets been stated in the condensed consolidated financial statements at cost less accumulated depreciation.

Further particulars of the Group's hotel properties are included on page 56.

12. INVESTMENT PROPERTIES

	HK\$'000
At 1st January, 2012	17,154,000
Fair value changes	3,068,038
Capital expenditures for the year	<u>69,962</u>
At 31st December, 2012 (audited) and 1st January, 2013	20,292,000
Fair value changes	124,793
Capital expenditures for the period	<u>53,207</u>
At 30th June, 2013 (unaudited)	<u><u>20,470,000</u></u>

The Group's investment properties were valued on 30th June, 2013 by Savills Valuation and Professional Services Limited, an independent professional property valuer and the principal valuer of Regal REIT, at HK\$20,470,000,000 on an open market value, highest and best use basis. The investment properties are leased to a related party and other commercial tenants under operating leases, further details of which are included in note 22(a) to the condensed consolidated financial statements.

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

Further particulars of the Group's investment properties are included on page 56.

13. ACCOUNTS RECEIVABLE

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Variable Rent receivables	19,809	96,800
Accounts receivable	1,081	1,416
	<u>20,890</u>	<u>98,216</u>

The ages of the Group's accounts receivable as at the end of the reporting period, based on the invoice date, are within 3 months. The Group has no accounts receivable that are past due at the end of the reporting period.

The Variable Rent receivables represent amounts due from a related company which has no recent history of default. The amounts are unsecured, interest-free and repayable within one year in accordance with the terms of the respective agreements.

The general credit terms for accounts receivable are 30 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

14. RESTRICTED CASH

The restricted cash of the Group was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the FF&E Reserve for use in the Initial Hotels and Regal iClub Hotel - Hotel portion, and deposits from certain tenants in respect of Regal iClub Hotel - Non-hotel portions.

15. ACCOUNTS PAYABLE

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Amounts due to related companies	24,627	72,929
Other accounts payable	394	425
	<u>25,021</u>	<u>73,354</u>

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

The ages of the Group's accounts payable as at the end of the reporting period, based on the invoice date, are all within 3 months.

16. INTEREST-BEARING BANK BORROWINGS

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Interest-bearing bank borrowings	4,831,000	4,834,600
Debt establishment costs	(41,508)	(53,741)
	4,789,492	4,780,859
Portion classified as current liabilities	(4,794)	(4,794)
Non-current portion	4,784,698	4,776,065
Analysed into bank loans repayable:		
Within one year	4,794	4,794
In the second year	4,784,698	4,794
In the third to fifth years, inclusive	—	4,771,271
	4,789,492	4,780,859

On 7th March, 2012, Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, entered into an agreement in respect of a new term loan facility of HK\$4.5 billion (the "Term Loan Facility") for a term of three years. The Term Loan Facility bears interest at Hong Kong Interbank Offered Rates ("HIBOR") plus 2.1% per annum and is repayable in full on 9th March, 2015. The Group also entered into interest rate swap arrangements to hedge against the interest rate exposure of the Term Loan Facility for a notional amount of HK\$3.0 billion, details of which are set out in note 18.

On 23rd July, 2013, Regal REIT, through its wholly-owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, entered into another banking facility aggregating HK\$4.8 billion, comprised of a term loan of HK\$4.5 billion and a revolving loan facility of HK\$0.3 billion (the "New Facilities") for a term of three years, to replace the Term Loan Facility. The New Facilities will bear interest at HIBOR plus 1.62% per annum and will be repayable in full on 20th July, 2018.

On 24th February, 2012, Regal REIT, through Sonnix Limited, entered into an agreement for a new loan facility of HK\$340.0 million (the "New iClub Facility") for a term of three years, to replace the previous iClub facilities. The New iClub Facility bears HIBOR-based interest.

As at the end of the reporting period, the New iClub Facility had an outstanding amount of HK\$331.0 million, a portion of HK\$10.8 million is repayable quarterly and a final repayment portion of HK\$320.2 million is due on 24th February, 2015.

Bank borrowings under the Term Loan Facility is guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies of the Group. The New iClub Facility is guaranteed by Regal REIT.

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

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

17. OTHER BORROWINGS

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Non-current		
Unsecured other borrowings repayable in the third to fifth years, inclusive	<u>1,921,060</u>	<u>—</u>

On 11th January, 2013, R-REIT International Finance Limited (the "MTN Issuer"), a wholly-owned subsidiary of Regal REIT, established a US\$1 billion medium term note programme (the "MTN Programme").

On 22nd March, 2013, the MTN Issuer issued under the MTN Programme a series of Hong Kong dollar denominated senior unsecured 5-year term notes in the aggregate nominal principal amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum. The notes were issued at a discount at 99.44% of the principal amount.

On 22nd May, 2013, the MTN Issuer issued under the MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$150.0 million at a coupon interest rate of 4.10% per annum. The notes were issued at a discount at 99.553% of the principal amount.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets/(Liabilities)	
	30th June, 2013	31st December, 2012
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Interest rate swaps - cash flow hedges	4,962	(2,778)

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to certain portion of its floating rate term loans. As at 30th June, 2013, the interest rate swaps had an aggregate notional amount of HK\$3.0 billion (31st December, 2012: HK\$3.0 billion) (note 16). The interest rate swaps will mature on 9th March, 2015 and the fixed swap interest rates range from 0.355% per annum to 0.483% per annum as at 30th June, 2013.

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

19. DEFERRED TAX

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

	Fair value adjustments arising from revaluation of property, plant and equipment HK\$'000	Depreciation allowances in excess of related depreciation HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	Total HK\$'000
Gross deferred tax assets/(liabilities) at 1st January, 2012	(30,181)	(297,920)	10,791	(317,310)
Deferred tax charged to other comprehensive income during the year	(21,804)	—	—	(21,804)
Deferred tax credited/(charged) to the consolidated income statement during the year	378	(28,863)	(3,812)	(32,297)
Gross deferred tax assets/(liabilities) at 31st December, 2012 (audited)	<u>(51,607)</u>	<u>(326,783)</u>	<u>6,979</u>	<u>(371,411)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2013	(51,607)	(326,783)	6,979	(371,411)
Deferred tax credited to other comprehensive income during the period	9,508	—	—	9,508
Deferred tax credited/(charged) to the condensed consolidated income statement during the period (note 9)	<u>254</u>	<u>(13,607)</u>	<u>(301)</u>	<u>(13,654)</u>
Gross deferred tax assets/(liabilities) at 30th June, 2013 (unaudited)	<u>(41,845)</u>	<u>(340,390)</u>	<u>6,678</u>	<u>(375,557)</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the condensed consolidated statement of financial position.

20. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2013 (unaudited)	31st December, 2012 (audited)
At beginning of the period/year and at end of the period/year	<u>3,257,431,189</u>	<u>3,257,431,189</u>

21. 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, 2013 of HK\$15,975,228,000 (31st December, 2012: HK\$15,931,046,000) by the number of Units in issue of 3,257,431,189 (31st December, 2012: 3,257,431,189) as at that date.

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 12, and certain premises under operating lease arrangements. At 30th June, 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Within one year	379,305	746,653
In the second to fifth years, inclusive	29,879	26,998
After five years	26,708	25,655
	<u>435,892</u>	<u>799,306</u>

Certain of the leases contain Base Rent and Variable Rent provisions.

Certain of the operating leases were entered into between the Group and a related company.

(b) As lessee

The Group leases certain premises under operating lease arrangements which have been negotiated for terms ranging from 1 to 12 years. At 30th June, 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Within one year	8,677	7,577
In the second to fifth years, inclusive	29,879	26,058
After five years	26,708	25,655
	65,264	59,290

The operating leases were entered on behalf of a related company.

During the six months ended 30th June, 2013, the total minimum lease payments under operating leases in respect of land and buildings included in property and hotel operating expenses of HK\$4,257,000 (six months ended 30th June, 2012: HK\$3,802,000) were charged to the condensed consolidated income statement.

23. COMMITMENTS

In addition to the operating lease commitments detailed in note 22(b) above, the Group had the following capital commitments in respect of its properties at the end of the reporting period:

	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Authorised, but not contracted for	21,252	39,980

24. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated 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 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 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
Savills Valuation and Professional Services Limited	The current principal valuer of the Group
Colliers International (Hong Kong) Limited	The former principal valuer of the Group

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2013 (unaudited) HK\$'000	Six months ended 30th June, 2012 (unaudited) HK\$'000
Rental income received/receivable from the RHIHL Group	(i)	391,885	368,929
Hotel management fees charged by the RHIHL Group	(ii)	(1,045)	(1,152)
Marketing fee charged by the RHIHL Group	(iii)	(210)	(222)
Building management fee charged by the PHL Group	(iv)	(227)	(208)
Interest expense charged by the Deutsche Bank Group	(v)	—	(2,716)
REIT Manager fees	(vi)	(43,848)	(38,474)
Trustee fees	(vii)	(1,995)	(1,779)
Valuation fees paid/payable to the principal valuer	(viii)	(540)	(363)

Notes:

- (i) The rental income earned by the Group was in accordance with the relevant agreements with respect to the Initial Hotels.
- (ii) Hotel management fees in respect of Regal iClub Hotel - Hotel portion comprised of (a) a base fee, for an amount based on 2% of the gross hotel revenue, and (b) an incentive fee based on 5% of the excess of the gross operating profit over the base fee and fixed charges in accordance with the corresponding hotel management agreement.
- (iii) The marketing fee in respect of Regal iClub Hotel - Hotel portion was charged at 1% of the gross hotel revenue of Regal iClub Hotel - Hotel portion in accordance with the corresponding hotel management agreement.
- (iv) The building management fee was charged at a mutually agreed amount payable on a monthly basis in respect of Regal iClub Hotel - Non-hotel portions.
- (v) The interest expense is related to bank balances maintained and interest rate swaps arranged with the Deutsche Bank Group. The incurred interest expense thereon was in accordance with the corresponding bank agreements and swap contracts with the Deutsche Bank Group.
- (vi) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 6 to the condensed consolidated financial statements.
- (vii) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at rates 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.
- (viii) The valuation fees were charged by the principal valuer in accordance with the terms of the relevant agreements.

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

	Notes	30th June, 2013 (unaudited) HK\$'000	31st December, 2012 (audited) HK\$'000
Net amounts due from/(to) the RHIHL Group:			
Variable Rent receivables	(i)	19,809	96,800
Accounts payable to related companies	(ii)	(24,627)	(72,929)
Other payables	(ii)	—	(42)
Amounts due to related companies	(ii)	(199)	(210)
Net amounts due from/(to) the PHL Group:			
Deposits paid	(ii)	1,212	1,212
Other payables and accruals	(ii)	—	(43)
Net amounts due to:			
The Trustee	(iii)	(891)	(766)
The principal valuer	(iv)	(540)	(780)
Restricted and non-restricted bank balances with the the Deutsche Bank Group	(v)	<u>142</u>	<u>122</u>

Notes:

- (i) Details of the balances are set out in note 13 to the condensed consolidated financial statements.
 - (ii) The amounts are unsecured, interest-free and repayable on demand/within one year.
 - (iii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (iv) The amount is repayable in accordance with the terms of the relevant agreement.
 - (v) The bank 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 undertook to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion. Under the Market Rental Package for 2013, the RHIHL Lessee has provided a third party guarantee as a security deposit for an amount of HK\$367.0 million (2012: HK\$322.5 million), which is equivalent to six months Base Rent for the year 2013, issued by a licensed bank in Hong Kong.
- (d) Under a deed of trade mark licence, the RHIHL Group granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.
- (e) On 23rd December, 2010, the Group entered into a hotel management agreement with a member of the RHIHL Group in respect of the management of the hotel portion of Regal iClub Hotel for a 10-year term commencing on 1st January, 2011 and expiring on 31st December, 2020.

25. FAIR VALUE AND FAIR VALUE HIERARCHY

The REIT Manager considers that the carrying amounts of the financial assets and financial liabilities recorded in the condensed consolidated financial statements approximated to their fair values at the end of the reporting period.

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

*Assets measured at fair value
As at 30th June, 2013:*

	Level 1 (unaudited) HK\$'000	Level 2 (unaudited) HK\$'000	Level 3 (unaudited) HK\$'000	Total (unaudited) HK\$'000
Derivative financial instruments	—	4,962	—	4,962

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements.

26. EVENTS AFTER THE END OF THE REPORTING PERIOD

- (a) Subsequent to the end of the reporting period, the payments of the deposit for the Sheung Wan hotel and the refundable cash collateral and the option fee for the North Point hotel were effected on 22nd July, 2013, after approval of the transactions by the independent unitholders. According to the terms of the share purchase agreement and the option agreement in respect of the proposed acquisitions of the Sheung Wan hotel and the North Point hotel, P&R Holdings Limited will pay interest quarterly to Regal REIT at a rate of 4.3047% per annum on the deposit and the refundable cash collateral, from the dates of payment up to the respective date when the deposit or the refundable cash collateral are refunded to the Trustee of Regal REIT.
- (b) Subsequent to the end of the reporting period, on 23rd July, 2013, Regal REIT entered into the new facility agreement (the "New Facility Agreement") for a new term loan facility of up to HK\$4,500.0 million and a revolving facility of up to HK\$300.0 million (together, the "New Facilities"). The final maturity of the New Facilities will be on 20th July, 2018, which is approximately five years from the date of execution of the New Facility Agreement. The new term loan facility will be wholly used to early refinance the existing term loan facility of the same principal amount to take benefit of a longer loan term and lower interest costs, while the revolving facility will be used for general corporate funding purposes of Regal REIT. Moreover, the New Facilities will only be secured on three of the five Initial Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. Upon drawdown of the new term loan facility and repayment of the existing term loan facility, two of the Initial Hotels, namely, Regal Kowloon Hotel and Regal Oriental Hotel, will be free of mortgages and held on an unencumbered basis.

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, 2013 to 30th June, 2013, in conjunction with Regal REIT's external auditors. The review report of the external auditors is set out on page 55 of this report.



**To the board of directors of Regal Portfolio Management Limited
(as manager of Regal Real Estate Investment Trust)**

INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 53, which comprises the condensed consolidated statement of financial position of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries as at 30th June, 2013, and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in net assets and statement of cash flows and the 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 Manager of Regal REIT 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

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26th August, 2013

INVESTMENT/HOTEL PROPERTIES PORTFOLIO

As at 30th June, 2013

	Description	Use	Lease	Gross Floor Area (sq.m.)	Approx Covered Floor Area (sq.m.)	Percentage interest attributable to Regal REIT
(1)	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport Chek Lap Kok New Territories Hong Kong	Hotel	Medium term	71,988	83,400	100
(2)	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong	Hotel	Long term	25,083	31,900	100
(3)	Regal Kowloon Hotel 71 Mody Road Tsimshatsui Kowloon Hong Kong	Hotel	Long term	31,746	43,500	100
(4)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F Po Sing Court 21-25 Shek Ku Lung Road 40-42 Sa Po Road and 15-29 Carpenter Road Kowloon City Kowloon Hong Kong	Hotel	Medium term	22,601	27,300	100
(5)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong	Hotel	Medium term	59,668	69,000	100
(6)	Regal iClub Hotel Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F Eastern and Western Elevations of External Walls Architectural Feature at Roof Top and Upper Roof 211 Johnston Road Wanchai Hong Kong	Hotel/ commercial	Long term	5,326	5,530	100

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