



Regal Real Estate Investment Trust

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
(根據香港法例第571章證券及期貨條例第104條獲認可之香港集體投資計劃)
(Stock Code 股份代號 : 1881)

INTERIM REPORT 2008 中期報告



Managed by



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CORPORATE INFORMATION

MANAGER OF REGAL REIT

Regal Portfolio Management Limited
(the "REIT Manager")

DIRECTORS OF THE REIT MANAGER

Non-Executive Directors

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

Executive Director

Kai Ole Ringenson (Chief Executive Officer)

Independent Non-Executive Directors

John William Crawford, J.P.
Alvin Lam Kwing Wai
Abraham Shek Lai Him, J.P.

AUDIT COMMITTEE OF THE REIT MANAGER

John William Crawford, J.P. (Chairman)
Alvin Lam Kwing Wai
Abraham Shek Lai Him, J.P.

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

CB Richard Ellis Limited

PRINCIPAL BANKERS

ABN AMRO Bank N.V., Hong Kong
Bank of China Limited, Macau Branch
The Bank of East Asia, Limited
Calyon, Hong Kong Branch
CITIC Ka Wah Bank Limited
Dah Sing Bank, Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Malayan Banking Berhad
Oversea-Chinese Banking Corporation Limited,
Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Sumitomo Mitsui Banking Corporation
Wing Hang Bank Limited

LEGAL ADVISORS

Baker & McKenzie

UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong.

REGISTERED OFFICE OF THE REIT MANAGER

Unit No. 1504, 15th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.
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Website: www.RegalREIT.com

CHAIRMAN'S STATEMENT


I am pleased to present, on behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, the 2008 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2008, Regal REIT attained an unaudited consolidated profit of approximately HK\$278.3 million. In the comparative period in 2007, covering the period from 11th December, 2006 (the date of establishment of Regal REIT) to 30th June, 2007, Regal REIT recorded a profit of HK\$2,165.0 million which included a one-off gain of HK\$2,044.4 million that arose from the acquisition of the Initial Hotels from the Regal Group at a discount to their market valuations in March 2007 when Regal REIT was listed.

Distributable income available for distribution to Unitholders amounted to approximately HK\$247.4 million and, based on a policy of distributing 100% of the distributable income, the Directors of the REIT Manager have resolved to declare a distribution of HK\$0.083 per Unit to Unitholders for the period ended 30th June, 2008.

During the period under review, the global economy as a whole has been adversely impacted by the financial turmoil that started off with the sub-prime loan crisis in the United States. The economy in Mainland China, to which the economy of Hong Kong is closely linked, has however continued to grow, although at a much more controlled pace. Hong Kong has also continued to benefit from its position as a favoured travel and tourism destination as well as being the gateway to Mainland China. In the first half of 2008, total visitor arrivals to Hong Kong surpassed 14 million and recorded an overall growth of 8.9% over the same period in 2007. Considering that the tourism business in Hong Kong during this period has been affected by the slow-down in the economies of most major overseas markets, the catastrophes that occurred in China and the tightened visa restrictions imposed by the Chinese Government, the growth achieved in the visitor arrivals can be viewed as satisfactory.

Regarding the hotel industry in Hong Kong, the average hotel room occupancy rate for all hotels in different categories published by Tourism Research Hong Kong Tourism Board for this six-month period in 2008 was 83%, the same level as that in the comparative period last year, while the average achieved hotel room rate has increased by 4.8%. The hotel room occupancy rate recorded was comparatively flat primarily due to an expanded supply of new hotel rooms in Hong Kong during the period.




The five Regal Hotels in the portfolio of Regal REIT have on the whole performed better than the industry average in relative terms in the six months under review and attained an increase of 9.7% in average room rate and 7.8% in RevPAR (Revenue per Available Room). These improvements reflect the successful execution of the internal growth strategy through pro-active asset management and the Hotel Manager's on-going efforts to reposition the hotels to capture higher yielding hotel market segments.

In the early part of 2008, Regal REIT commenced a HK\$85 million capital additions programme with the objective to enhance the competitiveness of the hotels. The projects under the programme included the conversion of available space in three of the hotels into conference and meeting areas, targeting towards the MICE (meetings, incentives, conventions and exhibitions) market which can, in turn, help generate additional room occupancy and higher room rates. Also included in the programme are the addition of three specialty restaurants at Regal Riverside Hotel with direct street access and the upgrading of the façade of Regal Oriental Hotel to give the property a new and fresh look.

The holding of the Olympic Equestrian Events in Hong Kong has generated positive impact to the local hotel business and the Regal Riverside Hotel in Shatin particularly benefited. Given that the second half of the year is usually the busier time for the hotel industry in Hong Kong, it is anticipated that there will be continued growth in the performance of the hotels.

With respect to the planned business expansion of Regal REIT, the REIT Manager has during the past year been actively reviewing numerous acquisition proposals for hotel properties in Mainland China and has been engaged in a number of serious negotiations on certain of those proposals. However, due to the high expectations on selling prices on the part of the owners prompted by the Olympic fervor, and having considered the tightening monetary market and the austerity measures introduced by the Chinese Government, management has remained disciplined in adhering to prudent assessment criteria and hence the planned expansion programme has been delayed.

There has been a large increase in the number of hotels completed in Mainland China and especially in Beijing over the past period leading to the opening of the Beijing Olympic Games this August. It is expected that after the Olympic Games are over, there will inevitably be a temporary over-supply of hotel rooms in the short term, particularly in Beijing. However, looking into the medium to long term, the holding of the 2008 Olympic Games will definitely have a positive impact on China and the benefits to its economy should gradually become more evident, with particular stimulus to the tourism sector.



With the benefit of hindsight, the delay in the implementation of the expansion plans for the acquisition of hotel properties has apparently proven to have been a correct strategy. The REIT Manager has in the recent months received an increasing number of proposals offering hotels and mixed-use properties in different regions at more reasonable prices, which it is actively reviewing. Nevertheless, in view of the continuing tightening of the monetary markets globally and the austerity measures being imposed in China, it is anticipated that even more attractive acquisition opportunities may become available.

While Regal REIT will continue to focus primarily on hotels and hospitality-related properties in Greater China, approval has been obtained from Unitholders in May 2008 to expand its investment scope, in order to provide flexibility to Regal REIT on asset types as well as geographical locations for future property acquisitions.

Overall, the Directors of the REIT Manager remain confident of the capability of Regal REIT in building up its existing hotel portfolio and to become a pre-eminent owner of four and five stars hotels in Greater China.

Lo Yuk Sui

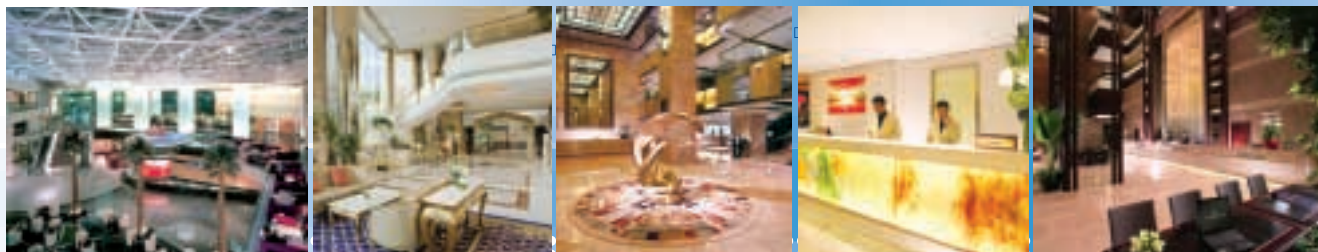
Chairman

REGAL PORTFOLIO MANAGEMENT LIMITED

(as the REIT Manager of Regal REIT)

Hong Kong, 25th August, 2008

INVESTMENT PROPERTIES PORTFOLIO















Location of the Initial Hotels in Hong Kong



- 1 Regal Airport Hotel
- 2 Regal Hongkong Hotel
- 3 Regal Kowloon Hotel
- 4 Regal Oriental Hotel
- 5 Regal Riverside Hotel

Key to Hotel Facility Icons

-  Room Count
-  Opening Year
-  Covered Floor Area (sq. ft.)
-  Gross Floor Area (sq. ft.)
-  Restaurant
-  Bar / Lounge
-  Ballroom
-  Meeting Room
-  Business Centre
-  Pool
-  Spa
-  Club Lounge

Regal Airport Hotel

■ Conference Room



■ OM Spa



9 Cheong Tat Road, Hong Kong International Airport,
Chek Lap Kok, Hong Kong.

Tel: (852) 2286 8888 Fax: (852) 2286 8686

Email: rah.info@RegalHotel.com Website: <http://RegalHotel.com>















■ Presidential Suite



■ Swimming Pool



- Conveniently connected to the airport passenger terminals
- 36,000 sq. ft. state of the art conference and meeting centre
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- The Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific for seven consecutive years (2001-2007)
- The Best Airport Hotel in Asia-Pacific by TTG Asia for three consecutive years (2005-2007)
- The Best Airport Hotel in Asia by Travel Weekly (Asia) (2007)
- The Best Conference Hotel by Capital CEO (2007)
- 1st runner-up for the World's Best Airport Hotel by Business Traveller UK (2007)
- One of the World's Best Airport Hotels listed on Forbes Traveller.com (2007)
- The Top 10 Convention & Exhibition Hotels of China of The 3rd Starlight Award of China Hotels (2007)
- The Best International Airport Hotel of China of The 3rd Starlight Award of China Hotels (2007)
- OM Spa - One of the Best Airport Facilities in the world selected by Travel+Leisure Magazine (2008)

 1,171	 10,333 sq. ft.
 1999	 25
 897,545 sq. ft.	 1
 774,880 sq. ft.	 2
 5	 1
 2	 1

Regal Hongkong Hotel

Hotel Lobby



Guestroom



88 Yee Wo Street, Causeway Bay, Hong Kong.
 Tel: (852) 2890 6633 Fax: (852) 2881 0777
 Email: rhk.info@RegalHotel.com Website: <http://RegalHotel.com>














Ballroom



- Located in the heart of Causeway Bay and within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Seven Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention & Exhibition Centre
- Full range of facilities catering to the needs of business travellers and meeting and exhibition delegates
- Regal Royale features a collection of 44 tastefully appointed guestrooms and suites on top of the hotel, all with views over Hong Kong. With a private lounge on 31st floor and a series of luxurious privileges and amenities, Regal Royale adds up to an exclusive experience of "a hotel within a hotel"

Topform



 474	 2,560 sq. ft.
 1993	 9
 343,864 sq. ft.	 1
 270,016 sq. ft.	 1
 3	 1
 1	

Regal Kowloon Hotel

■ Regala Café & Dessert Bar



■ Guestroom



71 Mody Road, Tsimshatsui, Kowloon, Hong Kong.

Tel: (852) 2722 1818 Fax: (852) 2369 6950

Email: rkh.info@RegalHotel.com Website: <http://RegalHotel.com>













■ Conference Room



- Located in Tsimshatsui ("TST") East, a commercial and tourist district
- Within walking distance from MTR's TST East station connecting to Shenzhen
- Close to TST's shopping centres (including Ocean Centre and Harbour City) and entertainment area
- Close to waterfront with promenade and "Avenue of Stars"
- Close to several museums including Hong Kong Space Museum, Hong Kong Science Museum, Hong Kong Museum of History and Hong Kong Museum of Art

■ Zeffirino Ristorante



 600	 3,761 sq. ft.
 1982	 12
 468,355 sq. ft.	 1
 341,714 sq. ft.	 1
 5	
 2	

Regal Oriental Hotel

■ i-Club Reception



■ Guestroom



30-38 Sa Po Road, Kowloon City, Kowloon, Hong Kong.

Tel: (852) 2718 0333 Fax: (852) 2718 4111

Email: roh.info@RegalHotel.com Website: http://RegalHotel.com













■ China Coast Pub



- Located in Kowloon City, facing the 328 hectare (810 acre) Kai Tak development site planned for new urban centre to include a cruise terminal and related tourist facilities
- Historic landmarks such as Wong Tai Sin Temple are in the immediate vicinity
- Easy access to Mong Kok, Kowloon Bay and Kwun Tong
- Façade is being upgraded to give the property a new and fresh look in 4th quarter 2008
- Regal i-Club is tailored for busy travellers appreciating trendy ambience, décor and friendly service, yet seek true value for money. Privileges include private lounge, gymnasium and business centre in a compact and cosy environment

■ i-Club Gymnasium



 439	 3,696 sq. ft.
 1982	 18
 294,154 sq. ft.	 1
 243,273 sq. ft.	 1
 3	
 2	

Regal Riverside Hotel

■ Dragon Inn



■ New Guestroom



34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong.
 Tel: (852) 2649 7878 Fax: (852) 2637 4748
 Email: rrh.info@RegalHotel.com Website: <http://RegalHotel.com>














■ Vi



- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland border
- Official hotel for the 2008 Olympic Equestrian Events held in Shatin
- Close to The Chinese University of Hong Kong, Hong Kong Science & Technology Parks and Ten Thousand Buddhas Monastery
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- 274 new rooms expected in 2009

■ Bauhinia Room



 858	 5,104 sq. ft.
 1986	 13 (include a new 6,265 sq. ft. conference and exhibition hall)
 662,123 sq. ft.	 1
 519,046 sq. ft.	 1
 8	 1
 2	

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 for the period from 1st January, 2008 to 30th June, 2008 (the "Interim Period").

LONG-TERM OBJECTIVES AND MISSION OF REGAL REIT

Regal REIT's and the REIT Manager's primary objectives are to provide stable, growing distributions and long-term capital growth for the unitholders of Regal REIT (the "Unitholders") through pro-active asset management of hotels and strategic investments in hotels and hospitality-related properties.

Regal REIT's and the REIT Manager's mission is to build up the existing portfolio of hotel properties comprising five hotels in Hong Kong as set out on pages 6 to 11 (collectively, the "Initial Hotels") and to become a pre-eminent owner of four and five star-rated hotels in Greater China, focusing on Hong Kong, Macao and Mainland China, as well as to reinforce Regal REIT's status as a growing attractive option to investors.

EXPANSION OF INVESTMENT STRATEGY

While Regal REIT will continue to focus on hotels and hospitality-related properties in Greater China, an expansion of its investment scope was approved by the Unitholders at an extraordinary general meeting held on 15th May, 2008. The approval was for an expansion of the asset class scope to also include serviced apartments, offices, and retail and entertainment complexes and for the geographical scope to go beyond Greater China, effectively removing any past restrictions. Expanding Regal REIT's investment scope will allow more flexibility in its growth through acquisitions of, for example, "mixed-use" developments containing hotels and to take advantage of investment opportunities overseas and to select markets where capitalisation rates may be higher than those in Hong Kong and/or Greater China.

The REIT Manager

The REIT Manager is the asset manager of Regal REIT and is licenced by the Securities and Futures Commission in Hong Kong (the "SFC") to undertake the regulated activity of asset management.

The Trustee

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as trustee for collective investment schemes authorised under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") pursuant to the Code on Real Estate Investment Trusts (the "REIT Code"). 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 first supplemental deed dated 2nd March, 2007 and second supplemental deed dated 15th May, 2008) (the "Trust Deed") and regulatory requirements.

REVIEW OF OPERATIONS & FINANCIAL RESULTS

The results of Regal REIT and its subsidiaries (the "Group") for the Interim Period are set out in the condensed consolidated interim financial statements on pages 31 to 53.

Rental Revenue Derived from Hotel Operations

Substantially all Regal REIT's rental revenues, represented by base rent ("Base Rent") and variable rent ("Variable Rent"), are derived from the hotel business operations at the Initial Hotels leased to a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL") (RHIHL together with its relevant subsidiaries, collectively, the "RHIHL Group") and managed by Regal Hotels International Limited (the "Hotel Manager"). Specifically, total hotel revenue consists of the following:

- Room revenue, which is primarily driven by room occupancy rates and average room rates;
- Food and beverage revenue ("F&B Revenue"), which is primarily driven by banquet bookings, local patron usage of restaurants and bars and patronage of room guests; and
- Other income, which consists of ancillary hotel and other revenue, is mainly driven by room occupancy rates such as telephone and internet usage, spa and health centres, parking and dry cleaning/laundry services. Other income also includes guaranteed revenue arising from corporate promotion programmes undertaken by the Hotel Manager.

Hotel operating costs and expenses consist of direct costs and expenses attributable to the respective operating departments, for example, rooms department, food and beverage department, etc. as well as costs and expenses attributable to overhead departments such as the administration department, sales and marketing department and repairs and maintenance department.

Most categories of variable expenses, such as certain labour costs in housekeeping and utilities costs, fluctuate with changes in the room occupancy rates of the hotel rooms and cost of goods sold, such as food products and beverages, fluctuate with guest frequency in restaurants, bars and banquets. Thus, improvements in revenue per available room ("RevPAR") and total hotel revenue attributable to increases in average room rates have a significant impact on improving operating margins.

The following performance indicators are commonly used in the hotel industry:

- Room occupancy rate
- Average room rate
- RevPAR, which is a product of the occupancy rate and the average room rate (RevPAR does not include F&B Revenue or other income, i.e. the ratio RevPAR includes only room revenue)

Hotel Industry Conditions

Tourism demand in the form of visitor arrivals to Hong Kong and demand for overnight accommodation continued to be strong in the first half of 2008 (up 8.9% and 4.7% respectively)⁽¹⁾, albeit growing at a slower pace towards the end of the period.

Following a strong 2007 with double digit RevPAR growth and a good performance in the early part of 2008, market conditions for hotels have been changing, resulting in a slightly slower pace of RevPAR growth of 4.8%⁽¹⁾ for all hotels in Hong Kong in the first six months in 2008, compared with 9.0% growth for the same period in 2007.

The changes in market conditions for hotels in Hong Kong are caused by multiple factors such as an increase in the supply of hotel rooms; the slow-down in the financial sector; the hesitation to travel by Mainlanders in the wake of the devastating Sichuan earthquake on 12th May, 2008 (affecting May in particular); and the stringent visa requirements enforced since earlier this year on foreign travel to the Mainland, all affecting Hong Kong's hotel market.

During the Interim Period, approximately 1,000 rooms were added to the supply of hotel rooms in Hong Kong. This increase in the number of available rooms has been effectively absorbed by the growth in overnight visitors of 4.7%, resulting in the flat room occupancy rate for all hotels in Hong Kong in the first six months of the year^{(1)&(2)} (see table below).

In early 2008, the supply of High Tariff A^{(2)&(3)} hotels was reduced by 216 rooms with the closure of the Ritz Carlton Hotel in Central. During the Interim Period, hotels in this category experienced a decrease in room occupancy rate to 79% from 81% and a flat RevPAR, High Tariff A hotels being the category most affected by the slow-down of the world economy and the reduction in public offerings and other activities in Hong Kong's financial sector. High Tariff B^{(1)&(3)} hotels fared better and, while increasing the room occupancy levels from 85% to 86% and the average room rate by 8.2%, this category achieved a RevPAR growth of 9.4%.

Room Occupancy Rates, Average Room Rates and RevPAR⁽¹⁾

Hotel Market Performance (January – June)

Category ⁽³⁾	Room Occupancy Rates		Average Room Rates		RevPAR	
	2008 %	2007 %	2008 HK\$	2007 HK\$	2008 HK\$	2007 HK\$
High Tariff A	79	81	2,167	2,107	1,712	1,707
High Tariff B	86	85	967	894	832	760
Medium Tariff	84	82	579	542	486	444
All Hotels	83	83	1,238	1,181	1,028	980

⁽¹⁾ Source: "Visitor Arrival Statistics - Jun 2008" and "Hotel Room Occupancy Report – Jun 2008", Tourism Research Hong Kong Tourism Board Jul 2008 and the REIT Manager.

⁽²⁾ Source: "Hotel Supply Situation - as at Jun 2008", Tourism Research Hong Kong Tourism Board Aug 2008.

⁽³⁾ By HKTBC classified categories of hotels for High Tariff A, High Tariff B and Medium Tariff hotels (approximately equivalent to hotels positioned in the "upper-upscale" to "deluxe", "mid-scale" to "upscale" and "economy" to "mid-scale" segments of the market).

Performance of the Initial Hotels

In broad terms, the performance of the Initial Hotels followed the overall market trend by experiencing a slow-down in the rate of growth but on an aggregate basis *outperformed* the market in terms of achieved RevPAR growth. Due to a successful strategy to increase average room rates, in particular at Regal Airport Hotel and Regal Hongkong Hotel, albeit at the expense of room occupancy, overall average RevPAR of the Initial Hotels increased by 7.8% resulting from a slightly lower overall room occupancy rate and a strong average room rate growth of 9.7%.

The strategy to reposition the Initial Hotels in the market towards more individual travellers continues to be successful and Regal Oriental Hotel in particular has benefited, achieving a 91.8% room occupancy level and a RevPAR growth of 12.3%. This gain is even more significant when measured by the increase in room revenue, up a strong 27.1%, as this amount also takes into account the additional 49 hotel rooms added in the 4th quarter of 2007, bringing the hotel's room count to 439. Overall, the Initial Hotels increased room revenue by 14.7% arising from 194 additional rooms in four of the Initial Hotels and an aggregate of 7.8% in RevPAR growth.

The current trend in demand from the Mainland China market with a shift towards individual travel continues to affect Regal Riverside Hotel while the hotel is still partially dependent on the group leisure market. However, the Hotel Manager's focus on targeting individual travellers and overseas groups as well as the MICE (meetings, incentives, conventions and exhibitions) segment is paying off and the hotel achieved increases in both room occupancy levels and average room rate during the Interim Period, resulting in a modest RevPAR increase of 2.5%. The new 6,265 square foot conference and exhibition hall, opened at Regal Riverside Hotel in January 2008, also helped contribute to capturing new business for the hotel.

Total Hotel Revenue, Gross Operating Profit and Net Property Income

For the Initial Hotels from 1st January, 2008 to 30th June, 2008 vs. Same Period Last Year

	Initial Hotels Combined		Variance (%)
	1st January, 2008 to 30th June, 2008 (HK\$'million)	1st January, 2007 to 30th June, 2007* (HK\$'million)	
Operating Results			
Room revenue	455.1	396.7	14.7
F&B revenue	209.6	187.8	11.6
Other income	23.8	51.1	(53.4)
Total hotel revenue	688.5	635.6	8.3
Operating expenses	(347.6)	(311.1)	11.7
Gross operating profit	340.9	324.5	5.1
Other expenses	(21.0)	(17.0)	23.5
Net rental income	12.8	12.5	2.4
Net property income	332.7	320.0	4.0
Statistics			
Average room rate	HK\$886.36	HK\$807.78	9.7%
Occupancy rate	79.64%	81.04%	(1.7%)
RevPAR	HK\$705.93	HK\$654.64	7.8%
Total available room nights	644,644	605,988	6.4%
Occupied rooms nights	513,419	491,098	4.5%

* For comparison purposes only. Regal REIT acquired the Initial Hotels on 30th March, 2007 in connection with the listing of Regal REIT.

Food and beverage sales have continued to be strong, achieving double digit growth during the Interim Period. The additional demand is driven partly by more rooms being occupied in the Initial Hotels, partly by a changing market mix with more hotel guests from market segments more likely to utilise the restaurants as well as by successful programmes promoting various food and beverage offerings to local residents.

The decrease in other income was due to the reduced scale of corporate marketing programmes sponsored by the Hotel Manager compared with the same period last year, which was primarily the initial period following the listing of Regal REIT.

Operating expenses were negatively affected by cost inflation, particularly by rising cost of goods sold and energy prices. Also affecting operating expenses was the increasing efforts of the Hotel Manager to gradually raising service and operating standards, causing a slight upward pressure on operating costs. The raising of operating standards is part of a longer range plan to increase the competitiveness of the Initial Hotels, executed by the Hotel Manager with the support of the REIT Manager.

Other expenses were adversely affected by more than 25% increase in government rent and rates for the Interim Period compared with the same period in 2007.

Performance of Regal REIT

Gross Rental Revenue and Net Rental Income

The cash Base Rent earned during the Interim Period was HK\$350.0 million. As the net property income ("NPI") from hotel operations was approximately HK\$332.7 million, approximately HK\$17.3 million below the cash Base Rent, no Variable Rent is payable to Regal REIT for the Interim Period.

	1st January, 2008 to 30th June, 2008		30th March, 2007* to 30th June, 2007
	HK\$'million	%	HK\$'million
Base Rent			
Cash Base Rent	350.0	93.4	160.9
Difference in accounting Base Rent and actual contractual cash Base Rent	8.7	2.3	22.4
Variable Rent	—	—	13.9
Other rent-related income			
FF&E Reserve contribution	13.7	3.7	6.9
Other rental income	2.3	0.6	0.8
Gross rental revenue	374.7	100.0	204.9
Property operating expenses	(3.4)	(0.9)	(4.4)
Net rental income	371.3	99.1	200.5

* Date of listing of Regal REIT

During the Interim Period, net rental income represented approximately 99.1% of gross rental revenue, after the deduction of property operating expenses. The property management function of Regal REIT is handled by the Hotel Manager under the Hotel Management Agreements and the related expenses are charged to the hotel operations as opposed to being absorbed by Regal REIT directly.

Distributable Income and Distribution Policy

Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributed to Unitholders shall not be less than 90% of Regal REIT's total distributable income for each financial year. The current policy of the REIT Manager is to distribute to Unitholders an amount equal to 100% of Regal REIT's total distributable income for each financial year. The amount of any distribution for the first six months of each financial year is at the discretion of the REIT Manager.

The unaudited distributable income for the Interim Period amounted to approximately HK\$247.4 million. The distributable income represents a distribution per Unit of HK\$0.083.

Interim Distribution for 2008

Based on a policy of distributing 100% of the distributable income, the Directors of the REIT Manager have resolved to declare an interim distribution of HK\$0.083 per Unit for the period from 1st January, 2008 to 30th June, 2008. The interim distribution will be payable to the Unitholders on the Register of Unitholders on 19th September, 2008.

Net Asset Value

The Net Asset Value ("NAV") per Unit amounted to HK\$3.488 as at 30th June, 2008, down HK\$0.015 from the NAV as at 31st December, 2007, mainly due to the increased number of Units in issue arising from REIT Manager fees being paid in the form of Units (see Number of Units in issue on page 48).

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 17th September, 2008 to Friday, 19th September, 2008, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2008, 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, 16th September, 2008. The relevant distribution warrants are expected to be dispatched on or about 9th October, 2008.

Valuation of Investment Properties

Regal REIT values its properties on an annual basis and under the relevant Hong Kong Financial Reporting Standards ("HKFRS"), the fair value model for investment properties has been adopted. CB Richard Ellis Limited ("CBRE"), an independent professional property valuer, assessed the market values of the Initial Hotels subject to the lease agreements and the hotel management agreements and in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)", the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the REIT Code. The Initial Hotels were valued at HK\$16,080.0 million as at 31st December, 2007. CBRE 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 used as a check on the valuation arrived at from the DCF method.

In line with the above, Regal REIT will in due course have its properties valued as at 31st December, 2008 and record any adjustments to the carrying value thereof at that time.

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

Asset Enhancement Programme

According to the terms of the sale and purchase agreement for the Initial Hotels, Regal International (BVI) Holdings Limited (the "Vendor") undertook to complete an asset enhancement programme (the "AEP") at its cost, including cost overruns and land premiums. The AEP includes the extension of the hotel room capacity in four of the Initial Hotels by a total of 468 rooms and adding a new swimming pool in Regal Hongkong Hotel.

A total of 194 rooms and the swimming pool were completed in 2007. The remaining part of the AEP entails building three stories on top of the existing structure at Regal Riverside Hotel comprising 274 additional hotel rooms. The target date for completion of this project, as set out in the offering circular dated 19th March, 2007 in connection with the initial public offering of Units (the "Offering Circular"), is 31st December, 2008.

The target date of the completion of the second stage of the AEP at Regal Riverside Hotel has been extended from 31st December, 2008 to 19th February, 2009 by the Authorised Person⁽⁴⁾ due to inclement weather and suspension of demolition work as required by the Highways Department to allow for walkway re-paving works as part of the Olympic Equestrian Events street improvement work programme. Based on the AEP Agent's⁽⁵⁾ report and the REIT Manager's observations, it is expected that the completion of the remaining AEP project at Regal Riverside Hotel may be further delayed and extended to around mid-2009. The main reasons for the expected delay are primarily attributable to further introduction of value-enhancing design changes to the room configurations and specifications and further interruption to the construction schedule in connection with the Olympic Equestrian Events street improvement work programme.

Capital Additions Projects

During the Interim Period, capital additions projects have been committed with an estimated final cost of approximately HK\$45.3 million covering all of the Initial Hotels, of which approximately HK\$31.5 million represents income generating projects which are expected to ultimately be recovered through cash Base Rent adjustments.

Financial Review and Financing Strategy


As at 30th June, 2008, Regal REIT had loan facilities aggregating HK\$4.5 billion comprised of a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million, both for terms of five years.

The term loan is repayable in full on 30th March, 2012. The revolving credit facility is available for drawdown during the period from 29th March, 2007 to 30th March, 2009 at which time it could be converted into a term loan. As of 30th June, 2008, the revolving credit facility had not yet been drawn.

Both the term loan and the revolving credit facility bear interest at a floating rate of 60 basis points above three-month Hong Kong Interbank Offered Rates ("HIBOR"). In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK\$4.35 billion. Under such arrangements, the interest rates effectively borne by Regal REIT are subject to a cap of 7.15% and a floor of 3.80% per annum for the period from 18th January, 2008 to 18th January, 2012.

⁽⁴⁾ The Authorised Person is defined in the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong).

⁽⁵⁾ The AEP Agent as defined in the Offering Circular.



The REIT Manager monitors interest rate movements in the three-month HIBOR rate on an on-going basis and makes judgements about interest rate risks to Regal REIT and Unitholders. In the latter part of 2007, Regal REIT, through its subsidiaries, entered into five interest rate hedging arrangements at interest rates ranging from 4.33% to 4.50% for one year for an aggregate notional principal amount of HK\$2.0 billion effective from 18th January, 2008. The REIT Manager will continue to review the effectiveness of the cap and floor interest rate arrangements and any other interest rate hedging arrangements that may be entered into by Regal REIT from time to time. The REIT Manager will continue to adopt a conservative hedging strategy to minimise the impact of interest rate fluctuations.

As at 30th June, 2008, the aggregate fair value of the interest rate hedging arrangements was reported as a liability of approximately HK\$61.9 million, with a current portion of HK\$20.1 million and a non-current portion of HK\$41.8 million in the condensed consolidated balance sheet.

As at 30th June, 2008, the loan-to-value ratio of 26.3%, being the ratio of the total amount of the outstanding loans of HK\$4.35 billion as compared to the aggregate market value of the Initial Hotels of approximately HK\$16.5 billion, based on an independent valuation as at 31st December 2007, and including the AEP and the additional capital expenditures incurred during the period. The loan-to-value ratio is well below the 40% allowed under the financing agreement with the lenders.

As at 30th June, 2008, the gearing ratio amounted to 25.7%, being the gross amount of the outstanding loans of HK\$4.35 billion as compared to the total assets of approximately HK\$16.9 billion, is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$240.8 million in unrestricted cash balances and bank deposits as at 30th June, 2008 and, therefore, in the opinion of the Directors of the REIT Manager, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

As at 30th June, 2008, the Group's investment properties were pledged to secure bank loan facilities granted to Regal REIT.

While adopting a prudent approach, i.e. the REIT Manager will ensure that the leverage ratios of Regal REIT will not exceed the thresholds dictated by the REIT Code and its lenders. Regal REIT has excess borrowing capacity that could be used to fund future hotel property acquisitions.

Hotel Industry Outlook

While the economies of Hong Kong and the Mainland continue to be strong and are relatively shielded from the current instability in the global credit markets and the slow-down of the world economy, growth rates for hotel room demand in Hong Kong are expected to be moderate compared with the record high RevPAR growth rates seen in the past couple of years. Expected new additional hotel room supply⁽⁶⁾ coupled with less upward room rate pressure on High Tariff A hotels, due to a reduction in activity in the financial sector in Hong Kong, are expected to dampen the scope for average room rate increases in Hong Kong in the near term.

Looking further to the future, it is quite reasonable to expect that, with sustained high economic growth on the Mainland and the continuously growing outbound tourism markets of the Mainland, a strengthening Renminbi and the closer economic partnership between Hong Kong and the Mainland, Hong Kong will continue to welcome an increasing flow of visitors in the years ahead.

⁽⁶⁾ Supply of hotel rooms in Hong Kong is estimated to grow from 51,581 in December 2007 to 65,919 hotel rooms by the end of 2012. Source: "Hotel Supply Situation - as at June 2008", Tourism Research Hong Kong Tourism Board August 2008.

GROWTH STRATEGY

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotels and hospitality-related properties. The REIT Manager intends to achieve its objective of long-term growth in distributions and in the NAV per Unit through a combination of the following two core strategies:

- *Internal Growth Strategy* for maximising value for Unitholders through pro-active asset management achieving higher total hotel revenue, RevPAR and NPI performance and thereby achieving higher Variable Rent from the Initial Hotels payable to Regal REIT.
- *External Growth Strategy* for growing the asset portfolio by selectively acquiring additional hotels, hospitality-related or mixed-use properties that meet the REIT Manager's investment criteria, such as:
 - expected yield enhances returns to Unitholders;
 - focus on Greater China and on markets and locations in urban centres and popular resort areas with growth potential;
 - targeting 4 and 5 star-rated⁽⁷⁾ full-service hotels;
 - targeting hotels with more than approximately 200 rooms;
 - value-adding opportunities;
 - majority ownership of the asset acquired; and
 - targeting income and cashflow generating properties.

Targeted properties may be unfinished and require furnishing and fit-out. However, the value of unfinished properties shall represent less than 10% of Regal REIT's total net asset value at the time of acquisition.

Since the listing of Regal REIT, management has reviewed numerous hotel investment proposals in Mainland China. However, faced with challenges arising from keen competition and high expectations on property prices among sellers, the REIT Manager has taken a prudent view and remained disciplined in ensuring prospects meet set investment criteria.

Regal REIT intends to hold its properties on a long-term basis. However, if in the future a hotel property no longer fits its investment objectives or when an attractive offer, given prevailing market conditions, is received, the REIT Manager may consider disposing of the property for cash, so that its investment capital can be redeployed according to the investment strategies outlined above.

⁽⁷⁾ PRC Star rating system

OTHER INFORMATION AND DISCLOSURES

Public Float

As at 30th June, 2008, the total number of Units outstanding was 3,136,018,239. Please refer to note 19 to the condensed consolidated interim financial statements on page 48.

As at 30th June, 2008, based on the information that is publicly available to the REIT Manager and as reported to the Directors of the REIT Manager, more than 25% of the issued and outstanding Units were held by independent public Unitholders.

New Units Issued

Save for the 20,505,915 new Units allotted and issued to the REIT Manager in payment of base fees and variable fees, no further new Units have been issued during the Interim Period.

Employees

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

Repurchase, Sale or Redemption of Units

During the Interim Period, Regal REIT repurchased a total of 3,069,000 Units at an aggregate purchase price of HK\$4,849,890 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the repurchases of such Units were as follows:

Month of repurchase	Number of Units repurchased	Price per Unit		Aggregate purchase price HK\$
		Highest HK\$	Lowest HK\$	
June 2008	3,069,000	1.61	1.56	4,849,890
Total	3,069,000			4,849,890
Total expenses on Units repurchased				22,122
				4,872,012

The above repurchases were effected by the REIT Manager, pursuant to the mandate from Unitholders. The 3,069,000 repurchased Units were all duly cancelled subsequent to 30th June, 2008.

Save as disclosed above, there were no repurchases, sales or redemptions of Units during the Interim Period.

Material Acquisitions or Disposals of Real Estate

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

CORPORATE GOVERNANCE

The REIT Manager aims to ensure good corporate governance through high level of transparency, equal treatment of Unitholders, compliance with 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 setting a high standard of corporate governance to ensure 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.

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 enquiry 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 (as 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 RHIHL (collectively, the “RHIHL Connected Persons Group”); and
- (ii) 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) 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 “Property Companies”) entered into separate Lease Agreements with Favour Link International Limited (the “Lessee”) in relation to the Initial Hotels on 16th March, 2007. The Lessee is a member of the RHIHL Connected Persons Group. The terms of the Lease Agreements expire on 31st December, 2015.

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

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

During the Interim Period, the total contractual lease income under the Lease Agreements amounted to approximately HK\$366.1 million.

(ii) Hotel Management Agreements

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

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

Regal Asset Holdings Limited, an indirect holding company of each Property Company, is a party to the Hotel Management Agreements. During the term of the Lease Agreements, Regal Asset Holdings Limited shall maintain a cash reserve for furniture, fixtures and equipment for the respective Initial Hotels, to which the Lessee will contribute on a monthly basis, from the Listing Date up to 31st December, 2010, and may continue to contribute after 31st December, 2010, if required pursuant to annual rent reviews.

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

(iii) Lease Guarantees

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

(iv) Sale and Purchase Agreement

On 2nd March, 2007, the Trustee entered into a Sale and Purchase Agreement with the Vendor, a member of the RHIHL Connected Persons Group and RHIHL, pursuant to which the Trustee conditionally agreed to acquire, inter alia, the entire issued share capital of Regal Asset Holdings Limited, which indirectly holds the Property Companies that own the Initial Hotels, for a total consideration of approximately HK\$12.5 billion.

The Sale and Purchase Agreement contained an undertaking of the Vendor to complete the Asset Enhancement Programme. RHIHL has guaranteed the Vendor's obligations under the Sale and Purchase Agreement.

(v) Deed of Trade Mark Licence

Regal International Limited, a member of the RHIHL Connected Persons Group, entered into a 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 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.

(vi) AEP Agency Deed

To facilitate the carrying out of the Asset Enhancement Programme, the relevant Property Companies, Regal Contracting Agency Limited, a member of the RHIHL Connected Persons Group (the "AEP Agent"), and RHIHL entered into the AEP Agency Deed on 2nd March, 2007, whereby each of the Property Companies appointed the AEP Agent to enter into the AEP Contracts on its behalf. The AEP Agent has undertaken to indemnify the Property Companies, inter alia, from and against all costs, losses and liabilities arising from the AEP Contracts.

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\$16.8 million for such services rendered during the Interim Period were settled by the issuance of new Units pursuant to 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 Lease Agreements, Hotel Management Agreements, Lease Guarantees, Sale and Purchase Agreement, Deed of Trade Mark Licence and AEP Agency Deed described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the Offering Circular.

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

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

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

Regal REIT, through its subsidiaries, entered into five interest rate hedging arrangements for one year for an aggregate notional principal amount of HK\$2.0 billion with Deutsche Bank AG, a member of Trustee Connected Persons Group, effective from 18th January, 2008.

Ordinary Banking Services

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

The Trustee Fees

DB Trustees (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. For services rendered in this capacity, Regal REIT paid the Trustee fees aggregating approximately HK\$1.5 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, 2008, 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 an interest 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, 2008
Century City International Holdings Limited ("CCIHL")	2,283,459,289 (Note i)	72.81%
Century City BVI Holdings Limited ("CCBVI")	2,283,459,289 (Notes i & ii)	72.81%
Paliburg Holdings Limited ("PHL")	2,278,172,289 (Notes iii & iv)	72.65%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,278,172,289 (Notes iii & v)	72.65%
Regal Hotels International Holdings Limited ("RHIHL")	2,278,172,289 (Notes iii & vi)	72.65%
Regal International (BVI) Holdings Limited ("RBVI")	2,278,172,289 (Notes iii & vii)	72.65%
Complete Success Investments Limited	1,817,012,072 (Note viii)	57.94%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.90%

Notes:

- (i) The interests in 2,283,459,289 Units held by each of CCIHL and CCBVI were the same parcel of Units, which were directly held by wholly-owned subsidiaries of CCBVI and RBVI, respectively.
- (ii) CCBVI is a wholly-owned subsidiary of CCIHL and its interests in Units are deemed to be the same interests held by CCIHL.

- (iii) The interests in 2,278,172,289 Units held by each of the Unitholders as named above were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.
- (iv) PHL is a listed subsidiary of CCIHL, which held 54.44% shareholding interest in PHL as at 30th June, 2008, and PHL's interests in Units are deemed to be the same interests held by CCIHL.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) RHIHL is a listed associate of PDBVI, which held 46.18% shareholding interest in RHIHL as at 30th June, 2008, and its interests in Units are deemed to be the same interests held by PDBVI.
- (vii) RBVI is a wholly-owned subsidiary of RHIHL and its interests in Units are deemed to be the same interests held by RHIHL.
- (viii) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in Units are deemed to be the same interests held by RBVI.

Save as disclosed herein, there is no person who, as at 30th June, 2008, 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 Executive of the REIT Manager

As at 30th June, 2008, the interests of the REIT Manager, directors and chief executive 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 pursuant to the Model Code in the Listing Rules, were as follows:

Name of the REIT Manager, Director and Chief Executive of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2008
Lo Yuk Sui	2,283,459,289 (Note i)	72.81%
Kai Ole Ringenson	254,600	0.01%
Regal Portfolio Management Limited	2,209,221 (Note ii)	0.07%

Notes:

- (i) The interests in 2,283,459,289 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held 53.65% shareholding interest as at 30th June, 2008.
- (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, 2008, none of the REIT Manager, the directors and chief executive 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, 2008

	Notes	Period from 1st January, 2008 to 30th June, 2008	Period from 11th December, 2006 (date of establishment) to 30th June, 2007
Net assets attributable to Unitholders (HK\$'million)		10,927.7	10,402.7
Net asset value per Unit (HK\$)		3.488	3.350
The highest traded price during the period (HK\$)	1&3	2.37	2.79
The lowest traded price during the period (HK\$)	3	1.50	2.52
The highest discount of the traded price to net asset value per Unit	3	57.00%	24.78%
Distribution yield per Unit	2&3	5.16%	2.14%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit reported at the end of those periods. Accordingly, no premium of the traded price to net asset value per Unit is presented.
2. Distribution yield per Unit for the period ended 30th June, 2008 is calculated by dividing the interim distribution per Unit of HK\$0.083 over the closing price of HK\$1.61 as at 30th June, 2008, being the last trading day for the period. The calculation of the interim distribution per Unit is set out in section "Distribution Statement" on page 35.

Distribution yield per Unit for the period ended 30th June, 2007 is calculated by dividing the interim distribution per Unit of HK\$0.057 over the closing price of HK\$2.66 as at 29th June, 2007, being the last trading day for the period.

3. Regal REIT's business operation and trading of Regal REIT Units commenced from 30th March, 2007, the date when the units of Regal REIT were listed on the Stock Exchange. Therefore, the comparative amount is related to the period from 30th March, 2007 to 30th June, 2007.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	Notes	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Gross rental revenue	4	374,737	204,851
Property operating expenses		(3,435)	(4,334)
Net rental income		371,302	200,517
Other income	4	2,786	1,661
Excess over the cost of a business combination	21	—	2,044,441
REIT Manager fees	5	(37,597)	(17,398)
Trust and other expenses	6	(6,035)	(1,432)
Fair value changes of derivative financial instruments		(6,263)	—
Net interest expense on derivative financial instruments		(11,763)	—
Finance costs	7	(88,009)	(53,246)
PROFIT BEFORE TAX		224,421	2,174,543
Tax	8	53,864	(9,511)
PROFIT FOR THE PERIOD		278,285	2,165,032
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	9	HK\$0.089	HK\$0.697

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

	Notes	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Non-current assets			
Investment properties	10	16,093,062	16,080,000
Prepaid construction costs	11	430,000	430,000
Construction in progress	12	5,149	—
Deferred tax assets	18	13,517	21,765
Total non-current assets		<u>16,541,728</u>	<u>16,531,765</u>
Current assets			
Accounts receivable	13	81,187	161,500
Prepayments and other receivables		1,876	14,537
Restricted cash	14	62,533	85,465
Cash and cash equivalents		240,836	140,412
Total current assets		<u>386,432</u>	<u>401,914</u>
Total assets		<u>16,928,160</u>	<u>16,933,679</u>
Current liabilities			
Accounts payable	15	14,267	3,885
Other payables and accruals		50,575	58,429
Derivative financial instruments	17	20,115	—
Total current liabilities		<u>84,957</u>	<u>62,314</u>
Net current assets		<u>301,475</u>	<u>339,600</u>
Total assets less current liabilities		<u>16,843,203</u>	<u>16,871,365</u>
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	16	4,317,923	4,314,022
Derivative financial instruments	17	41,767	24,382
Deferred tax liabilities	18	1,555,773	1,617,885
Total non-current liabilities		<u>5,915,463</u>	<u>5,956,289</u>
Total liabilities, excluding net assets attributable to Unitholders		<u>6,000,420</u>	<u>6,018,603</u>
Net assets attributable to Unitholders		<u>10,927,740</u>	<u>10,915,076</u>
Number of Units in issue	19	<u>3,132,949,239</u>	<u>3,115,512,324</u>
Net asset value per Unit	20	<u>HK\$3.488</u>	<u>HK\$3.503</u>

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the six months ended 30th June, 2008

	Notes	Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profit (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets attributable to Unitholders as at 1st January, 2008		8,245,211	(24,382)	2,694,247	10,915,076
Changes in fair values of cash flow hedges		—	(24,332)	—	(24,332)
Transfer from hedging reserve to income statement		—	(6,905)	—	(6,905)
As payment of REIT Manager fees:					
Units issued	5	16,842	—	—	16,842
Units to be issued	5	18,402	—	—	18,402
Distribution paid		—	—	(264,756)	(264,756)
Units repurchased	19	(4,850)	—	—	(4,850)
Repurchase expenses		(22)	—	—	(22)
Profit for the period		—	—	278,285	278,285
Net assets attributable to Unitholders as at 30th June, 2008		<u>8,275,583</u>	<u>(55,619)</u>	<u>2,707,776</u>	<u>10,927,740</u>

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (CONTINUED)

For the period from 11th December, 2006 (date of establishment) to 30th June, 2007

	Notes	Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profit (unaudited) HK\$'000	Total (unaudited) HK\$'000
Issued Units on 30th March, 2007		8,320,343	—	—	8,320,343
Unit issue costs		(128,657)	—	—	(128,657)
Changes in fair values of cash flow hedges		—	32,257	—	32,257
Transfer from hedging reserve to income statement		—	(3,686)	—	(3,686)
As payment of REIT Manager fees:					
Units issued	5	4,182	—	—	4,182
Units to be issued	5	13,216	—	—	13,216
Profit for the period		—	—	2,165,032	2,165,032
Net assets attributable to Unitholders as at 30th June, 2007		<u>8,209,084</u>	<u>28,571</u>	<u>2,165,032</u>	<u>10,402,687</u>

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2008

	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Profit for the period	278,285	2,165,032
Adjustments:		
Excess over the cost of a business combination	—	(2,044,441)
Difference in accounting Base Rent and actual contractual cash Base Rent	(8,684)	(22,386)
Amount set aside on account for the furniture, fixtures and equipment reserve	(13,769)	(6,880)
REIT Manager fees paid/payable in the form of Units	35,244	17,398
Amortisation of debt establishment costs	3,901	1,916
Fair value changes of derivative financial instruments	6,263	—
Deferred tax	(53,864)	9,511
Distributable income for the period	247,376	120,150
Additional distribution	—	35,801
Distributable amount to be paid to Unitholders for the period ^{(2) & (4)}	247,376	155,951
Distribution per Unit ^{(3) & (4)}	HK\$0.083	HK\$0.057

Notes:

- Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributable 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 an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year.

The amount of any distribution for the first six months of each financial year is at the discretion of the REIT Manager. The REIT Manager has resolved to make an interim distribution of HK\$0.083 per Unit for the six-month period ended 30th June, 2008 (period ended 30th June, 2007: HK\$0.057 per Unit).

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

2. Pursuant to the Trust Deed, the REIT Manager determines the date (the "Record Date") in respect of each distribution period for the purpose of establishing Unitholder entitlements to distributions. The Record Date has been set as 19th September, 2008 in respect of the interim distribution for the six-month period ended 30th June, 2008. This interim distribution will be paid out to Unitholders on or about 9th October, 2008. The total distributable amount to be paid to Unitholders for the period of approximately HK\$247.4 million is arrived at based on the distribution per Unit of HK\$0.083 and the number of Units expected to be in issue at the Record Date that are entitled to distribution.
3. Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Programme (or "AEP", as defined hereinafter) at the relevant Initial Hotels (as defined hereinafter). During the period ended 31st December, 2007, the AEP at Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel and the first phase of the AEP at Regal Riverside Hotel were completed and, accordingly, AEP Units with respect to these completed AEPs are entitled to the interim distribution for the six-month period ended 30th June, 2008. The number of Units expected to be entitled to distribution for the period is calculated as follows:

	Number of Units
In issue as at 30th June, 2008	3,132,949,239
Issued on 30th July, 2008 to the REIT Manager for the REIT Manager Base Fees for May 2008	2,451,482
Issued on 15th August, 2008 to the REIT Manager for the REIT Manager Base Fees for June 2008	2,593,433
Units repurchased and cancelled*	(9,912,000)
	<hr/>
In issue at the Record Date	3,128,082,154
AEP Units pursuant to the distribution deed dated 2nd March, 2007	(373,134,326)
AEP Units with respect to AEPs completed during the period ended 31st December, 2007	217,455,222
	<hr/>
Units expected to be entitled to distribution at the Record Date	<u>2,972,403,050</u>

* Subsequent to 30th June, 2008, an additional 9,912,000 Units were repurchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were all duly cancelled before the approval of the condensed consolidated interim financial statements.

The above calculation does not take into consideration any Units which may be repurchased and cancelled subsequent to the approval of the condensed consolidated interim financial statements but before the Record Date.

4. The interim distribution of HK\$0.083 per Unit for the six-month period ended 30th June, 2008, involving a total distributable amount of approximately HK\$247.4 million, was resolved and declared by the REIT Manager on 25th August, 2008. Accordingly, the distribution is not reflected as a distribution payable in the condensed consolidated interim financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2008.

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Net cash inflow from operating activities	365,850	164,264
Net cash outflow from investing activities	(14,504)	(6,512,220)
Net cash inflow/(outflow) from financing activities	(250,922)	6,450,560
Net increase in cash and cash equivalents	100,424	102,604
Cash and cash equivalents at beginning of period	140,412	—
Cash and cash equivalents at end of period	<u>240,836</u>	<u>102,604</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	8,836	2,500
Non-pledged time deposits with original maturities of less than three months when acquired	232,000	100,104
	<u>240,836</u>	<u>102,604</u>

The notes on pages 38 to 53 form part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

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 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 first supplemental trust deed dated 2nd March, 2007 and second supplemental trust deed dated 15th May, 2008) 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 and hospitality-related 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 55, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, respectively.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements for the current period cover the financial statements of Regal REIT for the six-month period ended 30th June, 2008. Since Regal REIT commenced business when the companies holding the Initial Hotels were acquired by the Group on 30th March, 2007, the corresponding comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in net assets attributable to Unitholders, condensed consolidated cash flow statement and related notes for the period from 11th December, 2006 (date of establishment) to 30th June, 2007 may not be comparable with the amounts shown for the current period.

2.2 Basis of preparation

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

The accounting policies adopted in the condensed consolidated interim financial statements are consistent with those set out in the Group's audited annual financial statements for the period ended 31st December, 2007.

For the condensed consolidated interim financial statements, the Group has applied the following interpretations issued by the HKICPA, which are effective for the Group's annual periods beginning on or after 1st January, 2008.

HK (IFRIC) – Int 12	<i>Service Concession Arrangements</i>
HK (IFRIC) – Int 14	<i>HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of the above interpretations has no significant impact on the Group's results of operations and financial position.

3. SEGMENT INFORMATION

All of the Group's operations are located and carried out in Hong Kong and the sole principal activity of the Group is hotel property investment. Accordingly, no segment information by business and geographical segments is presented.

4. GROSS RENTAL REVENUE AND OTHER INCOME

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

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

	Notes	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Gross rental revenue			
Rental income	(a)	358,684	197,196
Other rental-related income	(b)	13,769	6,880
Others		2,284	775
		<u>374,737</u>	<u>204,851</u>
Other income			
Bank interest income		<u>2,786</u>	<u>1,661</u>

Notes:

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

	HK\$'000	HK\$'000
Base Rent		
Cash Base Rent	350,000	160,900
Difference in accounting Base Rent and actual contractual cash Base Rent	8,684	22,386
	<u>358,684</u>	<u>183,286</u>
Variable Rent	—	13,910
	<u>358,684</u>	<u>197,196</u>

Under the terms of the lease agreements with the lessee, the Group is entitled to receive:

- (i) cash base rent (the "Base Rent"), in the form of a pre-determined fixed cash sum per annum payable monthly in advance up to the year ending 31st December, 2010. The annual cash Base Rent for 2008 is fixed at HK\$700 million. In 2007, the annual cash Base Rent was fixed at HK\$630 million and was pro-rated from the Listing Date to 31st December, 2007. According to the Group's accounting policy, Base Rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent; and
- (ii) variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits in excess of the Base Rent from the operations of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the "Initial Hotels" and each referred to as an "Initial Hotel"), until the year ending 31st December, 2010, payable semi-annually. Regal REIT is entitled to a share of 100% in 2007, 70% in 2008, 60% in 2009 and 50% in 2010.

For the years from 2011 to 2015, the Base Rent and the Variable Rent are to be determined subject to annual rent reviews by an independent property valuer and a minimum annual rental of HK\$400 million in respect of the Initial Hotels.

- (b) Other rental-related income represents contributions to the furniture, fixtures and equipment reserve (the "FF&E Reserve") which is received from the lessee in accordance with the terms of the lease agreements. The FF&E Reserve contribution is for additions to and replacements of furniture, fixtures and equipment for the Initial Hotels.

5. REIT MANAGER FEES

	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Base Fees		
In the form of Units	25,331	12,154
In the form of cash	2,353	—
Variable Fees in the form of Units	9,913	5,244
	<u>37,597</u>	<u>17,398</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 subject to adjustments (in the form of cash) based on the value of the audited total assets of Regal REIT as at the balance sheet date 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 financial year as defined in the Trust Deed in respect of each Initial Hotel, which is payable annually.

During the six-month period ended 30th June, 2008, REIT Manager fees of approximately HK\$16.8 million (period ended 30th June, 2007: approximately HK\$4.2 million) were settled by 8,652,315 Units (period ended 30th June, 2007: 1,560,054 Units). The remaining REIT Manager fees of approximately HK\$18.4 million (period ended 30th June, 2007: approximately HK\$13.2 million), comprising Base Fees for May 2008 and June 2008 and Variable Fees for the period from 1st January, 2008 to 30th June, 2008, are to be settled subsequent to the balance sheet date in Units in accordance with the terms of the Trust Deed.

6. TRUST AND OTHER EXPENSES

	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Auditors' remuneration	750	180
Legal and other professional fees	2,997	150
Trustee fees	1,473	868
Other expenses	815	234
	<u>6,035</u>	<u>1,432</u>

7. FINANCE COSTS

	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	83,921	51,237
Amortisation of debt establishment costs	3,901	1,916
Loan commitment fees	187	93
	<u>88,009</u>	<u>53,246</u>

8. TAX

The tax credit represents the deferred tax credit for the period (period ended 30th June, 2007: deferred tax charge of approximately HK\$9.5 million). No provision for Hong Kong profits tax has been made as the Group has available tax losses attached to the holding companies holding the Initial Hotels acquired by the Group upon the initial public offering of the Units to offset the assessable profits generated during the period.

9. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit is based on the profit for the period before distributions to Unitholders of approximately HK\$278,285,000 (period ended 30th June, 2007: approximately HK\$2,165,032,000) and the weighted average number of 3,122,146,304 Units (period ended 30th June, 2007: 3,104,670,640 Units) in issue during the period. The basic earnings per Unit for the period amounted to HK\$0.089 (period ended 30th June, 2007: HK\$0.697).

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

10. INVESTMENT PROPERTIES

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
At beginning of the period	16,080,000	—
Additions through a business combination upon listing (note 21)	—	14,900,000
Fair value gains	—	591,841
Transfer from prepaid construction costs (note 11)	—	570,000
Capital expenditures for the period	13,062	18,159
At end of the period	<u>16,093,062</u>	<u>16,080,000</u>

The Group's investment properties were valued on 31st December, 2007 by CB Richard Ellis Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$16,080,000,000 on an open market value, existing use basis. The REIT Manager considers that there was no material change in the fair values of the investment properties during the intervening period ended 30th June, 2008. The investment properties are leased to a related party under operating leases, further details of which are included in note 22(a) to the condensed consolidated interim financial statements.

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

11. PREPAID CONSTRUCTION COSTS

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
At beginning of the period	430,000	—
Additions through a business combination upon listing (note 21)	—	1,000,000
Transfer to investment properties (note 10)	—	(570,000)
At end of the period	<u>430,000</u>	<u>430,000</u>

This represents the prepaid project costs for the remaining asset enhancement programme (the "AEP" or "Asset Enhancement Programme") including construction cost and, fit-out works for 274 additional rooms in Regal Riverside Hotel and ancillary facilities, related renovations, land premiums and any other related costs.

During the period ended 31st December, 2007, aggregate prepaid construction costs of HK\$570,000,000 (note 10) were transferred to investment properties upon completion of the Asset Enhancement Programme for certain Initial Hotels.

12. CONSTRUCTION IN PROGRESS

This represents the amount incurred for renovation projects in respect of the Initial Hotels which were not completed as at the balance sheet date.

13. ACCOUNTS RECEIVABLE

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	78,694	70,010
Variable Rent receivables	—	87,705
FF&E Reserve contribution receivables	2,397	3,785
Other accounts receivable	96	—
	<u>81,187</u>	<u>161,500</u>

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

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

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

14. RESTRICTED CASH

At 30th June, 2008, the Group had approximately HK\$62.5 million (31st December, 2007: approximately HK\$85.5 million) of cash which was restricted as to use. All of the restricted cash is expected to be released within one year from the balance sheet date and is, accordingly, classified as a current asset.

15. ACCOUNTS PAYABLE

This represents the amount due to a related company which is unsecured, interest-free and repayable on demand.

16. INTEREST-BEARING BANK BORROWINGS

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Interest-bearing bank borrowings repayable within five years	4,350,000	4,350,000
Debt establishment costs	(32,077)	(35,978)
	<u>4,317,923</u>	<u>4,314,022</u>

Under a banking facility agreement, the Group has been granted a facility aggregating HK\$4.5 billion comprising a HK\$4.35 billion term loan facility and a HK\$150.0 million revolving credit facility. The total facility bears interest at the floating interest rate of 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. At the balance sheet date, the Group had fully utilised the term loan facility of HK\$4.35 billion. The term loan facility has a term of five years and is repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the term loan, details of which are set out in note 17.

Bank borrowings under the term loan facility and the revolving credit facility are guaranteed by Regal REIT and, on a joint and several basis, by the individual companies of the Group and are also secured by, amongst others:

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30th June, 2008 (unaudited) Liabilities HK\$'000	31st December, 2007 (audited) Liabilities HK\$'000
Interest rate swaps – cash flow hedges		
– current portion	20,115	—
– non-current portion	41,767	24,382
	<u>61,882</u>	<u>24,382</u>

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan (note 16). Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
HK\$ 2,350,000,000	18th January, 2012	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.53% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012
HK\$ 2,000,000,000	18th January, 2012	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate of 4.55% up to 17th January, 2008; and a floating rate of 3-month HIBOR plus 0.6% per annum, subject to a cap of 7.15% and a floor of 3.8% per annum for the period from 18th January, 2008 to 18th January, 2012
HK\$ 2,000,000,000	18th January, 2009	From a rate of 3-month HIBOR plus 0.6% per annum to a flat rate ranging from 4.33% to 4.5%, effective from 18th January, 2008 to 18th January, 2009

The above derivatives are measured at fair values at the balance sheet date and are determined based on discounted cash flow models.

18. DEFERRED TAX

On 26th June, 2008, the Legislative Council of Hong Kong Special Administrative Region approved the reduction of profits tax rate from 17.5% to 16.5%. According to HKAS 12 *Income Taxes*, deferred tax assets and deferred tax liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. Accordingly, the newly enacted profits tax rate of 16.5% was used to determine the deferred tax of the Group.

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

	Depreciation allowances in excess of related depreciation HK\$'000	Fair value adjustments arising from revaluations of the Initial Hotels HK\$'000	Losses available for offset against future taxable profits HK\$'000	Total HK\$'000
Acquisition of subsidiaries	(141,941)	(1,396,019)	182,404	(1,355,556)
Deferred tax charged to the income statement during the period	(24,606)	(175,688)	(40,270)	(240,564)
Gross deferred tax assets/(liabilities) at 31st December, 2007 (audited)	<u>(166,547)</u>	<u>(1,571,707)</u>	<u>142,134</u>	<u>(1,596,120)</u>
Gross deferred tax assets/(liabilities) at 1st January, 2008	(166,547)	(1,571,707)	142,134	(1,596,120)
Deferred tax credited/(charged) to the income statement during the period	(1,040)	89,812	(34,908)	53,864
Gross deferred tax assets/(liabilities) at 30th June, 2008 (unaudited)	<u>(167,587)</u>	<u>(1,481,895)</u>	<u>107,226</u>	<u>(1,542,256)</u>

For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Net deferred tax assets recognised in the consolidated balance sheet	13,517	21,765
Net deferred tax liabilities recognised in the consolidated balance sheet	<u>(1,555,773)</u>	<u>(1,617,885)</u>
	<u>(1,542,256)</u>	<u>(1,596,120)</u>

The deferred tax liabilities set out above primarily relate to the deferred tax calculated on the valuation surplus on the Initial Hotels, which arose from the business combination, in accordance with the relevant accounting standard. However, based on current tax legislation in Hong Kong, no capital gains tax is payable upon disposal of the Initial Hotels.

19. NUMBER OF UNITS IN ISSUE

	Number of Units	
	30th June, 2008 (unaudited)	31st December, 2007 (audited)
Units in issue		
At beginning of the period	3,115,512,324	—
Issue of new Units upon listing on 30th March, 2007	—	3,104,605,748
REIT Manager fees paid in the form of Units	20,505,915	10,906,576
	<u>3,136,018,239</u>	<u>3,115,512,324</u>
Units repurchased	(3,069,000)	—
At end of the period	<u><u>3,132,949,239</u></u>	<u><u>3,115,512,324</u></u>

During the six-month period ended 30th June, 2008, Regal REIT repurchased a total of 3,069,000 Units at an aggregate purchase price of HK\$4,849,890 on the Stock Exchange. Details of the repurchases of such Units were as follows:

Month of repurchase	Number of Units repurchased	Price per Unit		Aggregate purchase price HK\$
		Highest HK\$	Lowest HK\$	
June 2008	3,069,000	1.61	1.56	4,849,890
Total expenses on Units repurchased				<u>22,122</u>
				<u><u>4,872,012</u></u>

The above repurchases were effected by the REIT Manager, pursuant to the mandate from Unitholders. The 3,069,000 repurchased Units were all duly cancelled subsequent to 30th June, 2008.

Subsequent to the balance sheet date, during the period from 2nd July, 2008 to 23rd July, 2008, an additional 9,912,000 Units were repurchased at an aggregate purchase consideration of approximately HK\$15.7 million on the Stock Exchange. These 9,912,000 Units were cancelled before the approval of the condensed consolidated interim financial statements.

20. NET ASSET VALUE PER UNIT

The net asset value per Unit is calculated by dividing the net assets attributable to Unitholders as at 30th June, 2008 of approximately HK\$10,927,740,000 (31st December, 2007: approximately HK\$10,915,076,000) by the number of Units in issue of 3,132,949,239 (31st December, 2007: 3,115,512,324) as of that date.

21. BUSINESS COMBINATION

On 30th March, 2007, Regal REIT acquired the entire share capital of Regal Asset Holdings Limited ("RAHL"), whose principal activity is indirectly holding the Initial Hotels from Regal International (BVI) Holdings Limited ("RBVI"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), for a consideration of approximately HK\$12.5 billion. As a result, the Group recognised an excess over the cost of a business combination of approximately HK\$2,044.4 million representing, principally, the discount to the appraised values of the Initial Hotels. RBVI undertook to complete the AEP for a consideration of HK\$1 billion and RHIHL guaranteed this obligation to Regal REIT, further details of which are set out in note 11 to the condensed consolidated interim financial statements.

The fair values of the identifiable assets and liabilities of RAHL at the date of acquisition are summarised as follows:

	HK\$'000
Investment properties (note 10)	14,900,000
Prepaid construction costs (note 11)	1,000,000
Deferred tax assets	31,899
Deferred tax liabilities	(1,387,455)
	<hr/>
Net assets acquired	14,544,444
Excess over the cost of a business combination recognised in the income statement	(2,044,441)
	<hr/>
Total consideration	12,500,003
	<hr/> <hr/>
Consideration satisfied by:	
Cash	6,509,354
Fair value of 2,235,316,748 Units issued	5,990,649
	<hr/>
	12,500,003
	<hr/> <hr/>

Since its acquisition, RAHL and its subsidiaries contributed approximately HK\$204.9 million to the Group's gross rental income and approximately HK\$120.6 million to the consolidated profit for the period ended 30th June, 2007.

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 10, under operating lease arrangements. At 30th June, 2008, the total future minimum lease receivables under non-cancellable operating leases with its tenant falling due were as follows:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Within one year	727,184	702,396
In the second to fifth years, inclusive	<u>1,156,456</u>	<u>1,532,548</u>
	<u>1,883,640</u>	<u>2,234,944</u>

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

(b) As lessee

The Group leases certain premises under operating lease arrangements. The leases are negotiated for terms ranging from 2 to 6 years. At 30th June, 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Within one year	2,184	2,396
In the second to fifth years, inclusive	<u>1,456</u>	<u>2,548</u>
	<u>3,640</u>	<u>4,944</u>

During the six-month period ended 30th June, 2008, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses of approximately HK\$2,283,000 (period ended 30th June, 2007: approximately HK\$775,000) were charged to the 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 the Initial Hotels as at 30th June, 2008:

	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Authorised and contracted for	27,838	3,485
Authorised but not contracted for	<u>24,261</u>	<u>23,735</u>
	<u>52,099</u>	<u>27,220</u>

24. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with connected/related parties:

	Notes	Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000	Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	366,053	182,465
Interest income/(expense) earned from/(charged by) the Deutsche Bank Group	(ii)	(13,843)	2,677
REIT Manager fees	(iii)	(37,597)	(17,398)
Trustee fees	(iv)	(1,473)	(868)

Notes:

- (i) Rental and rental-related income are earned by the Group in accordance with the relevant agreements, details of which, including the terms, are set out in note 4 to the condensed consolidated interim financial statements.
- (ii) The interest income/(expense) is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. Interest income/(expense) is earned/(incurred) thereon in accordance with relevant bank agreements and swap contracts with the Deutsche Bank Group.
- (iii) The REIT Manager is entitled to receive Base Fees and Variable Fees, details of which, including the terms, are set out in note 5 to the condensed consolidated interim financial statements.
- (iv) The Trustee is entitled to receive trustee fees (calculated and payable quarterly) at a rate ranging from 0.025% per annum to 0.015% per annum based on the value of all the assets of Regal REIT as at the balance sheet date, including but not limited to the Initial Hotels, subject to a minimum of HK\$66,000 per month. In the prior period, such fees were payable to the Trustee from the date Regal REIT acquired the Initial Hotels.

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

	Notes	30th June, 2008 (unaudited) HK\$'000	31st December, 2007 (audited) HK\$'000
Net amount due from/(to) the RHIHL Group:			
Variable Rent receivables, FF&E Reserve contribution receivables and other accounts receivable	(i)	2,493	91,490
Accounts payable to a related company	(ii)	(14,267)	(3,885)
Amount due to a related company	(iii)	(2,632)	—
Amount due from a significant Unitholder	(iii)	—	728
Net amount due to:			
The Trustee	(iv)	(697)	(678)
The Valuer	(v)	—	(670)
Restricted and non-restricted short-term deposits and bank balances with the Deutsche Bank Group	(vi)	<u>250,639</u>	<u>142,469</u>

Notes:

- (i) Details of the balance are set out in note 13 to the condensed consolidated interim financial statements.
 - (ii) Details of the balance are set out in note 15 to the condensed consolidated interim financial statements.
 - (iii) The amount is unsecured, interest-free and repayable on demand.
 - (iv) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (v) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vi) Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the Group and the Trustee. In addition, under the terms of the lease agreements, the RHIHL Group has guaranteed to pay a total Variable Rent, at a minimum of HK\$220.0 million for the period from 30th March, 2007 to 31st December, 2010.
- (d) Under a deed of trade mark licence, the RHIHL Group had granted the REIT Manager and companies holding the Initial Hotels within the Group a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the Initial Hotels and/or use in connection with the business of the Initial Hotels.

25. POST BALANCE SHEET EVENTS

- (a) On 30th July, 2008, 2,451,482 new Units were issued to the REIT Manager at HK\$1.76 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$4.3 million for May 2008.
- (b) On 15th August, 2008, 2,593,433 new Units were issued to the REIT Manager at HK\$1.61 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$4.2 million for June 2008.
- (c) During the period from 2nd July, 2008 to 23rd July, 2008, an additional 9,912,000 Units were repurchased at an aggregate purchase consideration of approximately HK\$15.7 million on the Stock Exchange. These 9,912,000 Units were cancelled before the approval of the condensed consolidated interim financial statements.



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 period from 1st January, 2008 to 30th June, 2008, in conjunction with the Regal REIT's external auditors. The review report of the external auditors is set out on page 55 of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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

INTRODUCTION

We have reviewed the interim financial information of Regal Real Estate Investment Trust ("Regal REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 53 which comprises the condensed consolidated balance sheet as at 30th June, 2008 and the related condensed consolidated income statement, statement of changes in net assets attributable to unitholders, distribution statement and cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

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

25th August, 2008

