



REGAL REIT
富豪產業信託

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))
(Stock Code : 1881)

INTERIM REPORT 2009



Managed by



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

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 Leslie Lam Kwing Wai
Abraham Shek Lai Him, SBS, J.P.

AUDIT COMMITTEE OF THE REIT MANAGER

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

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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 2009 Interim Report of Regal Real Estate Investment Trust.

For the six months ended 30th June, 2009, Regal REIT attained an unaudited consolidated profit of approximately HK\$187.5 million. The profit attained in the period under review was comparatively lower than the profit of HK\$278.3 million recorded in the corresponding period in 2008, which is primarily due to the fact that while there is a deferred tax charge of approximately HK\$51.9 million incurred in the period under review, a net deferred tax credit of approximately HK\$53.9 million was recorded in the last corresponding period.

Distributable income available for distribution to Unitholders for the Interim Period amounted to approximately HK\$280.5 million, as compared with HK\$247.4 million for the comparative period last year, representing approximately HK\$0.092 per each Unit entitled to the distribution for this Interim Period. Based on the modified policy of distributing no less than 90% of the distributable income approved by the Unitholders in May 2009, the Directors of the REIT Manager have resolved to declare a distribution of HK\$0.085 per Unit to Unitholders for the six months ended 30th June, 2009 (six months ended 30th June, 2008: HK\$0.083 per Unit), representing a distribution of approximately 92.4% of the available distributable income for the Interim Period.

As previously anticipated, the year 2009 has so far been very challenging for the tourism and hotel industries in Hong Kong and worldwide. During the first few months of the Interim Period, hotels in Hong Kong performed relatively better than those in other major centres around the world, primarily because of the continued strong influx of visitors from Mainland China. Since early May, the H1N1 (swine flu) pandemic has severely affected travelling to Hong Kong from all key source markets, including those from the United States, Europe, Japan and Mainland China. Consequently, hotel occupancies and average room rates for our hotels have declined under pressure from a very competitive market. Although faced with a relatively weak market, the Regal Hotels as a whole have strived to increase their market share, achieving a lesser decrease in RevPAR than the market average, particularly as compared to the luxury end of the hotel market.

Nevertheless, in spite of the fluctuations in the market conditions affecting the hotel industry, the existing lease arrangements of the Regal Hotels are structured with guaranteed Base Rents from the lessee, which provide to Regal REIT a strong shelter against such market fluctuations.

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotels and hospitality-related properties. While the planned expansion in Mainland China is being delayed because of the adverse market conditions, particularly in the major cities such as Beijing, Shanghai, Guangzhou and Shenzhen, the REIT Manager is, in the meantime, seriously considering certain other hotel related investment opportunities in Hong Kong.



Due to the volatile global economic environment and the uncertainty over the timing of the economic revival as well as the future impact of the H1N1 pandemic, business conditions for the travel industry in Hong Kong in the remaining part of 2009 will continue to be challenging. The slow-down in worldwide economic activities have continued to affect the hotel operations, as companies and enterprises remain cautious with travel budgets and certain leisure travellers are still inclined to reduce travel due to H1N1 pandemic worries. However, recently there are some signs of a stabilising U.S. economy and as the measures to fight the spread of the H1N1 pandemic in Mainland China are easing gradually, there could be pent up demand from both business and leisure travellers to Hong Kong.

Looking further into the future, Mainland China is expected to be able to sustain high economic growth and its huge and expanding outbound tourism markets will continue to offer strong support to the travel related industries in Hong Kong. The Directors of the REIT Manager anticipate that when the impact of the H1N1 pandemic gradually diminishes and the business travelling and tourism activities again pick up their momentum, the hotel market in Hong Kong should recover steadily in pace with the overall revival in the global economies.

Lo Yuk Sui

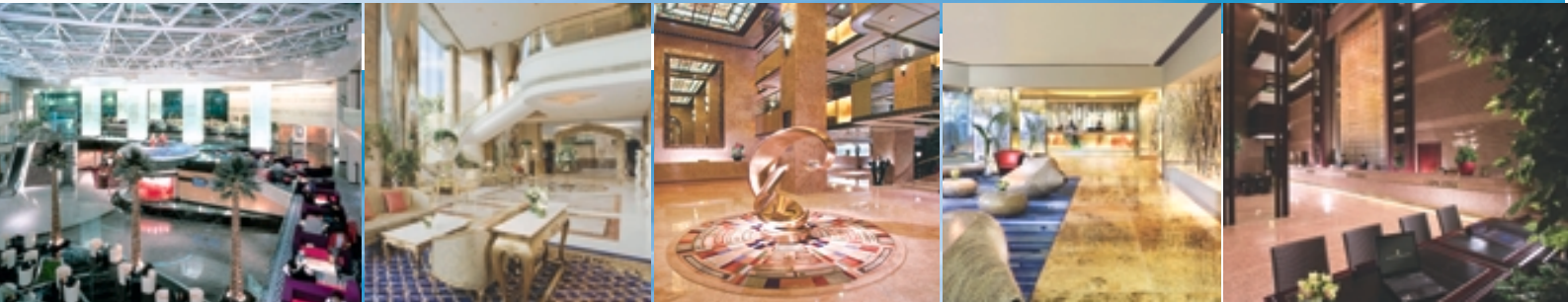
Chairman

REGAL PORTFOLIO MANAGEMENT LIMITED

(as the REIT Manager of Regal REIT)

Hong Kong, 20th August, 2009

INVESTMENT PROPERTIES PORTFOLIO















Location of the Hotel Properties (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

■ OM Spa



- The only hotel connected directly to the airport passenger terminals
- 36,000 sq. ft. state-of-the-art meeting and conference venues
- Easy access to AsiaWorld-Expo, Hong Kong Disneyland and the Big Buddha
- The Best Airport Hotel in the World by Business Traveller UK Magazine (2008)
- The Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific Magazine for eight consecutive years (2001-2008)
- The Best Airport Hotel in Asia-Pacific by TTG Asia Media Pte Ltd for four consecutive years (2005-2008)
- Five Star Golden Diamond Award - Global Best Conference Hotel by Global Hotel Forum (2008)
- The Best Airport Hotel in Asia by TravelWeekly (Asia) Magazine (2007)
- The Best Conference Hotel in Hong Kong by Capital CEO Magazine (2007)
- The Top 10 Convention & Exhibition Hotels of China of China Hotel Starlight Award (2007-2008)
- The Best International Airport Hotel of China of China Hotel Starlight Award (2007)
- OM Spa - One of the Best Airport Facilities in the World ranked by Travel+Leisure Magazine (2008)















■ Executive Conference Centre



■ Airport Izakaya



■ Ballroom

	1,171		10,333 sq. ft.
	1999		25
	897,864 sq. ft.		1
	774,880 sq. ft.		2
	5		1
	2		1

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REGAL HONGKONG HOTEL

■ Regal Royale Room



■ The Forum














■ Business Centre



■ Regal Palace

- Located in the heart of Causeway Bay, the busiest shopping and commercial district in Hong Kong, and within walking distance from Victoria Park, Hong Kong Stadium - home to the annual spectacular Rugby Sevens Tournament and Happy Valley Racecourse where exciting horse races are staged regularly
- Convenient location to the Hong Kong Convention & Exhibition Centre
- The Forum, meeting and conference centre, provides full range of facilities catering to the needs of business travellers, meeting and exhibition delegates
- Regal Royale features a collection of 81 (after conversion of 34/F.) tastefully appointed guest rooms and suites, 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"
- Five Star Golden Diamond Award – Global Best Business Hotel by Global Hotel Forum (2008)
- Regal Palace – a Michelin-starred Authentic Cantonese Restaurant

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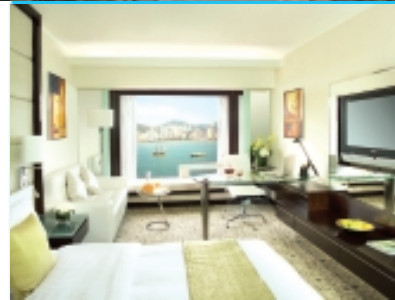
	482 (after conversion of 34/F.)		2,560 sq. ft.
	1993		14
	343,864 sq. ft.		1
	269,988 sq. ft.		1
	3		1
	1		

REGAL KOWLOON HOTEL

■ New Royale Suite



- Conveniently located in Tsimshatsui East, a commercial and tourist district
- Within walking distance from Tsim Sha Tsui ("TST"), TST East and Hung Hom MTR stations, with easy access to Mainland China
- Close to TST's major shopping centres and entertainment areas
- Close to waterfront with promenade
- Close to popular tourist attractions including the Avenue of Stars, Hong Kong Science Museum, Hong Kong Space Museum, Hong Kong Museum of Art and the Star Ferry, etc.
- Five Star Golden Diamond Award - Brand Hotel Most Adored by International Visitors by Global Hotel Forum (2008)













■ New Regal Club Room



■ Regal Club Lounge



■ Regal Court

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

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REGAL ORIENTAL HOTEL

■ Regal iClub Room



■ Regal iClub Lift Lobby



■ Meeting & Conference Centre













■ Café Neo



- Located in Kowloon City, facing the 328 hectare (810 acre) Kai Tak development site planned for a 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 upgraded to give the property a new and fresh look
- Regal iClub 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
- The Top 10 City-Nova Hotels of China of China Hotel Starlight Award (2008)

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 439	 3,696 sq. ft.
 1982	 18
 294,154 sq. ft.	 1
 254,279 sq. ft.	 1
 3	
 2	

REGAL RIVERSIDE HOTEL

■ New Regal iClub Room



- Largest hotel in Shatin overlooking the Shing Mun River
- Easy access to Hong Kong Island, Kowloon and the Mainland border
- Close to the Hong Kong Science & Technology Parks, the Chinese University of Hong Kong and the Ten Thousand Buddhas Monastery
- Close to Sha Tin Racecourse where exciting horse races are staged regularly
- Regal iClub is the smart choice for business travellers. The trendy guest rooms are smart and hip with full amenities and modern facilities. In simple contemporary design, the Regal iClub Lounge provides exclusive business services and meeting room that brings a truly comfortable and convenient stay.
- Hong Kong 2009 East Asian Games Headquarters Hotel and official hotel of 2008 Olympic Equestrian Events














■ Ballroom



■ Aji Bou Izakaya



■ Swimming Pool

 1,138	 5,104 sq. ft.
 1986	 13
 743,529 sq. ft.	 1
 642,263 sq. ft.	 1
 8	 1
 2	

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MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of the REIT Manager are pleased to report the unaudited interim results of Regal Real Estate Investment Trust (“Regal REIT”) and its subsidiaries (collectively, the “Group”) for the six months period from 1st January, 2009 to 30th June, 2009 (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 vision is to build up the existing portfolio of hotel properties comprising five hotels in Hong Kong (collectively, the “Initial Hotels”) and to become a pre-eminent owner of 4 and 5 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.

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

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

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

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. In this role, the Trustee holds the assets of Regal REIT in trust for the benefit of the Unitholders as a whole and oversees the activities of the REIT Manager for compliance with the trust deed constituting Regal REIT on 11th December, 2006 (as amended by the first supplemental deed dated 2nd March, 2007, the second supplemental deed dated 15th May, 2008 and the third supplemental deed dated 8th May, 2009) (collectively, the “Trust Deed”) and regulatory requirements. Reference can be made to Regal REIT’s website www.RegalREIT.com for more details on the organisation and structure of Regal REIT.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The results of the Group for the Interim Period are set out in the condensed consolidated interim financial statements on pages 28 to 50.

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 the Lessee and managed by the Hotel Manager.

Hotel Industry Conditions

Following a disappointing fourth quarter in 2008, when tourism travel and hotel business worldwide were severely affected by the strain on the United States and world financial systems and Hong Kong experienced diminishing demand from key overseas markets, the first quarter of 2009 saw a continuation of this trend in Hong Kong, although this largely offset by an increase of visitors from Mainland China (refer to table below). The result was a drop of about 6% in the average room occupancy for all hotels in Hong Kong. The Initial Hotels were able to gain market share through their growth in the Mainland China market and, thereby, slightly increased occupancy levels to partly offset the impact of lower hotel room rates.

In the second quarter of 2009, the market conditions worsened as they were severely affected by the drastic reduction in travel to Hong Kong from all source markets including Mainland China, caused by the reluctance to travel because of the risks and hassle associated with the H1N1 (swine flu) pandemic and the measures to fight it.

Visitor Arrivals to Hong Kong, January to March 2009, April to June 2009 and January to June 2009 vs. Same Periods 2008 ⁽¹⁾

Market Regions	Jan-Mar 2009 % Growth	Apr-Jun 2009 % Growth	Jan-Jun 2009 % Growth
The Americas	-18.3	-11.3	-14.8
Europe, Africa and the Middle East	-18.9	-8.9	-14.2
Australia, New Zealand and South Pacific	-13.4	-10.0	-11.6
North Asia	-20.7	-30.6	-25.4
South and South East Asia	-1.8	-10.5	-6.6
Taiwan	-9.2	-16.9	-13.1
Macao SAR	+2.7	-4.4	-0.8
Sub-total	-12.6	-14.6	-13.6
Mainland China	+12.6	-4.1	+4.6
Total	+1.8	-8.9	-3.4

In the first half of 2009, the supply of hotels ⁽²⁾ was increased with 9 properties, notably the 567 rooms in Hyatt Regency in Shatin and the 829 rooms in Harbour Grand Hotel in North Point. Regal REIT's own property, Regal Riverside Hotel in Shatin, was extended with an additional 280 rooms (all Regal iClub rooms) in June this year. The total supply of hotel rooms in Hong Kong increased during the Interim Period by 2,555 additional rooms, or by approximately 4.7%.

⁽¹⁾ Source: "Visitor Arrival Statistics – Mar 2009", Tourism Research Hong Kong Tourism Board Apr 2009 "Visitor Arrival Statistics – Jun 2009, Tourism Research Hong Kong Tourism Board Jul 2009 and the REIT Manager.

⁽²⁾ Source: "Hotel Supply Situation - as at Jun 2009", Tourism Research Hong Kong Tourism Board Aug 2009 and the REIT Manager.

The combined effects of the continued weak overseas economies, the reduction in visitors to Hong Kong because of H1N1 pandemic as well as the increase in rooms supply have caused significant drops in room occupancy and average room rates during the Interim Period in all categories of hotels, with the top-end hotels continuing to be affected the most.

High Tariff A hotels suffered a RevPAR drop of 27.9%; High Tariff B a drop of 27.6% and Medium Tariff a drop of 25.8% while the market as a whole experienced a RevPAR drop of 26.2%.

Room Occupancy Rates, Average Room Rates and RevPAR⁽³⁾

Hotel Market Performance (January – June)

Category⁽⁴⁾	Room Occupancy Rates		Average Room Rates		RevPAR	
	2009	2008	2009	2008	2009	2008
	%	%	HK\$	HK\$	HK\$	HK\$
High Tariff A	68	79	1,816	2,167	1,235	1,712
High Tariff B	77	86	782	967	602	832
Medium Tariff	75	84	481	579	361	486
All Hotels	74	83	1,026	1,238	759	1,028

Performance of the Initial Hotels

The performance of the Initial Hotels followed the principal market trend and experienced a severe slow-down in the second quarter, but on an aggregate basis, the drop in RevPAR for the Interim Period was limited to approximately 22.9% or approximately 3.3 percentage points better than the overall market average.

While the negative effects on travel from the H1N1 pandemic are believed to be temporary, the focus of the hotel operations have been on cost savings and short term strategies to maintain market share. The Hotel Manager has implemented cost saving measures, while remaining prepared for a bounce-back when, in the first instance, leisure travel from Mainland China rebounds and later when the visitors from major overseas markets return to previous levels.

⁽³⁾ Source: "Visitor Arrival Statistics - Jun 2009" and "Hotel Room Occupancy Report – Jun 2009", Tourism Research Hong Kong Tourism Board Jul 2009 and the REIT Manager.

⁽⁴⁾ By HKTB 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).

Total Hotel Revenue, Gross Operating Profit and Net Property Income

For the Initial Hotels from 1st January, 2009 to 30th June, 2009 vs. Same Period Last Year

	Initial Hotels Combined		Variance (%)
	1st January, 2009 to 30th June, 2009 (HK\$'million)	1st January, 2008 to 30th June, 2008 (HK\$'million)	
Operating Results			
Room revenue	349.6	455.1	-23.2
Food and beverage revenue	182.9	209.6	-12.7
Other income	18.9	23.8	-20.6
Total hotel revenue	551.4	688.5	-19.9
Operating expenses	(313.1)	(347.6)	-9.9
Gross operating profit	238.3	340.9	-30.1
Other expenses	(21.0)	(21.0)	0.0
Net rental income	12.0	12.8	-6.3
Net property income	229.3	332.7	-31.1
Statistics			
Average room rate	HK\$740.87	HK\$886.36	-16.4%
Occupancy rate	73.45%	79.64%	-7.8%
RevPAR	HK\$544.18	HK\$705.93	-22.9%
Total available room nights	642,502	644,644	-0.3%
Occupied rooms nights	471,931	513,419	-8.1%

Food and beverage sales have been affected as a consequence of fewer visitors to Hong Kong and lower hotel occupancies and also by the general weakness in the Hong Kong economy and Hong Kong residents' reluctance to spend when the economy is weak. Regal Riverside Hotel is the exception, with the three new restaurants opened before the Olympic Equestrian Events in the summer of 2008 continuing to add positive growth.

Performance of Regal REIT

Gross Rental Revenue and Net Rental Income

The cash Base Rent and additional Base Rent earned during the Interim Period was HK\$378.4 million. As the net property income ("NPI") from hotel operations was approximately HK\$229.3 million, which is below the cash Base Rent, no Variable Rent is payable to Regal REIT for the Interim Period.

	1st January, 2009 to 30th June, 2009		1st January, 2008 to 30th June, 2008
	HK\$'million	%	HK\$'million
Base Rent			
Cash Base Rent	375.0	100.0	350.0
Cash additional Base Rent	3.4	0.9	—
Difference in accounting Base Rent and actual contractual cash Base Rent	(18.2)	(4.8)	8.7
Variable Rent	—	—	—
Other rental-related income			
Furniture, fixtures and equipment reserve contribution	11.0	2.9	13.7
Other	3.7	1.0	2.3
Gross rental revenue	374.9	100.0	374.7
Property operating expenses	(4.7)	(1.3)	(3.4)
Net rental income	370.2	98.7	371.3

During the Interim Period, net rental income represented approximately 98.7% of gross rental revenue, after the deduction of property operating expenses. The property management 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 the minimum amount of no less than 90% of Regal REIT's total distributable income for each financial year. The amount of any distribution for the Interim Period of each financial year is at the discretion of the REIT Manager.

The unaudited distributable income for the Interim Period amounted to approximately HK\$280.5 million, representing approximately HK\$0.092 per Unit.



Interim Distribution for 2009

Based on the modified a policy of distributing no less than 90% of the total distributable income, the Directors of the REIT Manager have resolved to declare an interim distribution of HK\$0.085 per Unit for the Interim Period. The interim distribution will be payable to Unitholders on the Register of Unitholders on 18th September, 2009.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 16th September, 2009 to Friday, 18th September, 2009, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2009, 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, 15th September, 2009. The relevant distribution warrants are expected to be despatched on or about 8th October, 2009.

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 as at 31st December, 2008 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 Code on Real Estate Investment Trusts (the "REIT Code"). The Initial Hotels, including the fair value of asset enhancement programme (the "AEP") at Regal Riverside Hotel, were valued at HK\$13,490.0 million as at 31st December, 2008. 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, 2009 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 capital gains tax in Hong Kong.

Net Asset Value

The net asset value (the "NAV") per Unit amounted to HK\$2.546 as at 30th June, 2009, down HK\$0.050 from the NAV as at 31st December, 2008, 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 46).

If the deferred tax liabilities provided in the condensed consolidated interim financial statements with regard to the revaluation surplus of the Initial Hotels are added back, the proforma NAV compiled on such basis would be HK\$2.849 per Unit as at 30th June, 2009 (HK\$2.903 per Unit as at 31st December, 2008).

Asset Enhancement Programme

The target date for completion of the second stage of the AEP at Regal Riverside Hotel was extended from 31st December, 2008 to 26th June, 2009 by the Authorised Person⁽⁵⁾ due to inclement weather, 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, value-enhancing design changes to the room configurations and specifications and adding a new club lounge and 6 hotel rooms.

With the completion of the second stage of the AEP at Regal Riverside Hotel on 26th June, 2009, the hotel has added 280 new Regal iClub rooms to its room inventory, now boasting a total of 1,138 available rooms. The Regal iClub 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.

Capital Additions Projects

During the Interim Period, capital additions projects have been committed with an estimated final cost of approximately HK\$17.9 million covering all of the Initial Hotels, of which approximately HK\$10.2 million was related to income generating projects for which additional Base Rent will be received. During the Interim Period, approximately HK\$3.4 million was received in additional Base Rent.

Notable capital additions projects completed during the Interim Period, in addition to those described in the 2008 Annual Report, include the renovation of the coffee shop, Café Neo, in Regal Oriental Hotel and the new Chinese restaurant, Regal Court, in Regal Kowloon Hotel. The renovation and upgrade of one additional guest room floor with 51 hotel rooms in Regal Kowloon Hotel was also completed in early July this year.

Financial Review and Financing Strategy

In adopting a prudent approach, 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.

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

In March 2009, a revolving credit facility of HK\$150.0 million was drawn down and subsequently converted to a term loan during the Interim Period. The new term loan was aggregated with the then existing term loan of HK\$4.35 billion. As at 30th June, 2009, Regal REIT had a term loan of HK\$4.5 billion which is repayable in full on 30th March, 2012.

The term loan bears interest at a floating rate of 60 basis points above three-month HIBOR. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries, entered into interest rate hedging arrangements for an aggregate notional principal amount of HK\$4.35 billion. Under such arrangements, the interest rates effectively borne by Regal REIT with regard to HK\$4.35 billion 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. The HK\$150.0 million balance of the HK\$4.5 billion term loan is not hedged.

⁽⁵⁾ The Authorised Person is defined in the Building Ordinance (Chapter 123 of the Laws of Hong Kong).



As at 30th June, 2009, the net aggregate fair value of the interest rate hedging arrangements was reported as a non-current liability of approximately HK\$196.5 million in the condensed consolidated statement of financial position.

As at 30th June, 2009, the loan-to-value ratio was 33.3%, being the ratio of the total amount of the outstanding loans of HK\$4.5 billion as compared to the aggregate market value of the Initial Hotels of approximately HK\$13.5 billion, based on the independent valuation as at 31st December, 2008, and including the additional capital expenditures incurred during the Interim Period. This loan-to-value ratio is below the 40% allowed under the financing agreement with the lenders.

As at 30th June, 2009, the gearing ratio amounted to 31.9%, being the gross amount of the outstanding loans of HK\$4.5 billion as compared to the total assets of approximately HK\$14.1 billion, which is below the maximum 45% permitted under the REIT Code.

Regal REIT had a total of approximately HK\$326.2 million in unrestricted and HK\$44.6 million in restricted cash balances and bank deposits as at 30th June, 2009 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, 2009, the Initial Hotels with an aggregate carrying value of approximately HK\$13.5 billion were pledged to secure bank loan facilities granted to Regal REIT.

HOTEL INDUSTRY OUTLOOK

Due to the volatile global economic environment and the uncertainty over the timing of the economic revival as well as the future impact of the H1N1 pandemic, business conditions for the travel industry in Hong Kong in the remaining part of 2009 will continue to be challenging. The slow-down in worldwide economic activities have continued to affect the hotel operations, as companies and enterprises remain cautious with travel budgets and certain leisure travellers are still inclined to reduce travel due to H1N1 pandemic worries. However, recently there are some signs of a stabilising U.S. economy and as the measures to fight the spread of the H1N1 pandemic in Mainland China are easing gradually, there could be pent up demand from both business and leisure travellers to Hong Kong.

Looking further into the future, Mainland China is expected to be able to sustain high economic growth and its huge and expanding outbound tourism markets will continue to offer strong support to the travel related industries in Hong Kong. The Directors of the REIT Manager anticipate that when the impact of the H1N1 pandemic gradually diminishes and the business travelling and tourism activities again pick up their momentum, the hotel market in Hong Kong should recover steadily in pace with the overall revival in the global economies.

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:* The core growth strategy for the hotel portfolio is to maximise value for Unitholders through pro-active asset management achieving higher total hotel revenue, RevPAR and NPI performance.
- *External Growth Strategy:* The core growth strategy for growing the portfolio of hotels is to selectively acquire additional hotel properties that meet the REIT Manager's investment criteria.

In evaluating potential acquisition opportunities, the REIT Manager will focus on the following criteria:

- The expected yield enhances returns to Unitholders;
- Target Greater China with a focus on Hong Kong, Macao and Mainland China and on markets and locations in urban centres and popular resort areas with growth potential;
- 4 and 5 star-rated (PRC star rating system) full-service hotels;
- Larger hotels with more than approximately 200 rooms;
- Value-adding opportunities, e.g. properties that may be undermanaged or in need of capital investment and/or which may benefit from market re-positioning and the Regal brand and/or which may be extended or have other asset enhancement opportunities;
- Majority ownership of the asset acquired; and
- Targeting income and cashflow generating properties.

While Regal REIT will focus on hotels and hospitality-related properties in Greater China, its investment scope includes serviced apartments, offices and retail and entertainment complexes and the geographical scope goes beyond Greater China. Regal REIT's investment scope allows for flexibility in its growth through acquisitions of, for example, "mixed-use" developments containing hotels, and other investment opportunities overseas.



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

The REIT Manager has actively reviewed numerous hotel investment proposals. However, faced with weakening hotel demand in the region and overbuilding in key cities on Mainland China, property values continue to fall. It has become increasingly difficult to price assets in Mainland China, a key target market, as hotels offered for sale experience soft demand and low or no profitability, yet sellers are still not motivated to bring prices down to reasonable levels.

Regal iClub

In the meantime, as the REIT Manager continues to monitor target markets for opportunities satisfying the above investment criteria, a supplemental growth strategy of growing with properties suitable for the Regal iClub brand has been added.

Regal iClub is a boutique-like hotel concept suitable for smaller properties in large urban centres located in busy commercial or entertainment districts. The concept features trendy modern design and comfortable rooms but otherwise limited service offerings. Regal iClub can be profitably operated in sizes from 50 hotel rooms and up, situated on a few floors in an office building or comprising a purpose built stand-alone building.

Regal iClub investment criteria:

- Ideally located in urban areas where the Hotel Manager operates one or more larger properties which can support Regal iClub through clustering of sales and marketing, administration and management functions.
- Other investment criteria are similar to that of full-service hotels stated above.

Regal REIT intends to hold its properties on a long-term basis. However, if in the future any hotel property no longer fulfills 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.



OTHER INFORMATION AND DISCLOSURES

PUBLIC FLOAT

As at 30th June, 2009, the total number of Units outstanding was 3,188,459,544. Refer to note 19 to the condensed consolidated interim financial statements on page 46.

As at 30th June, 2009, 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 46,263,442 new Units allotted and issued to the REIT Manager in payment of REIT Manager fees, no further new Units have been issued during the Interim Period.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

MATERIAL ACQUISITIONS OR DISPOSALS OF REAL ESTATE

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



CORPORATE GOVERNANCE

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

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

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

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 the 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\$393.1 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 a 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, the 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 reserves for furniture, fixtures and equipment for the respective Initial Hotels, to which the Lessee contributes on a monthly basis, from the Listing Date up to 31st December, 2010, and may continue to contribute to 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 Regal International (BVI) Holdings Limited (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 royalties, 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\$13.7 million for such services rendered during the Interim Period were settled by the issuance of 13,794,678 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 dated 19th March, 2007 issued by the REIT Manager (the “Offering Circular”).

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

TRUSTEE CONNECTED PERSONS GROUP

Corporate Finance Transactions

Rich Day Investments Limited and Bauhinia Hotels Limited, which are members of the Regal REIT Group, entered into a loan facilities agreement with certain lending banks for an aggregate loan amount of HK\$4.5 billion comprised of a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million. In March 2009, the revolving credit facility of HK\$150.0 million was drawn down and subsequently converted to a term loan during the Interim Period. The new term loan was aggregated with the existing term loan of HK\$4.35 billion and the total term loan is HK\$4.5 billion. The HK\$4.5 billion term loan facility bears interest at a floating rate of three-month HIBOR plus 0.6%. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries entered into interest rate hedging arrangements for the term loan with Deutsche Bank AG, a member of 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, also 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.

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\$0.9 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, 2009, 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, 2009
Century City International Holdings Limited ("CCIHL")	2,364,578,094 (Note i)	74.16%
Century City BVI Holdings Limited ("CCBVI")	2,364,578,094 (Notes i & ii)	74.16%
Paliburg Holdings Limited ("PHL")	2,359,291,094 (Notes iii & iv)	73.99%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,359,291,094 (Notes iii & v)	73.99%
Regal Hotels International Holdings Limited ("RHIHL")	2,359,291,094 (Notes iii & vi)	73.99%
Regal International (BVI) Holdings Limited ("RBVI")	2,359,291,094 (Notes iii & vii)	73.99%
Complete Success Investments Limited	1,817,012,072 (Note viii)	56.99%
Great Prestige Investments Limited	373,134,326 (Note viii)	11.70%

Notes:

- (i) The interests in 2,364,578,094 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 2,359,291,094 Units held by each of the Unitholders as named above were the same parcel of Units, which were directly held by wholly-owned subsidiaries of RBVI.
- (iv) PHL is a listed subsidiary of CCIHL, which held a 57.66% shareholding interest in PHL as at 30th June, 2009, and PHL's interests in Units are deemed to be the same interests held by CCIHL.
- (v) PDBVI is a wholly-owned subsidiary of PHL and its interests in Units are deemed to be the same interests held by PHL.
- (vi) RHIHL is a listed associate of PDBVI, which held a 47.20% shareholding interest in RHIHL as at 30th June, 2009, 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, 2009, 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, 2009, 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 and Director of the REIT Manager	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2009
Lo Yuk Sui	2,364,578,094 (Note i)	74.16%
Regal Portfolio Management Limited	51,409,953 (Note ii)	1.61%

Notes:

- (i) The interests in 2,364,578,094 Units were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held a 51.86% shareholding interest as at 30th June, 2009.
- (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, 2009, none of the REIT Manager, the directors and the 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, 2009

		Six months ended	Six months ended	Period from
	Notes	30th June, 2009	30th June, 2008	11th December 2006 (date of establishment) to 30th June, 2007
Net assets attributable to Unitholders (HK\$'million)		8,118.1	10,927.7	10,402.7
Net asset value per Unit (HK\$)		2.546	3.488	3.350
The highest traded price during the period (HK\$)	1	1.28	2.37	2.79
The lowest traded price during the period (HK\$)		0.84	1.50	2.52
The highest discount of the traded price to net asset value per Unit		67.01%	57.00%	24.78%
Distribution yield per Unit	2	7.59%	5.16%	2.14%

Notes:

1. The highest traded price during all the relevant periods was lower than the net asset value per Unit 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, 2009 is calculated by dividing the interim distribution per Unit of HK\$0.085 over the closing price of HK\$1.12 as at 30th June, 2009, being the last trading day for the period. The calculation of the interim distribution per Unit is set out in the section "Distribution Statement" on page 32.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2009

	Notes	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Gross rental revenue	4	374,850	374,737
Property operating expenses		(4,682)	(3,435)
Net rental income		370,168	371,302
Other income	4	200	2,786
REIT Manager fees	5	(32,386)	(37,597)
Trust and other expenses	6	(5,444)	(6,035)
Fair value changes of derivative financial instruments		2,626	(6,263)
Net interest expense on derivative financial instruments		(169)	(11,763)
Finance costs - excluding distribution to Unitholders	7	(87,672)	(88,009)
PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS		247,323	224,421
Tax	8	(59,815)	53,864
PROFIT FOR THE PERIOD, BEFORE DISTRIBUTION TO UNITHOLDERS		187,508	278,285
Finance costs - distribution to Unitholders		(256,033)	(264,756)
(LOSS)/PROFIT FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS		(68,525)	13,529
EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS			
Basic and diluted	9	HK\$0.059	HK\$0.089

The notes on pages 35 to 50 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2009

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
(LOSS)/PROFIT FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS	(68,525)	13,529
Other comprehensive income for the period:		
Cash flow hedges:		
Changes in fair values of cash flow hedges	(47,908)	(24,332)
Transfer from hedging reserve to income statement	45,360	(6,905)
	(2,548)	(31,237)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, AFTER DISTRIBUTION TO UNITHOLDERS	(71,073)	(17,708)

The notes on pages 35 to 50 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June, 2009

	Notes	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Non-current assets			
Investment properties	10	13,495,311	13,020,000
Prepaid construction costs	11	—	430,000
Construction in progress	12	17,300	16,743
Deferred tax assets	18	90,128	116,455
Total non-current assets		<u>13,602,739</u>	<u>13,583,198</u>
Current assets			
Accounts receivable	13	74,605	96,144
Prepayments and other receivables		784	10,272
Tax recoverable		1,335	5,062
Restricted cash	14	44,573	47,673
Cash and cash equivalents		326,199	173,789
Total current assets		<u>447,496</u>	<u>332,940</u>
Total assets		<u>14,050,235</u>	<u>13,916,138</u>
Current liabilities			
Accounts payable	15	6,349	6,887
Other payables and accruals		46,931	57,370
Tax payable		4,197	—
Total current liabilities		<u>57,477</u>	<u>64,257</u>
Net current assets		<u>390,019</u>	<u>268,683</u>
Total assets less current liabilities		<u>13,992,758</u>	<u>13,851,881</u>
Non-current liabilities, excluding net assets attributable to Unitholders			
Interest-bearing bank borrowings	16	4,475,944	4,321,866
Derivative financial instruments	17	196,509	196,587
Deferred tax liabilities	18	1,202,215	1,176,651
Total non-current liabilities		<u>5,874,668</u>	<u>5,695,104</u>
Total liabilities, excluding net assets attributable to Unitholders		<u>5,932,145</u>	<u>5,759,361</u>
Net assets attributable to Unitholders		<u>8,118,090</u>	<u>8,156,777</u>
Number of Units in issue	19	<u>3,188,459,544</u>	<u>3,142,196,102</u>
Net asset value per Unit	20	<u>HK\$2.546</u>	<u>HK\$2.596</u>

The notes on pages 35 to 50 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, 2009

	Note	Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profits/ (accumulated losses) (unaudited) HK\$'000	Total (unaudited) HK\$'000
Net assets attributable to Unitholders as at 1st January, 2009		8,296,809	(172,667)	32,635	8,156,777
Total comprehensive loss for the period, after distribution to Unitholders		—	(2,548)	(68,525)	(71,073)
As payment of REIT Manager fees:					
Units issued	5	13,726	—	—	13,726
Units to be issued	5	18,660	—	—	18,660
Net assets attributable to Unitholders as at 30th June, 2009		<u>8,329,195</u>	<u>(175,215)</u>	<u>(35,890)</u>	<u>8,118,090</u>

For the six months ended 30th June, 2008

	Note	Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profits (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
Total comprehensive (loss)/income for the period, after distribution to Unitholders		—	(31,237)	13,529	(17,708)
As payment of REIT Manager fees:					
Units issued	5	16,842	—	—	16,842
Units to be issued	5	18,402	—	—	18,402
Units repurchased		(4,850)	—	—	(4,850)
Repurchase expenses		(22)	—	—	(22)
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 35 to 50 form part of these condensed consolidated interim financial statements.

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2009

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Profit for the period, before distribution to Unitholders	187,508	278,285
Adjustments:		
Difference in accounting Base Rent and actual contractual cash Base Rent	18,286	(8,684)
Amount set aside on account for the furniture, fixtures and equipment reserve	(11,027)	(13,769)
REIT Manager fees paid/payable in the form of Units	32,386	35,244
Amortisation of debt establishment costs	4,078	3,901
Fair value changes of derivative financial instruments	(2,626)	6,263
Deferred tax	51,891	(53,864)
Distributable income for the period ^{(2) & (4)}	280,496	247,376
Distribution per Unit ^{(3) & (4)}	HK\$0.085	HK\$0.083

Notes:

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

The amount of any distribution for the interim period of each financial year is at the discretion of the REIT Manager. Based on the current policy of distributing no less than 90% of the Total Distributable Income, the REIT Manager has resolved to make an interim distribution of HK\$0.085 per Unit for the six-month period ended 30th June, 2009 (period ended 30th June, 2008: HK\$0.083 per Unit).

The notes on pages 35 to 50 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 18th September, 2009 in respect of the interim distribution for the six-month period ended 30th June, 2009. This interim distribution will be paid out to Unitholders on or about 8th October, 2009. The total distributable amount to be paid to Unitholders for the period of approximately HK\$258.3 million is arrived at based on the distribution per Unit of HK\$0.085 and the number of Units expected to be in issue at the Record Date that are entitled to distribution as detailed below.
3. Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited, agreed to waive its distribution entitlements with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Programme ("AEP") at the relevant Initial Hotels (as defined hereinafter). During the period from 11th December, 2006 (date of establishment of Regal REIT) to 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, 2009. 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, 2009	3,188,459,544
Issued on 30th July, 2009 to the REIT Manager for the REIT Manager Base Fees for May 2009	3,056,685
To be issued to the REIT Manager for the REIT Manager Base Fees for June 2009	<u>2,927,795</u>
Units expected to be in issue at the Record Date	3,194,444,024
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	<u>217,455,222</u>
	<u>(155,679,104)</u>
Units expected to be entitled to distribution at the Record Date	<u><u>3,038,764,920</u></u>

The remaining 155,679,104 AEP Units are related to the second stage of the AEP at Regal Riverside Hotel. Following the completion and hand over of the second stage of the AEP at Regal Riverside Hotel to Regal REIT on 26th June, 2009, these remaining 155,679,104 AEP Units will be entitled to any distributions for periods commencing from 1st July, 2009.

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\$0.085 per Unit for the six-month period ended 30th June, 2009, involving a total distributable amount of approximately HK\$258.3 million, was resolved and declared by the REIT Manager on 20th August, 2009. 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, 2009.

The notes on pages 35 to 50 form part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2009

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Net cash inflow from operating activities	304,903	365,850
Net cash outflow from investing activities	(51,525)	(14,504)
Net cash outflow from financing activities	(100,968)	(250,922)
Net increase in cash and cash equivalents	152,410	100,424
Cash and cash equivalents at beginning of period	173,789	140,412
Cash and cash equivalents at end of period	<u>326,199</u>	<u>240,836</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	326,199	8,836
Non-pledged time deposits with original maturities of less than three months when acquired	—	232,000
	<u>326,199</u>	<u>240,836</u>

The notes on pages 35 to 50 form part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2009

1. GENERAL

Regal Real Estate Investment Trust ("Regal REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units (the "Units") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March, 2007 (the "Listing Date"). Regal REIT is governed by a trust deed (the "Trust Deed") dated 11th December, 2006 (date of establishment), made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as amended by the first supplemental trust deed dated 2nd March, 2007, the second supplemental trust deed dated 15th May, 2008 and the third supplemental trust deed dated 8th May, 2009) 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 48, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, respectively.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of preparation

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

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2008, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRS"), which are effective for the Group's annual periods beginning on or after 1st January, 2009.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment - Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement - Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
Improvements to HKFRSs (2008)	

Except for HKFRS 8, HKAS 1 (Revised) and HKAS 32 and HKAS 1 Amendments, the adoption of these new and revised HKFRSs has no impact on the Group's results of operations and financial position.

HKFRS 8 Operating Segments

This standard, which replaced HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Adoption of this HKFRS did not have any effect on the financial position or performance of the Group. The Group determined that the operating segment was the same as the business segment previously identified under HKAS 14 Segment Reporting. Accordingly, no segment information by operating segments is presented.

HKAS 1 (Revised) Presentation of Financial Statements

This revised standard introduces changes in the presentation and disclosures of financial statements. The statement of changes in net assets attributable to Unitholders includes details of transactions with owner and non-owner changes in net assets attributable to Unitholders. In addition, this standard also introduces the statement of comprehensive income, with all items of income and expense recognised in income statement, together with all other items of recognised income and expense recognised directly in statement of changes in net assets attributable to Unitholders, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

These amended standards provide a limited scope exception for puttable financial instruments and instruments that imposed specified obligation arising on liquidation while HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity if they fulfilled a number of specified criteria. The REIT Manager has considered the amendments and determined that they have no material impact to the accounting treatment for the Units issued to Unitholders as the components of the Units that would be classified as equity is insignificant. Accordingly, the Units continue to be classified as financial liabilities, representing the obligation of Regal REIT to distribute not less than 90% of Regal REIT's distributable income to Unitholders.

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. Information reported to the REIT Manager, the chief operating decision maker, for the purpose of resources allocation and assessment performance is focused on the operating results of all investment properties as a whole since all investment properties are leased to a single lessee. 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 its investment properties during the period.

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

	Notes	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Gross rental revenue			
Rental income	(a)	360,117	358,684
Other rental-related income	(b)	11,027	13,769
Other		3,706	2,284
		<u>374,850</u>	<u>374,737</u>
Other income			
Bank interest income		<u>200</u>	<u>2,786</u>

Notes:

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

	HK\$'000	HK\$'000
Base Rent:		
Cash Base Rent	375,000	350,000
Cash Additional Base Rent	3,403	—
Difference in accounting Base Rent and actual contractual cash Base Rent	(18,286)	8,684
	<u>360,117</u>	<u>358,684</u>
Variable Rent	—	—
	<u>360,117</u>	<u>358,684</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. In 2009, the annual cash Base Rent is fixed at HK\$750 million (2008: HK\$700 million). According to the Group's accounting policy, Base Rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent;
- (ii) cash additional base rent (the "Additional Base Rent"), for capital additions (the "Capital Additions") projects which are proposed by the lessee, are approved and funded by the Group and are intended to increase revenue and rental payment capacity of the Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively the "Initial Hotels" and each referred to as an "Initial Hotel"). The Additional Base Rent for such approved Capital Additions projects is payable by the lessee commencing from the date on which the Capital Additions projects have been completed and accepted by the Group, and have been commissioned for operation, to the satisfaction of the Group. The Additional Base Rent is payable until the year ending 31st December, 2010 and the Additional Base Rent per each financial year shall be equal to such percentage, as is agreed between the Group and the lessee, of the cost of the approved Capital Additions projects to be funded by the Group. Where, with respect to any approved Capital Additions projects in any financial year, Additional Base Rent is payable with respect to a period that is less than a full financial year, the amount of such Additional Base Rent shall be apportioned according to the number of days in such period, based on a 365-day year; and

- (iii) variable rent (the "Variable Rent"), computed on pre-determined percentages of the annual aggregate profits from the operations of the Initial Hotels, adjusted for the cash Base Rent and cash Additional Base Rent payments, until the year ending 31st December, 2010, 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 determination of the Base Rent and the Variable Rent is subject to annual rent reviews by an independent property valuer.

- (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

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Base Fees:		
In the form of Units	20,703	25,331
In the form of cash	—	2,353
Variable Fees in the form of Units	11,683	9,913
	<u>32,386</u>	<u>37,597</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 statement of financial position 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 relevant 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, 2009, REIT Manager fees of approximately HK\$13.7 million (period ended 30th June, 2008: approximately HK\$16.8 million) were settled by 13,794,678 Units (period ended 30th June, 2008: 8,652,315 Units). The remaining REIT Manager fees of approximately HK\$18.7 million (period ended 30th June, 2008: approximately HK\$18.4 million), comprising Base Fees for May 2009 and June 2009 and Variable Fees for the period from 1st January, 2009 to 30th June, 2009, are to be settled subsequent to the statement of financial position date in Units in accordance with the terms of the Trust Deed.

6. TRUST AND OTHER EXPENSES

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Auditors' remuneration	600	750
Legal and other professional fees	3,480	2,997
Trustee fees	870	1,473
Other expenses	494	815
	<u>5,444</u>	<u>6,035</u>

7. FINANCE COSTS – EXCLUDING DISTRIBUTION TO UNITHOLDERS

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	38,153	90,826
Fair value changes of derivative financial instruments - cash flow hedges (transfer from hedging reserve)	45,360	(6,905)
Amortisation of debt establishment costs	4,078	3,901
Loan commitment fees	81	187
	<u>87,672</u>	<u>88,009</u>

8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax had been made in the prior period as the Group had available tax losses attached to the companies holding the Initial Hotels acquired by the Group to offset the assessable profits generated during that period.

	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Charge for the period	7,924	—
Deferred tax charge/(credit)	51,891	(53,864)
Total tax charge/(credit) for the period	<u>59,815</u>	<u>(53,864)</u>

9. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic earnings per Unit is based on the profit for the period before distribution to Unitholders of approximately HK\$187,508,000 (period ended 30th June, 2008: approximately HK\$278,285,000) and the weighted average number of 3,160,869,813 Units (period ended 30th June, 2008: 3,122,146,304 Units) in issue during the period. The basic earnings per Unit for the period amounted to HK\$0.059 (period ended 30th June, 2008: HK\$0.089).

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, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
At beginning of the period/year	13,020,000	16,080,000
Fair value changes	—	(3,133,715)
Transfer from prepaid construction costs (note 11)	430,000	—
Capital expenditures for the period/year	45,311	73,715
At end of the period/year	<u>13,495,311</u>	<u>13,020,000</u>

The Group's investment properties were valued on 31st December, 2008 by CB Richard Ellis Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$13,020,000,000 on an open market value, existing use basis. The REIT Manager considers that there have been no material changes in the fair values of the investment properties during the intervening period ended 30th June, 2009. The investment properties are leased to a related party under operating leases, further details of which are included in note 21(a) to the condensed consolidated interim financial statements.

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

11. PREPAID CONSTRUCTION COSTS

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
At beginning of the period/year	430,000	430,000
Transfer to investment properties (note 10)	<u>(430,000)</u>	<u>—</u>
At end of the period/year	<u>—</u>	<u>430,000</u>

At 31st December, 2008, this represented the prepaid project costs for the remaining asset enhancement programme (the "AEP" or "Asset Enhancement Programme") including construction costs, fit-out of 280 additional rooms in Regal Riverside Hotel and ancillary facilities, related renovations, land premiums and any other costs in respect of the Asset Enhancement Programme.

During the period ended 30th June, 2009, aggregate prepaid construction costs of HK\$430,000,000 were transferred to investment properties (note 10) upon completion of the Asset Enhancement Programme in respect of Regal Riverside Hotel.

12. CONSTRUCTION IN PROGRESS

This represents the amount incurred for renovation projects in respect of the Initial Hotels which have not been completed as at the statement of financial position date.

13. ACCOUNTS RECEIVABLE

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	73,034	91,320
Cash Additional Base Rent receivables	—	1,888
FF&E Reserve contribution receivables	<u>1,571</u>	<u>2,936</u>
	<u>74,605</u>	<u>96,144</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 cash Additional Base Rent receivables and FF&E Reserve contribution receivables represent amounts due from related companies. 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 in respect of related companies for whom there is no recent history of default.

14. RESTRICTED CASH

At 30th June, 2009, the Group had approximately HK\$44.6 million (31st December, 2008: approximately HK\$47.7 million) of cash which was restricted to use and mainly to be utilised for the purpose of servicing the finance costs on interest-bearing bank borrowings and funding the furniture, fixtures and equipment reserve for use in the Initial Hotels. All of the restricted cash is expected to be released within one year from the statement of financial position date and is, accordingly, classified as a current asset.

15. ACCOUNTS PAYABLE

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

16. INTEREST-BEARING BANK BORROWINGS

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Interest-bearing bank borrowings repayable within five years	4,500,000	4,350,000
Debt establishment costs	(24,056)	(28,134)
	<u>4,475,944</u>	<u>4,321,866</u>

Under a banking facility agreement, the Group was 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 statement of financial position date, the Group had fully utilised the term loan facility of HK\$4.35 billion and the revolving credit facility of HK\$150.0 million had been drawn down and aggregated with the term loan. The loan facility is repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the term loan for a notional amount of HK\$4.35 billion, details of which are set out in note 17.

Bank borrowings under the term loan 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

	Liabilities	
	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Interest rate swaps - cash flow hedges	<u>196,509</u>	<u>196,587</u>

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan, with a notional amount of HK\$4.35 billion (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

The above derivatives are measured at fair values at the statement of financial position date and are determined based on discounted cash flow models.

18. DEFERRED TAX

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

	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
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 year	(13,455)	606,875	(57,496)	535,924
	<u>(180,002)</u>	<u>(964,832)</u>	<u>84,638</u>	<u>(1,060,196)</u>
Gross deferred tax assets/(liabilities) at 31st December, 2008 (audited)	(180,002)	(964,832)	84,638	(1,060,196)
Gross deferred tax assets/(liabilities) at 1st January, 2009	(180,002)	(964,832)	84,638	(1,060,196)
Deferred tax charged to the income statement during the period	(34,836)	—	(17,055)	(51,891)
	<u>(214,838)</u>	<u>(964,832)</u>	<u>67,583</u>	<u>(1,112,087)</u>

For the purpose of the statement of financial position 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, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	90,128	116,455
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,202,215)	(1,176,651)
	<u>(1,112,087)</u>	<u>(1,060,196)</u>

The deferred tax liabilities and assets set out above primarily relate to the deferred tax calculated on the revaluation surplus/deficit on the Initial Hotels, in accordance with HKAS 12 *Income Tax*. 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, 2009 (unaudited)	31st December, 2008 (audited)
Units in issue:		
At beginning of the period/year	3,142,196,102	3,115,512,324
REIT Manager fees paid in the form of Units	46,263,442	40,075,778
	3,188,459,544	3,155,588,102
Units repurchased	—	(13,392,000)
At end of the period/year	3,188,459,544	3,142,196,102

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, 2009 of approximately HK\$8,118,090,000 (31st December, 2008: approximately HK\$8,156,777,000) by the number of Units in issue of 3,188,459,544 (31st December, 2008: 3,142,196,102) as of that date.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties, as set out in note 10, under operating lease arrangements. At 30th June, 2009, the total future minimum lease receivables under non-cancellable operating leases with its lessee falling due were as follows:

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Within one year	775,720	759,094
In the second to fifth years, inclusive	393,721	784,921
	<u>1,169,441</u>	<u>1,544,015</u>

Certain of the leases contain Additional Base Rent and 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 an operating lease arrangement. The lease will expire on 1st March, 2010 with an option to renew for another 12 years. During the lease term, the rental is subject to review every three years. At 30th June, 2009, total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Within one year	3,338	5,008
In the second to fifth years, inclusive	—	835
	<u>3,338</u>	<u>5,843</u>

During the six-month period ended 30th June, 2009, the total minimum lease payments under operating leases in respect of land and buildings included in property operating expenses and amounting to approximately HK\$3,706,000 (period ended 30th June, 2008: HK\$2,284,000) was charged to the consolidated income statement.

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21(b) above, the Group had the following capital commitments in respect of the Initial Hotels as at 30th June, 2009:

	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Authorised and contracted for	8,992	19,598
Authorised, but not contracted for	21,309	28,332
	<u>30,301</u>	<u>47,930</u>

23. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with connected/related parties:

	Notes	Six months ended 30th June, 2009 (unaudited) HK\$'000	Six months ended 30th June, 2008 (unaudited) HK\$'000
Contractual rental and rental-related income received/receivable from the RHIHL Group	(i)	393,136	366,053
Net interest expense charged by the Deutsche Bank Group	(ii)	(20,874)	(13,843)
REIT Manager fees	(iii)	(32,386)	(37,597)
Trustee fees	(iv)	(870)	(1,473)

Notes:

- (i) The 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 net interest expense is related to bank balances maintained and interest rate swaps with the Deutsche Bank Group. Net interest expense is incurred thereon in accordance with the 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 0.015% per annum to 0.025% per annum based on the value of all the assets of Regal REIT as at the statement of financial position date, including but not limited to the Initial Hotels, subject to a minimum of HK\$66,000 per month.

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

	Notes	30th June, 2009 (unaudited) HK\$'000	31st December, 2008 (audited) HK\$'000
Net amount due from/(to) the RHIHL Group:			
Cash Additional Base Rent receivables,			
Variable Rent receivables and FF&E Reserve			
contribution receivables	(i)	1,571	4,824
REIT Manager Base Fee adjustment receivables	(ii)	—	9,192
Accounts payable to related companies	(iii)	(6,349)	(6,887)
Amount due to a related company	(iv)	(714)	(103)
Net amount due to:			
The Trustee	(v)	(612)	(702)
The Valuer	(vi)	—	(650)
Restricted and non-restricted short-term deposits			
and bank balances with the Deutsche Bank Group	(vii)	<u>41,031</u>	<u>174,303</u>

Notes:

- (i) Details of the balance are set out in note 13 to the condensed consolidated interim financial statements.
 - (ii) The amount is unsecured, interest-free and repayable within one year.
 - (iii) Details of the balance are set out in note 15 to the condensed consolidated interim financial statements.
 - (iv) The amount is unsecured, interest-free and repayable on demand.
 - (v) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
 - (vi) The amount is repayable in accordance with the terms of the relevant agreement.
 - (vii) The short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group. The balances earn interest at prevailing market rates.
- (c) The RHIHL Group has guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under the respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the RHIHL Group has undertaken to maintain a minimum consolidated tangible net worth (as defined in the relevant agreements) of HK\$4 billion and procured an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the Group and the Trustee. In addition, under the terms of the lease agreements, the RHIHL Group has guaranteed to pay a total of 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.



24. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

- (a) On 30th July, 2009, 3,056,685 new Units were issued to the REIT Manager at HK\$1.16 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$3.5 million for May 2009.
- (b) In accordance with the terms of the Trust Deed, 2,927,795 new Units will be issued to the REIT Manager at HK\$1.172 per Unit in settlement of the REIT Manager Base Fee of approximately HK\$3.4 million for June 2009.



REVIEW OF INTERIM RESULTS

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the interim report of Regal REIT for the six-month period from 1st January, 2009 to 30th June, 2009, in conjunction with the Regal REIT's external auditors. The review report of the external auditors is set out on page 52 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 28 to 50 which comprises the condensed consolidated statement of financial position as at 30th June, 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in net assets attributable to unitholders, statement of cash flows and distribution statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

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

20th August, 2009

