



REGAL REIT 富豪產業信託

Regal Real Estate Investment Trust 富豪產業信託

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

(根據香港法例第571章證券及期貨條例第104條獲認可之香港集體投資計劃)

(Stock Code 股份代號: 1881)

INTERIM REPORT 2007 中期報告



REGAL REIT owns 5 hotel properties with 3,348 rooms in strategic locations across Hong Kong
五項優質酒店物業策略性地分佈於香港各區共提供3,348個房間

Managed by 管理人



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

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CORPORATE INFORMATION

MANAGER OF REGAL REIT

Regal Portfolio Management Limited
(the "REIT Manager")

DIRECTORS OF THE REIT MANAGER

Non-Executive Directors

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

Executive Director

Kai Ole Ringenson (Chief Executive Officer)

Independent Non-Executive Directors

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

AUDIT COMMITTEE OF THE REIT MANAGER

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

SECRETARY OF THE REIT MANAGER

Peony Choi Ka Ka

TRUSTEE OF REGAL REIT

DB Trustees (Hong Kong) Limited

AUDITORS OF REGAL REIT

Ernst & Young

PRINCIPAL VALUER

CB Richard Ellis Limited

PRINCIPAL BANKERS

ABN AMRO Bank, N.V.
The Bank of East Asia, Limited
Dah Sing Bank, Limited
Deutsche Bank AG, Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
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
Johnson Stokes & Master

UNIT REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong.

REGISTERED OFFICE OF THE REIT MANAGER

Unit No. 1504, 15th Floor,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.
Tel: 2805-6336
Fax: 2577-8686
Website: www.RegalREIT.com



FIRST HOTEL REIT IN HONG KONG

Regal REIT

Regal Real Estate Investment Trust (“Regal REIT”) is the first hotel REIT in Hong Kong. Regal REIT was constituted by a trust deed dated 11th December, 2006 (as amended by a supplemental deed dated 2nd March, 2007) (together, the “Trust Deed”) entered into between Regal Portfolio Management Limited as the manager of Regal REIT (the “REIT Manager”) and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT (the “Trustee”). Regal REIT is a collective investment scheme established in the form of a unit trust under Hong Kong laws to invest primarily in income-producing hotel and hospitality-related properties.

Regal REIT is regulated by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), the Code on Real Estate Investment Trusts (the “REIT Code”) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Regal REIT commenced business on 30th March, 2007 (the “Listing Date”) when the companies owning the initial hotel properties comprising Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (the “Initial Hotels”) were acquired from Regal International (BVI) Holdings Limited (the “Vendor”), a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“RHIHL”), and the units of Regal REIT (the “Units”) were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 1881).

The REIT Manager

The REIT Manager was appointed as asset manager of Regal REIT and the Initial Hotels on the Listing Date. The REIT Manager is licensed by the Securities and Futures Commission in Hong Kong (the “SFC”) to undertake the regulated activity of asset management.

The Lessee and the Hotel Manager

Concurrent with the acquisition of the Initial Hotels on 30th March, 2007, the Initial Hotels were leased back to Favour Link International Limited (the “Lessee”), a wholly-owned subsidiary of RHIHL, under long-term 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, a wholly-owned subsidiary of RHIHL as the hotel manager (the “Hotel Manager”) under long-term hotel management agreements (RHIHL together with its relevant subsidiaries, collectively, the “Regal Group”). (Reference can be made to the offering circular dated 19th March, 2007 issued in connection with the listing of Units (the “Offering Circular”) for more details on the organisation and structure of Regal REIT.)

The Trustee

The Trustee of Regal REIT is DB Trustees (Hong Kong) Limited, a wholly-owned subsidiary of Deutsche Bank AG. The Trustee is qualified to act as trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code. Acting as a trustee, the Trustee holds the assets of Regal REIT on trust for the benefit of the unitholders of Regal REIT (the “Unitholders”) as a whole and oversees the activities of the REIT Manager for compliance with the Trust Deed and regulatory requirements.



Interim Report Period

This Interim Report covers the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007.

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 through active ownership of hotels and strategic investments in hotel and hospitality-related properties.

Regal REIT's and the REIT Manager's mission is to build up the existing portfolio of Initial Hotels in Hong Kong and to become a pre-eminent owner of 4 and 5 star hotels in Greater China, focusing on Hong Kong, Macau and Mainland China as well as to reinforce Regal REIT's status as an ever-growing attractive option to investors.

Map of China





CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Regal Portfolio Management Limited as the REIT Manager, I am pleased to present to Unitholders my first report for Regal REIT.

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 30th June, 2007, Regal REIT attained an unaudited consolidated profit of HK\$2,165.0 million, which included the gain of HK\$2,044.4 million that arose from the acquisition of the Initial Hotels from the Regal Group at a discount to their market valuations.

In accordance with the indicative Distribution per Unit in the Offering Circular, the Board has resolved to make a distribution of HK\$0.057 per Unit to Unitholders for the period to 30th June, 2007.

The 2007 interim results reflect continued favourable market conditions in the travel and tourism sector in Hong Kong, as supported by the growing position of Hong Kong as a travel and tourism hub and the underlying strengths of the Hong Kong and Mainland China economies. The total number of visitor arrivals to Hong Kong continued to increase and hotel rooms in Hong Kong remained in good demand, with room rates growing at healthy rates.

As the second half of the year is traditionally the higher season for the hotel industry in Hong Kong, we expect to see further enhancement in the Net Property Income of the Initial Hotels which could thereby increase rental income to Regal REIT.

Our primary objectives are to provide stable and growing distributions to Unitholders and to secure long-term capital growth in the value of the Units. We intend to achieve these objectives through active ownership of hotels and strategic investment in hotel and hospitality-related properties. Over the past months, management has been actively reviewing a number of hotel investment proposals in China and will continue to identify further potential targets that suit our set investment criteria, with a view to embarking on the external growth plans in the foreseeable future.

The sub-prime loan crisis in the United States has undoubtedly triggered off increasing volatility and uncertainty in the international financial and capital markets over the recent period. Although this would call for additional prudence in our overall planning, however, due to the tightening of the credit market, this could as well provide us with more attractive acquisition opportunities but with less competition.

Overall, we remain confident of our capabilities and are committed to accomplishing our mission to build up the existing hotel portfolio and to become a pre-eminent owner of four and five stars hotels in Greater China as well as to reinforce Regal REIT's status as an ever-growing attractive option to investors.

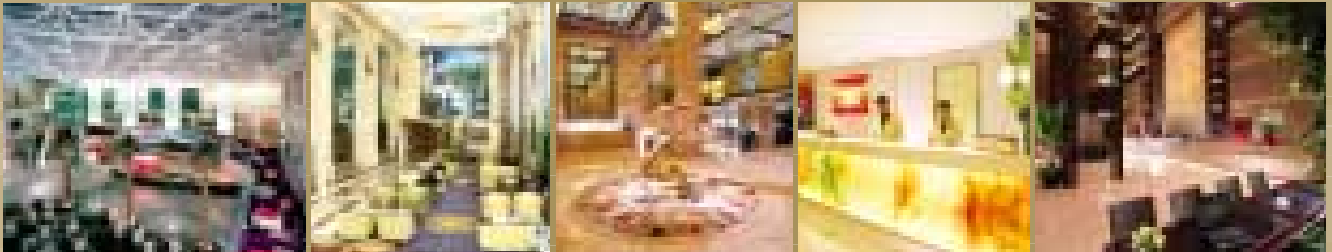
Taking this opportunity, I would also like to express my gratitude to all my fellow Directors for their valuable advice and support and, on behalf of the Board, to thank all those who have worked so hard in the listing process for their efforts and contribution.

By Order of the Board
Regal Portfolio Management Limited
(as the Manager of Regal REIT)

Lo Yuk Sui
Chairman

27th August, 2007, Hong Kong

INVESTMENT PROPERTIES PORTFOLIO














Location of the Initial Hotels



- 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.)
-  Restaurant
-  Bar / Lounge
-  Ballroom
-  Meeting Room
-  Business Centre
-  Pool
-  Spa
-  Club Lounge

Regal Airport Hotel



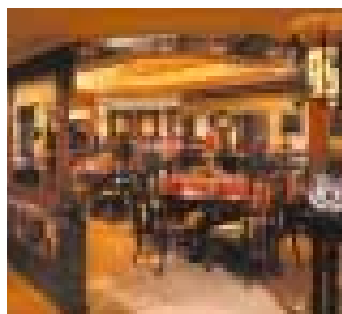
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 Chek Lap Kok, Hong Kong.
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 Email: rah.info@RegalHotel.com
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- The only hotel conveniently connected to the passenger terminals of the Hong Kong International Airport
- Located close to AsiaWorld-Expo and major tourist attractions, such as Disneyland and Big Buddha
- Best Airport Hotel in Asia-Pacific by Business Traveller Asia-Pacific for seven consecutive years (2001 - 2007) and by TTG Asia for two consecutive years (2005 - 2006), as well as Capital CEO as the Best Conference Hotel in Hong Kong (2007)
- 67 new rooms expected to be added in 4Q 2007

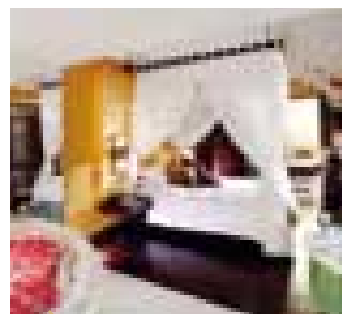
-  1,104
-  1999
-  897,034 sq. ft.
-  5
-  2
-  10,333 sq. ft.
-  25
-  1
-  2
-  1
-  1



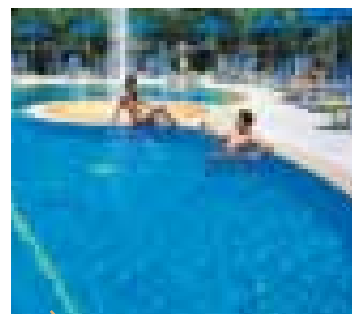
Ballroom



Dragon Inn



OM Spa Room



Swimming Pool

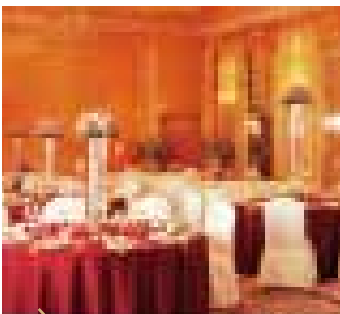
Regal Hongkong Hotel



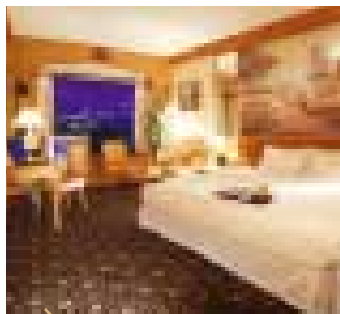
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- Located in Causeway Bay, one of Hong Kong's main commercial and shopping districts
- Within walking distance from Victoria Park, Hong Kong Stadium and Happy Valley Race Course
- 50 new rooms to be added on top portion of hotel expected to come into operation in 4Q 2007

	424
	1993
	320,417 sq. ft.
	3
	2
	2,300 sq. ft.
	10
	1
	1
	1



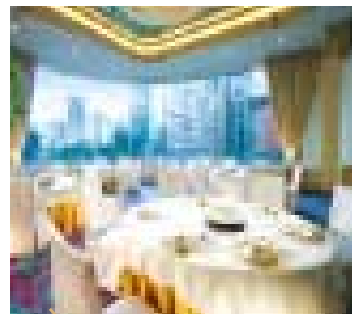
Ballroom



Guest Room



Zeffirino Ristorante












Regal Palace

Regal Kowloon Hotel



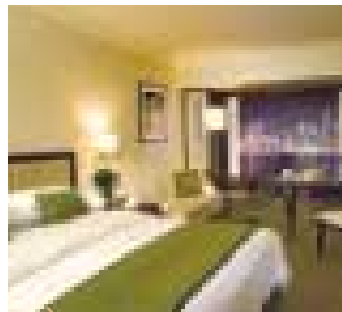
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- Located in Tsimshatsui (TST) East, a district undergoing urban renewal
- Within walking distance from Kowloon Canton Railway's TST East station connecting to Shenzhen
- Close to TST's retail and entertainment area
- Close to waterfront and several museums

	600
	1982
	468,355 sq. ft.
	5
	2
	3,500 sq. ft.
	12
	1
	1



Ballroom



Guest Room



Meeting Room



Regala Café & Dessert Bar

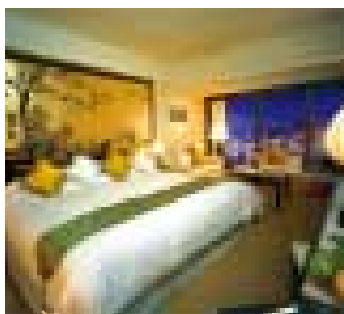
Regal Oriental Hotel



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- Located in Kowloon City, facing the 328 hectare Kai Tak development site
- Renovation of all hotel rooms expected to be completed by 4Q 2007
- 49 new rooms to be added by 4Q 2007, attracting business and leisure travellers
- Easy access to Mong Kok, Kowloon Bay and Kwun Tong

	390
	1982
	294,154 sq. ft.
	3
	2
	3,400 sq. ft.
	13
	1
	1



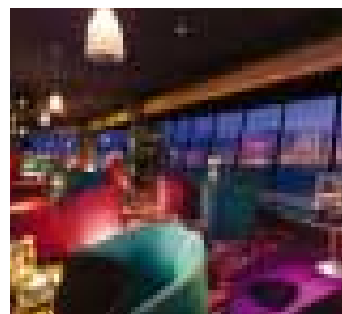
Guest Room



Five Continents



Regal Seafood Restaurant






Sky Lounge

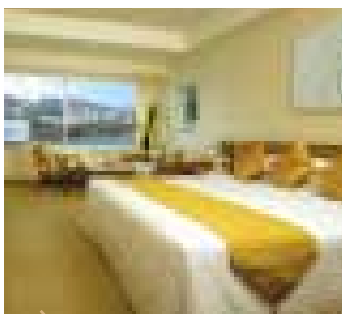
Regal Riverside Hotel



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- Largest hotel in Shatin overlooking the Shing-Mun River
- 28 new rooms expected to be added by 4Q 2007
- 274 new rooms expected to be added by the end of 2008
- Equestrian events of the 2008 Olympics to be held in Shatin
- Shatin Soho

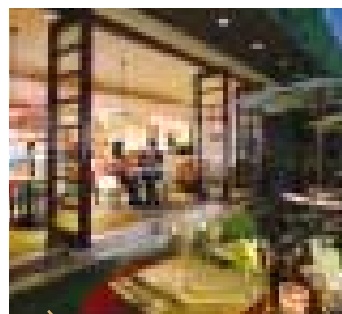
	830
	1986
	662,123 sq. ft.
	5
	2
	4,750 sq. ft.
	12
	1
	1
	1



Guest Room



Meeting Room



Avanti Ristorante



Swimming Pool



DISTRIBUTION

Distributable Income and Distribution Policy

It is the policy of the REIT Manager to distribute an amount equivalent to 100% of the annual distributable income of Regal REIT to the Unitholders for each financial year. Pursuant to the Trust Deed, Regal REIT is required to ensure the total amount distributed to the Unitholders shall not be less than 90% of Regal REIT's annual distributable income for each financial year.

The unaudited net distributable income for the period from 30th March, 2007 to 30th June, 2007 (the "Operating Period") amounted to approximately HK\$120.2 million, representing a DPU for Unitholders expected to be entitled to distribution of HK\$0.0439. In accordance with the indicative DPU in the Offering Circular and taking into account seasonality of the hotel business, the directors of the REIT Manager have resolved to make a distribution of HK\$0.057 per Unit for the period to 30th June, 2007. The distribution for the period from 1st July, 2007 to 31st December, 2007 will be adjusted to reflect the actual net distributable income from the Listing Date to 31st December, 2007. If and to the extent that variable rental payments are insufficient to meet the profit forecast, e.g. due to fluctuations in the Total Hotel Revenue in 2007, any such shortfall will be covered by a distributable income guarantee of not less than HK\$420.3 million for the period from the Listing Date to 31st December, 2007, provided by the Regal Group in connection with the listing of Regal REIT.

Interim Distribution for 2007

The directors of the REIT Manager have declared the payment of the first interim distribution of HK\$0.057 per Unit for the year ending 31st December, 2007 will be payable to the Unitholders on the Register of Unitholders on 21st September, 2007.

Closure of Register of Unitholders

The Register of Unitholders will be closed from Wednesday, 19th September, 2007 to Friday, 21st September, 2007, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the distribution, 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 4:00 p.m. on Tuesday, 18th September, 2007. The relevant distribution warrants are expected to be dispatched on or about, 11th October, 2007.



MANAGEMENT DISCUSSION AND ANALYSIS

The REIT Manager's principal strategy is to focus on hotel and hospitality-related properties, and to achieve optimum cash flow and value through professional knowledge and active ownership.

The REIT Manager does not manage the Initial Hotels directly. The Initial Hotels are leased to the Lessee under long-term lease agreements with escalating base rents and sharing of upside performance to Regal REIT through the variable rent structure.

Review of Operations

Regal REIT receives rent in the form of a pre-determined fixed cash base rent (the "Base Rent") for each Initial Hotel and variable rent (the "Variable Rent") through sharing of aggregate profits from the Initial Hotels operations after they have made their Base Rent payments. The excess profits represented by the collective excess NPI from the Initial Hotels operations are allocated 100% to Regal REIT in 2007 and on reducing ratios thereafter.

The cash Base Rent and Variable Rent earned during the Operating Period were HK\$160.9 million and approximately HK\$13.9 million, respectively.

Substantially all of our rental revenues, represented by Base Rent and Variable Rent, are derived from the hotel operations. Specifically, Total Hotel Revenue consists of the following:

- Room revenue, which is primarily driven by room occupancy rates and average room rates.
- Food & beverage revenue, which is primarily driven by room occupancy rates, banquet bookings and local patrons in bars and restaurants.
- Other income, which consists of ancillary hotel revenue and other items, is mainly driven by room occupancy rates such as telephone and internet usage, spa and health centres, parking and dry cleaning and laundry service. Other income also includes guaranteed revenue arising from corporate promotion programs undertaken by the Hotel Manager.

Hotel operating costs and expenses consist of direct costs and expenses attributable to the respective operating departments, e.g. rooms department, food and beverage department, etc. as well as costs and expenses attributable to overhead departments such as the administration department, sales and marketing department and engineering department.

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

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

- Room occupancy rate
- Average room rate
- Revenue per available room ("RevPAR"), which is a product of the occupancy rate and the average room rate (RevPAR does not include food and beverage revenue or other income, i.e. only room revenue)



The underlying performance of the hotel business in the Initial Hotels during the period from the Operating Period was characterised by favourable market conditions and overall satisfactory performances by the Initial Hotels. During this period, the total number of visitors to Hong Kong continued to increase and hotel rooms in Hong Kong remained in good demand, with room rates growing at healthy rates.

The total number of visitor arrivals to Hong Kong has grown by 2.3%, 8.3% and 7.7% in the months of April, May and June 2007 respectively, compared with the same period last year (source: Hong Kong Tourism Board ("HKTB")).

The room occupancy rates achieved by all hotels in Hong Kong from April through June 2007 softened slightly compared to 2006 and dropped from approximately 84% to approximately 82% (source: HKTB and the REIT Manager), partly because of increases in the hotel room supply in Hong Kong.

Hotel Room Occupancy Rates - All Hotels in Hong Kong

	2007	2006
April	82%	86%
May	81%	82%
June	82%	84%

source: HKTB

During the Operating Period, room occupancy rates in the Initial Hotels dropped 2.0 percentage points from 80.8% to 78.8% compared with the same period last year.

Regal Airport Hotel successfully implemented a strategy to increase room occupancy rates which resulted in a 5.6 percentage points increase and RevPAR growth of 15.1% during the Operating Period as compared with the same period last year.

The strategy to reposition the Initial Hotels in the market towards more individual travellers, overseas leisure groups and MICE groups (meetings, incentives, conventions and exhibitions) is ongoing and proving to be successful.

Average room rates achieved by all Hong Kong hotels from April through June 2007 compared with the same period last year increased to approximately HK\$1,192 from approximately HK\$1,067 or 11.7% (source: HKTB and the REIT Manager).

Regal Kowloon Hotel showed strong average room rate growth of 11.4% essentially due to a successful strategy to capture overseas individual travel demand via travel agents. Regal Hongkong Hotel and Regal Oriental Hotel also showed strong average room rate growth of 10.3% and 9.8% respectively.

While softening of demand from Mainland Chinese leisure groups during the spring and early summer have adversely affected the room occupancy rates of Regal Oriental Hotel and Regal Riverside Hotel, a strategy to replace these price sensitive groups with other travel segments is proving to be successful. The focus is to attract individual travellers and overseas groups, and, thereby, reducing the dominance of and reliance on Mainland Chinese leisure groups.

As a result of the above, Regal Oriental Hotel experienced a drop in its room occupancy rate to 81.4% and Regal Riverside Hotel a drop to 83.5%, largely offset by strong performances in food and beverage sales (up 43% and 15% in Regal Riverside Hotel and Regal Oriental Hotel respectively). However, the ongoing shift in market positioning in both hotels is expected to have a positive future impact.

Total Hotel Revenue, Gross Operating Profit and Net Property Income

For the Initial Hotels from the Listing Date to 30th June, 2007 vs. Same Period Last Year

Initial Hotels Combined			
	30th March, 2007 to 30th June, 2007 (HK\$'million)	30th March, 2006 to 30th June, 2006 (HK\$'million)	Variance (%)
Operating Results			
Room revenue	209.5	196.1	6.8%
F&B revenue	93.9	75.5	24.4%
Other income	40.7	14.5	180.7%
Total hotel revenue	344.1	286.1	20.3%
Operating expenses	(164.9)	(139.5)	18.2%
Gross operating profit	179.2	146.6	22.2%
Other expenses	(10.2)	(9.9)	3.0%
Net rental income	5.8	6.9	(15.9%)
Net property income	174.8	143.6	21.7%
Statistics			
Average room rate	HK\$853.40	HK\$781.94	9.1%
Occupancy rate	78.83%	80.83%	(2.5%)
RevPAR	HK\$672.69	HK\$632.05	6.4%
Total available room nights	311,364	310,247	0.4%
Occupied rooms	245,434	250,777	(2.1%)

Food and beverage sales and growth in other income were strong during the Operating Period. Overall food and beverage revenue in the Initial Hotels increased by 24.4% driven primarily by banquet sales from the MICE (meetings, incentives, conventions and exhibitions) segments and from higher numbers of individual hotel guests with a greater propensity to use the restaurants and bars. Regal Riverside Hotel, Regal Airport Hotel and Regal Kowloon Hotel, in particular, showed substantial growth in food and beverage sales, up by more than 43%, 31% and 19% respectively, over the comparable period in the prior year.

Part of the other income in the current period was attributable to a corporate marketing program implemented and sponsored by the Hotel Manager with a view to enhancing brand recognition and expanding the marketing network for the Initial Hotels in the long term, which in turn helped improve operating margins and NPI performance.



Financial Review

On listing, Regal REIT issued a total of 3,104,605,748 Units. The issue price per Unit was HK\$2.68 and the total proceeds together with the proceeds of bank financing were applied towards the acquisition of the Initial Hotels and payment of the costs associated with the listing together with debt related costs.

As at 30th June, 2007, Regal REIT had loan facilities aggregating HK\$4.5 billion comprising a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million, both for terms of five years.

The term loan was fully drawdown on 29th March, 2007 and is repayable in full on 30th March, 2012. The revolving credit facility is available for drawdown during the period from 29th March, 2007 to 30th March, 2009. As of 30th June, 2007, the revolving credit facility had not yet been used.

Both the term loan and the revolving credit facility bear 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, has entered into interest rate hedging arrangements for an aggregate notional principal amount of HK\$4.35 billion. Under the such arrangements, the interest rates effectively borne by Regal REIT have been fixed at an average rate of 4.54% per annum until 17th January, 2008 and will be 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.

As at 30th June, 2007, the total fair value of the interest rate hedging arrangements was approximately HK\$28.6 million in favour of Regal REIT.

As at 30th June, 2007, the loan-to-value ratio of 27.36%, being the aggregate amount of the outstanding loans of HK\$4.35 billion as compared to the aggregate market value of the Initial Hotels of approximately HK\$15.9 billion, based on an independent valuation as at 31st December, 2006, and including the Asset Enhancement Program ("AEP") and the additional capital expenditures incurred during the period is well below the 40% allowed under the financing agreement with the lenders.

As at 30th June, 2007, the gearing ratio of 26.85%, being the gross amount of the outstanding loans of HK\$4.35 billion as compared to the total assets of approximately HK\$16.2 billion, is below the maximum 45% stipulated under the REIT Code.

Regal REIT had a total of approximately HK\$102.6 million in unrestricted cash balances and bank deposits as at 30th June, 2007 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.

Furniture, Fixtures & Equipment Reserve

Regal REIT is obligated under its Lease Agreements to maintain a reserve to fund expenditures for replacements of furniture, fixtures and equipment in the Initial Hotels (the "FF&E Reserve"). To maintain this reserve, the Lessee contributes, on a monthly basis, an amount equal to 2% (up to 31st December, 2010) of Total Hotel Revenue for the previous month to Regal REIT. As at 30th June, 2007, approximately HK\$6.9 million had been contributed to the reserve and approximately HK\$0.9 million had been expended for the purpose intended.



Asset Enhancement Program

The Asset Enhancement Program encompassing 468 additional of guest rooms in four of the Initial Hotels is well underway and 194 new rooms will be ready for letting in the 4th quarter of 2007 as follows:

- 49, 28 and 35 rooms by the end of September 2007 at Regal Oriental Hotel, Regal Riverside Hotel and Regal Airport Hotel respectively.
- 50 and 32 rooms by the end of October 2007 at Regal Hongkong Hotel and Regal Airport Hotel respectively.

Completion of the AEP was a term of the agreement to purchase the Initial Hotels from the Vendor and is, therefore, an obligation of the Regal Group.

Outlook

The Initial Hotels have historically experienced seasonality variations and fluctuations in demand showing a pattern of higher RevPAR and food and beverage sales in the second half of each year. The Hotel Manager's forecast and the REIT Manager's profit forecast take these factors into account and, therefore, the REIT Manager expects the RevPAR of the Initial Hotels in the period from July to December 2007 to further strengthen.

The performance since the Listing Date together with the positive impact on NPI of the new hotel rooms, particularly in Regal Hongkong Hotel and Regal Oriental Hotel from October 2007, continued advertising, marketing and promotion efforts by the Hotel Manager, as well as the successful implementation and continuation of the Hotel Manager's policy to balance the market mix in the Initial Hotels to comprise more individual travellers and overseas leisure groups is expected to result in rental income growth.



STRATEGIC GROWTH PLANS

Regal REIT and the REIT Manager have primary objectives to provide stable, growing distributions and long-term capital growth to Unitholders through active ownership of hotels and strategic investments in hotel and hospitality-related properties.

Internal Growth

The REIT Manager works closely with the Hotel Manager to maximise RevPAR, margins and market penetration from developing strategies for each Initial Hotel in key areas such as sales mix, cost efficiencies and space utilisation. The REIT Manager evaluates and approves capital expenditures that will enhance the value of the Initial Hotels and contribute to the revenue and profitability of operations. For example, the potential conversion of undeveloped space at Regal Riverside Hotel to meeting rooms is expected to support RevPAR and increase food and beverage revenue and other income. This will, in turn, enhance NPI and, ultimately, the rental income for Regal REIT.

The AEP encompassing 468 additional guest rooms are expected to boost Total Hotel Revenue, NPI and, ultimately, Variable Rents for the benefit of Unitholders.

External Growth

The mission of Regal REIT and the REIT Manager is to build up the existing Initial Hotels portfolio in Hong Kong and for Regal REIT to become a pre-eminent owner of 4 and 5 star hotels in Greater China, focusing on Hong Kong, Macau and Mainland China as well as to reinforce Regal REIT's status as an ever-growing attractive option to investors.

The REIT Manager is exploring suitable acquisition opportunities in Greater China that meet the REIT Manager's investment criteria such as yield thresholds and value-adding opportunities in markets and locations with growth potential. Regal REIT and the REIT Manager have strong strategic relationships with Regal Group. A key strategy of the REIT Manager is to replicate the existing business model for the Initial Hotels and apply it to new acquisitions. A strategy where the REIT Manager pursues hotel property targets suitable for the Regal brand and thereby be suitable for lease to Regal Group upon acquisition. Concurrent with such acquisitions, the Hotel Manager would be appointed to manage such new hotel businesses.

The Regal REIT is now all set for expansion and it is the REIT Manager's intention to obtain the necessary regulatory and Unitholder's approval to acquire and to operate in Mainland China at the appropriate time when suitable assets have been identified.

Regal REIT's and the REIT Manager's acquisition target for Regal REIT over the next four to five years is to add ten to twenty 4 and 5 star hotels catering to the commercial and leisure markets in key cities and tourist centers primarily in Mainland China. Over the past months, management has been actively reviewing a number of hotel investment proposals in Mainland China and will continue to identify further potential targets that suit Regal REIT's set investment criteria with a view to embarking on the external growth plans in the foreseeable future.

The sub-prime loan crisis in the United States has undoubtedly triggered off increasing volatility and uncertainty in the international financial and capital markets over the recent period. Although this will call for additional prudence in our overall planning, however, due to the tightening of the credit market, this could also provide us with more attractive acquisition opportunities and less competition.



OTHER INFORMATION AND DISCLOSURES

Public Float

As at 30th June, 2007, the total number of Units outstanding was 3,106,165,802.

As at 30th June, 2007, 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 in public hands.

New Units Issued

3,104,605,748 Units were issued on 30th March, 2007 upon the initial public offering and, except for the 1,560,054 new Units allotted and issued to the REIT Manager in payment of Base Fees during the Operating Period, no further new Units have been issued during the Operating Period.

Employees

Regal REIT is managed by the REIT Manager and DB Trustees (Hong Kong) Limited acts as the Trustee. By contracting out such services, Regal REIT does not employ any staff in its own right.

Repurchase, Sale or Redemption of Units

Under the terms of the Trust Deed, the REIT Manager cannot repurchase or redeem any Units on behalf of Regal REIT unless and until permitted to do so by the relevant codes and guidelines issued by the SFC from time to time. There were no purchases, sales or redemptions of Units during the Operating Period.

Real Estate Sales and Purchases

Save as disclosed under the section "Investment Properties Portfolio" contained in this Interim Report, Regal REIT did not enter into any other real estate sales or purchases during the Operating Period from the Listing Date to 30th June, 2007.



CORPORATE GOVERNANCE

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

The REIT Manager has put into effect a compliance manual (the “Compliance Manual”) to govern the management and operations of Regal REIT. The Compliance Manual sets out the key processes, systems and policies and procedures to guide operations, and thereby set a high standard of corporate governance to ensure the relevant regulations and legislation are adhered to.

During the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007, 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 period from the Listing Date to 30th June, 2007.



CONNECTED PARTY TRANSACTIONS

During the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007 in connection with the initial public offering of units of Regal REIT, 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 “Regal 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”).

Regal 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”) has entered into separate lease agreements (the “Lease Agreements”) with the Lessee in relation to the Initial Hotels. The Lessee is a member of the Regal 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 payment to the Property Companies and is entitled to operate and manage one of the Initial Hotels 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 period from the Listing Date to 30th June, 2007, the total contractual lease income under the Lease Agreements amounted to approximately HK\$182.5 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 an 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 (the "Hotel Management Agreement").

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

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

The Lessee and the Hotel Manager are members of the Regal 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*

The Trustee has entered into a Sale and Purchase Agreement with the Vendor and RHIHL, pursuant to which the Trustee conditionally agrees 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 at a total consideration of approximately HK\$12.5 billion.

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

(v) *Deed of Trade Mark Licence*

Regal International Limited, a wholly-owned subsidiary of RHIHL, has entered into a deed of trade mark licence with the REIT Manager, Regal REIT Group. Regal International Limited has granted to the REIT Manager and each Property Company, inter alia, a non-exclusive and non-transferable licence to use its registered trade marks or service marks, in any jurisdiction where such marks are registered and free of any royalty, for the purpose of describing the ownership of each Initial Hotel and/or use in connection with the business of each Initial Hotel.

(vi) *AEP Agency Deed*

To facilitate the carrying out of the Asset Enhancement Program, the relevant Property Companies, Regal Contracting Agency Limited, a wholly-owned subsidiary of RHIHL (the "AEP Agent"), and RHIHL have entered into the AEP Agency Deed, whereby each of the Property Companies appoints 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.

The REIT Manager's Fees

Regal Portfolio Management Limited, a member of the Regal Connected Persons Group, was appointed as the REIT Manager of Regal REIT. Regal REIT has paid to the REIT Manager a fee of approximately HK\$17.4 million by the issue of new Units pursuant to the Trust Deed during the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007.

Waiver from Strict Compliance

A waiver (the "Regal Group's Waiver") from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the Lease Agreements, Hotel Management Agreements, Lease Guarantees, Sale and Purchase Agreement, Deed of Trade Mark Licence and AEP Agency Deed described above, was granted by the SFC on 5th March, 2007 subject to the terms and conditions as set out in the Offering Circular.

During the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007, Regal REIT has complied with the terms and conditions of the Regal 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 comprising a term loan of HK\$4.35 billion and a revolving credit facility of HK\$150.0 million. Both the term loan and the revolving credit facility bear interest at a floating rate of three-month HIBOR plus 0.6%. In order to hedge against the floating interest rate, Regal REIT, through its subsidiaries has entered into interest rate hedging arrangements for the term loans with Deutsche Bank AG, a Trustee Connected Person for an aggregate amount of HK\$2.0 billion.

Ordinary Banking Services

Regal Asset Holdings Limited has engaged Deutsche Bank AG, a Trustee Connected Person, to provide ordinary banking and financial services such as bank deposits during the period from the Listing Date to 30th June, 2007 in the ordinary and usual course of business of the Regal REIT Group and on normal commercial terms.

Waiver from Strict Compliance

A waiver (the "Trustee'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 period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007, Regal REIT has complied with the terms and conditions of the Trustee's Waiver.

The Trustee

DB Trustee (Hong Kong) Limited, a member of the Trustee Connected Persons Group, was appointed as the Trustee of Regal REIT. Accordingly, Regal REIT has paid to the Trustee a fee of approximately HK\$0.87 million pursuant to the Trust Deed for the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007.

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 of Regal REIT. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to apply to the REIT Manager, the director or the chief executive of the REIT Manager, and to persons interested in the units of Regal REIT.

Holdings of Significant Unitholders

As at 30th June, 2007, 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 of Regal REIT as recorded in the register required to be kept under section 336 of the SFO:

Name of Significant Unitholder	Total number of issued Units held	Approximate percentage of the issued Units as at 30th June, 2007
Century City International Holdings Limited ("CCIHL")	2,203,622,452 (Note i)	70.94%
Century City BVI Holdings Limited	2,203,622,452 (Notes i & ii)	70.94%
Paliburg Holdings Limited ("PHL")	2,203,622,452 (Notes i & iii)	70.94%
Paliburg Development BVI Holdings Limited ("PDBVI")	2,203,622,452 (Notes i & iv)	70.94%
Regal Hotels International Holdings Limited ("RHIHL")	2,203,622,452 (Notes i & v)	70.94%
Regal International (BVI) Holdings Limited ("RBVI")	2,203,622,452 (Notes i & vi)	70.94%
Complete Success Investments Limited	1,817,012,072 (Note vii)	58.50%
Great Prestige Investments Limited	373,134,326 (Note vii)	12.01%

Notes:

- (i) The interests in 2,203,622,452 units of Regal REIT 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.
- (ii) Century City BVI Holdings Limited is a wholly-owned subsidiary of CCIHL and its interests in units of Regal REIT are deemed to be the interests held by CCIHL.
- (iii) PHL is a listed subsidiary of CCIHL, which held 53% shareholding interest in PHL as at 30th June, 2007, and PHL's interests in units of Regal REIT are deemed to be the interests held by CCIHL.
- (iv) PDBVI is a wholly-owned subsidiary of PHL and its interests in units of Regal REIT are deemed to be the interests held by PHL.
- (v) RHIHL is a listed associate of PDBVI, which held 44.75% shareholding interest in RHIHL as at 30th June, 2007, and its interests in units of Regal REIT are deemed to be the interests held by PDBVI.
- (vi) RBVI is a wholly-owned subsidiary of RHIHL and its interests in units of Regal REIT are deemed to be the interests held by RHIHL.
- (vii) These companies are wholly-owned subsidiaries of RBVI and their respective direct interests in units of Regal REIT are deemed to be the interests held by RBVI.

Save as disclosed herein, there is no person who, as at 30th June, 2007, had an interest in units of Regal REIT which are recorded in the register required to be kept under section 336 of the SFO.

Holdings of the REIT Manager and Directors of the REIT Manager

As at 30th June, 2007, the interests of the REIT Manager and director of the REIT Manager in units of Regal REIT, 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 for Securities Transactions by Directors of Listed Issuers (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, 2007
Lo Yuk Sui	2,203,622,452 (Note i)	70.94%
Regal Portfolio Management Limited	1,560,054 (Note ii)	0.05%

Notes:

- (i) The interests in 2,203,622,452 units of Regal REIT were the same parcel of Units held through CCIHL, in which Mr. Lo Yuk Sui held 55.68% shareholding interest as at 30th June, 2007.
- (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, 2007, none of the REIT Manager, the directors and chief executive of the REIT Manager had any interests in Units of Regal REIT, 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, 2007	Notes	HK\$
Net asset value		10,402,687,000
Net asset value per Unit		3.35
The highest traded price during the period from the Listing Date to 30th June, 2007	1	2.79
The lowest traded price during the period from the Listing Date to 30th June, 2007		2.52
The highest discount of the traded price to net asset value per Unit		24.78%
Distribution yield per Unit	2	2.14%

Notes:

1. The highest traded price during the period from the Listing Date to 30th June, 2007 was HK\$2.79 which is lower than the net asset value per Unit as at 30th June, 2007 (the offer price of the Units was HK\$2.68 under the Global Offering). 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, 2007 is calculated by dividing the distribution per Unit of HK\$0.057 over the closing price of HK\$2.66 as at 29th June, 2007, being the last trading day for the period. The calculation of the distribution per Unit had been set out in section "Distribution Statement" on page 30.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Income Statement

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

	Notes	(unaudited) HK\$'000
Gross rental revenue	5	204,851
Property operating expenses		(4,334)
		<hr/>
Net rental income		200,517
Interest income		1,661
Excess of interest in fair values of the acquiree's identifiable net assets over cost of the business combination	19	2,044,441
REIT Manager's fees	6	(17,398)
Trustee's fees		(868)
Administrative expenses		(564)
Finance costs	7	(53,246)
		<hr/>
PROFIT BEFORE TAX		2,174,543
Tax	8	(9,511)
		<hr/>
PROFIT FOR THE PERIOD		2,165,032
		<hr/> <hr/>
EARNINGS PER UNIT	9	HK\$0.697
		<hr/> <hr/>

The notes on pages 33 to 48 form part of these condensed consolidated interim financial statements.

Condensed Consolidated Balance Sheet

As at 30th June, 2007

	Notes	(unaudited) HK\$'000
Non-current assets		
Investment properties	10	14,900,935
Prepaid construction costs	11	1,000,000
Derivative financial assets	12	28,571
Deferred tax assets	8	39,752
Total non-current assets		<u>15,969,258</u>
Current assets		
Debtors	13	38,782
Prepayments and other receivables		3,974
Restricted cash	14	57,694
Cash and bank balances		102,604
Total current assets		<u>203,054</u>
Current liabilities		
Creditors and accruals	15	54,574
Total current liabilities		<u>54,574</u>
Net current assets		<u>148,480</u>
Total assets less current liabilities		<u>16,117,738</u>
Non-current liabilities, excluding net assets attributable to Unitholders		
Interest-bearing bank borrowings	16	4,310,232
Deferred tax liabilities	8	1,404,819
Total non-current liabilities, excluding net assets attributable to Unitholders		<u>5,715,051</u>
Net assets attributable to Unitholders		<u>10,402,687</u>
Number of Units in issue	17	<u>3,106,165,802</u>
Net asset value per Unit	18	<u>HK\$3.35</u>

The notes on pages 33 to 48 form part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

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

	Note	Units (unaudited) HK\$'000	Hedging reserve (unaudited) HK\$'000	Retained profit (unaudited) HK\$'000	Total (unaudited) HK\$'000
Issued units on					
30th March, 2007		8,320,343	—	—	8,320,343
Unit issue costs		(128,657)	—	—	(128,657)
Changes in fair values of cash flow hedges		—	32,257	—	32,257
Transfer from hedging reserve to income statement		—	(3,686)	—	(3,686)
As payment of REIT Manager's fees:					
Units issued	6	4,182	—	—	4,182
Units to be issued	6	13,216	—	—	13,216
Profit for the period		—	—	2,165,032	2,165,032
Net assets attributable to Unitholders as at 30th June, 2007		<u>8,209,084</u>	<u>28,571</u>	<u>2,165,032</u>	<u>10,402,687</u>

The notes on pages 33 to 48 form part of these condensed consolidated interim financial statements.

Distribution Statement

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

(unaudited)
HK\$'000

Profit for the period	2,165,032
Adjustments:	
Excess of interest in fair values of the acquiree's identifiable net assets over cost of the business combination	(2,044,441)
Difference in accounting base rent and actual contractual cash base rent	(22,386)
Amount set aside on account for the furniture, fixtures and equipment reserve	(6,880)
REIT Manager's fees paid/payable	17,398
Amortisation of debt establishment cost	1,916
Deferred tax charge	9,511
Distributable income for the period	120,150
Additional distribution ⁽¹⁾	35,801
Distributable amount to be paid to Unitholders for the period ^{(2) & (3)}	155,951
Distribution per Unit ^{(2) & (3)}	HK\$0.057

Notes:

1. Pursuant to the Trust Deed (as defined hereinafter), Regal REIT (as defined hereinafter) is required to ensure that the total amount distributable to the Unitholders (as defined hereinafter) shall be no less than 90% of Regal REIT's total distributable income for each financial year or relevant period. The current policy of the REIT Manager (as defined hereinafter) is to distribute to the Unitholders an amount equal to 100% of Regal REIT's distributable income for each financial year or relevant period.

The amount of any distribution for the first six months of each financial year is at the discretion of the REIT Manager. In accordance with the indicative distribution per Unit (as defined hereinafter) in the Offering Circular (as defined hereinafter) and taking into account seasonality of the hotel business, the REIT Manager has resolved to make a distribution of HK\$0.057 per Unit for the period to 30th June, 2007. Based on the number of Units expected to be entitled to this distribution, this will involve an additional distributable amount of approximately HK\$35.8 million which will be applied from the available cash resources of Regal REIT. If and to the extent that variable rental payments are insufficient to meet the profit forecast, e.g. due to fluctuations in the total hotel revenue in 2007, any such shortfall will be covered by a distributable income guarantee of not less than HK\$420.3 million for the period from the Listing Date to 31st December, 2007, provided by the Regal Group in connection with the listing of Regal REIT.

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 the Unitholders' entitlement to the distributions. The Record Date has been set as 21st September, 2007 in respect of the distribution for the period ended 30th June, 2007. The first distribution will be paid out to the Unitholders on or about 11th October, 2007. The total distributable amount to be paid to the Unitholders for the period of approximately HK\$156.0 million is arrived at based on the distribution per Unit of HK\$0.057 and the number of Units expected to be in issue at the Record Date that are entitled to the distribution.

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 entitlement with respect to 373,134,326 Units held (the "AEP Units") pending completion of the Asset Enhancement Program at the relevant Initial Hotels (as defined hereinafter). The distributable income during the applicable period will be available for distribution among other Unitholders. The number of Units entitled to distribution is calculated as follows:

	Number of Units
In issue as at 30th June, 2007	3,106,165,802
Issued on 30th July, 2007 to the REIT Manager for the REIT Manager's fees for May 2007	1,481,796
Issued on 16th August, 2007 to the REIT Manager for the REIT Manager's fees for June 2007	1,473,890
	<hr/>
In issue at the Record Date	3,109,121,488
Less: AEP Units	(373,134,326)
	<hr/>
Units expected to be entitled to distribution at the Record Date	<u><u>2,735,987,162</u></u>

3. The distribution of HK\$0.057 per Unit for the period to 30th June, 2007, involving a total distributable amount of approximately HK\$156.0 million, was resolved and declared by the REIT Manager on 27th August, 2007. Accordingly, the distribution is not reflected as distribution payable in the condensed consolidated interim financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2007.

The notes on pages 33 to 48 form part of these condensed consolidated interim financial statements.



Condensed Consolidated Cash Flow Statement

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

(unaudited)
HK\$'000

Net cash inflow from operating activities	164,264
Net cash outflow from investing activities	(6,512,220)
Net cash inflow from financing activities	6,450,560
Net increase in cash and cash equivalents	102,604
Cash and cash equivalent at beginning of period	—
Cash and cash equivalent at end of period	102,604
Analysis of balances of cash and cash equivalents:	
Cash and bank balances	102,604

The notes on pages 33 to 48 form part of these condensed consolidated interim financial statements.



Notes to the Condensed Consolidated Interim Financial Statements

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

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, made between Regal Portfolio Management Limited (the "REIT Manager") and DB Trustees (Hong Kong) Limited (the "Trustee") (as amended by a supplemental trust deed dated 2nd March, 2007) 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 hotel and hospitality-related properties with the objectives of producing stable and growing distributions to the unitholders of Regal REIT (the "Unitholders") and to achieve long-term growth in the net asset value per Unit.

The addresses of the registered office of the REIT Manager and the Trustee are Unit No. 1504, 15th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong and Level 55, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, respectively.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. 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.

Basis of consolidation

The condensed consolidated interim financial statements include the financial statements of Regal REIT and its subsidiaries from 11th December, 2006 (date of establishment) to 30th June, 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Regal REIT obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting. This method involves allocating the costs of the business combinations to the fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured as the aggregate of the fair values of the assets given, Units of Regal REIT or equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.3 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies Regal REIT controls, directly or indirectly, so as to obtain benefits from its activities.

Excess over cost of business combinations

Any excess of the Group's interest in the net fair values of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Unitholders' funds

In accordance with the Trust Deed, Regal REIT has a limited life of eighty years less one day from the date of its commencement, and it is required to distribute to the Unitholders no less than 90% of its annual distributable income for each financial year. Accordingly, Regal REIT has contractual obligations to the Unitholders to pay cash dividends and also upon the termination of Regal REIT, a share of all net cash proceeds derived from the sale or realisation of the assets of Regal REIT less any liabilities, in accordance with the proportionate interests of the Unitholders in Regal REIT at the date of its termination. The Unitholders' funds are, therefore, classified as financial liabilities in accordance with HKAS 32 "Financial Instruments: Disclosures and Presentation".

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Investment properties

Investment properties are interests in land and buildings which are owned or held to earn rental income and/or for capital appreciation, rather than for use in the supply of services or for administrative purposes, or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair values, which reflect market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Financial instruments

The Group classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. Purchases and sales of the financial assets are recognised using trade date accounting.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recorded at fair values plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method, less impairment allowances. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group recognises losses for impaired loans promptly where there is objective evidence that impairment of a loan or a portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics including those individually assessed balances for which no impairment provision is made on an individual basis.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by reducing the loan impairment allowance account. The amount of any reversal is recognised in the income statement.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) *Financial liabilities at amortised cost*

Financial liabilities, including creditors, and interest-bearing bank borrowings, are initially stated at fair values less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(c) *Derivative financial instruments and hedging*

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuation. Such derivative financial instruments are initially recognised at fair values on the dates on which derivative contracts are entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair values on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair values of interest rate swap contracts are determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

(d) *Fair values*

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair values are determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rental payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) Base rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases.
- (b) Variable rent and the furniture, fixtures and equipment reserve (the "FF&E Reserve") contributions are recognised as income in the accounting period in which they are earned in accordance with the terms of respective agreements.
- (c) Interest income is recognised on an accrual basis, using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Finance costs

Finance costs are recognised as expenses in the income statement in the period in which they are incurred.

Where debt establishment costs, including upfront fees and legal and professional fees, are incurred when a borrowing arrangement is set up, such fees will be subject to amortisation over the term of such borrowing.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities.

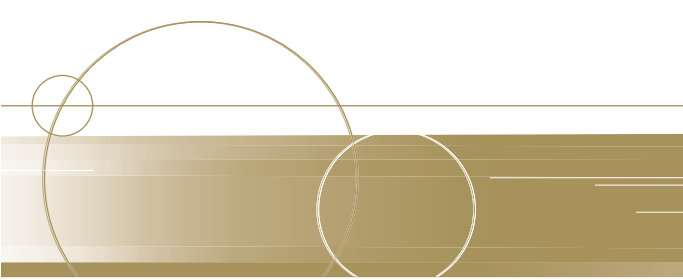
Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.



The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currency transactions

These financial statements are presented in Hong Kong dollars, which is Regal REIT's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the balance sheet date and all differences are taken to the income statement.

Related parties

A party is considered to be related to the Group if:

- (i) the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Group; (b) has an interest in the Group that gives it significant influence over the Group; or (c) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in values, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Significant accounting estimates and judgements

Assumptions concerning the future and judgements are made in the preparation of the condensed consolidated interim financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures notes. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

3. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The REIT Manager reviews and agrees policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the Group, as and when they fall due. The REIT Manager monitors the balances of its lessees on an ongoing basis. Currently, all investment properties held by Regal REIT, namely, Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (the "Initial Hotels" and each referred to as the "Initial Hotel") are leased to a lessee. Cash and fixed deposits are placed with authorised institutions which are regulated. Transactions involving financial instruments are carried out only with authorised institutions with sound credit ratings.

The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the REIT Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Group has put in place interest rate swap arrangements to minimise the variability in cash flows attributable to changes in interest rates. This involves fixing the portion of interest payable on its underlying debt liabilities via financial derivatives. Details of interest rate swaps are set out in note 12 to the condensed consolidated interim financial statements.

Liquidity risk

The REIT Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the REIT Manager observes the REIT Code issued by the SFC concerning limits on total borrowings and monitors the level of borrowings of Regal REIT to be within the permitted limit. A revolving credit facility has also been put in place for contingency purposes as disclosed in note 16 to the condensed consolidated interim financial statements.

Fair values

The REIT Manager considers that the carrying amounts of the financial assets and financial liabilities recorded in the condensed consolidated interim financial statements approximate to their fair values.

4. SEGMENT INFORMATION

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

5. GROSS RENTAL REVENUE

	Notes	(unaudited) HK\$'000
Rental income	(a)	197,196
Other rental-related income	(b)	6,880
Other		775
		<u>204,851</u>

Notes:

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

	(unaudited) HK\$'000
Base Rent	
Cash Base Rent	160,900
Difference in accounting Base Rent and actual contractual cash Base Rent	<u>22,386</u>
	183,286
Variable Rent	<u>13,910</u>
	<u>197,196</u>

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

- (i) a 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 2007, the annual cash Base Rent is fixed at HK\$630 million and is pro-rated from the Listing Date to 31st December, 2007. According to the Group's accounting policy, Base Rent from operating leases is recognised in the income statement on the straight-line basis over the terms of the relevant leases resulting in a difference in accounting Base Rent and actual contractual cash Base Rent; and
- (ii) a 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 payments, until the year ending 31st December, 2010, payable semi-annually. Regal REIT is entitled to a 100% share in 2007.

For the years from 2011 to 2015, the Base Rent and the Variable Rent are to be determined subject to annual rent reviews by an independent property valuer.

- (b) Other rental-related income represents contributions to 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.

6. REIT MANAGER'S FEES

	(unaudited) HK\$'000
Base fees	12,154
Variable fees	5,244
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	17,398
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Under the Trust Deed, the REIT Manager is entitled to receive the following:

- a base fee of currently 0.3% (subject to a maximum of 0.5%) per annum of the consolidated gross assets of Regal REIT as disclosed in the offering circular dated 19th March, 2007 (the "Offering Circular") payable monthly and subject to adjustments based on the value of the audited total assets of Regal REIT for the financial year or relevant period; and
- a variable fee of currently 3% (subject to a maximum of 5%) per annum of the net property income as defined in the Trust Deed in respect of each Initial Hotel payable annually.

During the period, REIT Manager's fees of approximately HK\$4.2 million were settled by 1,560,054 Units. The remaining REIT Manager's fees of approximately HK\$13.2 million earned up to 30th June, 2007 are to be settled subsequent to the balance sheet date in Units in accordance with the terms of the Trust Deed.

7. FINANCE COSTS

	(unaudited) HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	51,237
Amortisation of debt establishment costs	1,916
Loan commitment fees	93
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	53,246
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8. TAX

The tax charge represents the deferred tax charge for the period. No provision for Hong Kong profits tax has been made as the Group has available tax losses attached to the holding companies holding the Initial Hotels acquired by the Group upon initial public offering of the Units to offset the assessable profits generated during the period.

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

	Depreciation allowance in excess of related depreciation (unaudited) HK\$'000	Fair value adjustments arising from revaluation of Initial Hotels (unaudited) HK\$'000	Loss available for offset against future taxable income (unaudited) HK\$'000	Total (unaudited) HK\$'000
Acquisition of subsidiaries	(141,941)	(1,396,019)	182,404	(1,355,556)
Deferred tax charged to the income statement during the period	(6,312)	—	(3,199)	(9,511)
Gross deferred tax assets/(liabilities) at 30th June, 2007	<u>(148,253)</u>	<u>(1,396,019)</u>	<u>179,205</u>	<u>(1,365,067)</u>

Deferred tax assets and liabilities at 30th June, 2007, presented in the condensed consolidated balance sheet, after appropriate offsetting are as follows:

	(unaudited) HK\$'000
Deferred tax assets	39,752
Deferred tax liabilities	<u>(1,404,819)</u>
Net deferred tax liabilities at 30th June, 2007	<u>(1,365,067)</u>

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

There are no income tax consequences attaching to the payment of dividends by the subsidiaries of Regal REIT to their shareholders.

9. EARNINGS PER UNIT

The calculation of the basic earnings per Unit is based on the Group's profit for the period of approximately HK\$2.2 billion and the weighted average number of 3,104,670,640 Units in issue during the period. The basic earnings per Unit for the period amounted to HK\$0.697.

Diluted earnings per Unit for the period are not presented as no diluting events occurred during the period.

10. INVESTMENT PROPERTIES

	(unaudited) HK\$'000
Additions through the business combination upon listing (note 19)	14,900,000
Capital expenditures for the period	935
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As at 30th June, 2007	<u>14,900,935</u>

The investment properties acquired through the business combination are stated at fair values based on valuations as at 31st December, 2006 by CB Richards Ellis Limited, an independent professional valuer and the principal valuer of Regal REIT, for the purposes of the initial public offering of the Units. The REIT Manager considers that there is no material change in the fair values of the investment properties during the intervening period up to 30th June, 2007.

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

This represents the prepaid project costs for the Asset Enhancement Program (the "AEP") including construction costs, fit out of 468 additional hotel rooms and ancillary facilities, related renovations, land premium, cost overruns and any other costs in respect of extension programs.

12. DERIVATIVE FINANCIAL ASSETS

	(unaudited) HK\$'000
Interest rate swaps	<u>28,571</u>

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan (note 16). The interest rate swaps and the corresponding term loan have the same terms and the REIT Manager considers that the interest rate swaps are effective hedging instruments. 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 Hong Kong Interbank Offered Rate ("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 balance sheet date and are determined based on discounted cash flow models.

13. DEBTORS

Included in the Group's debtors is an amount of approximately HK\$22.4 million representing the difference in accounting Base Rent and actual contractual cash Base Rent which is recognised as revenue in the income statement on the straight-line basis over the lease term in accordance with the accounting policy as set out in note 2.3 above.

The remaining balance of approximately HK\$16.4 million, comprising approximately HK\$13.9 million of Variable Rent receivables and approximately HK\$2.5 million of FF&E Reserve contribution receivables, represents amounts due from related companies. The amounts are unsecured and repayable in accordance with the terms of the respective agreements.

14. RESTRICTED CASH

At 30th June, 2007, the Group had approximately HK\$57.7 million of cash which was restricted as to use. All of the restricted cash is expected to be released within one year from 30th June, 2007 and is accordingly classified as a current asset.

15. CREDITORS AND ACCRUALS

Included in the balance is an amount of approximately HK\$1.4 million (comprising approximately HK\$0.9 million payable to a related company) representing trade payables of the Group which are all repayable on demand upon receipt of invoices.

The remaining balances include an aggregate amount of approximately HK\$3.1 million due to related companies which are unsecured, interest-free and repayable on demand.

16. INTEREST-BEARING BANK BORROWINGS

	(unaudited) HK\$'000
Interest-bearing bank borrowings repayable within five years	4,350,000
Debt establishment costs	(39,768)
	<hr/>
	4,310,232
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Under a banking facility agreement, the Group has been granted a facility aggregating HK\$4.5 billion comprising a HK\$4.35 billion term loan and a HK\$150.0 million revolving credit facility. The total facility bears interest at the floating interest rate of 3-month HIBOR plus 0.6% per annum. At the balance sheet date, the Group had utilised the term loan facility to the extent of HK\$4.35 billion. The term loan facility has a term of five years and is repayable in full on 30th March, 2012. The Group has entered into interest rate swap arrangements to hedge against the interest rate exposure for the term loan, details of which are set out in note 12.

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

- (i) a charge over the investment properties;
- (ii) assignment of rental income and all other proceeds arising from and including all rights, titles and interest under all hotel management agreements and lease agreements relating to the investment properties; and
- (iii) a charge over each rental account, sale proceeds account and other control accounts.

17. NUMBER OF UNITS IN ISSUE

	Number of units
Upon listing on 30th March, 2007	3,104,605,748
REIT Manager's fees paid in Units:	
on 30th May, 2007	97,163
on 29th June, 2007	1,462,891
	<u>1,560,054</u>
At 30th June, 2007	<u><u>3,106,165,802</u></u>

18. NET ASSET VALUE PER UNIT

The net asset value per Unit is calculated by dividing the net assets attributable to the Unitholders as at 30th June, 2007 of approximately HK\$10.4 billion by the number of Units in issue of 3,106,165,802 as of that date.

19. BUSINESS COMBINATION

On 30th March, 2007, Regal REIT acquired the entire share capital of Regal Asset Holdings Limited ("RAHL"), whose principal activity is indirectly holding the Initial Hotels from Regal International (BVI) Holdings Limited (the "Vendor"), a wholly-owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), for a consideration of approximately HK\$12.5 billion. The Vendor undertook to complete the AEP and RHIHL had guaranteed its obligation to Regal REIT.

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

	Fair values recognised on acquisition (unaudited) HK\$'000
Investment properties	14,900,000
Prepaid construction costs	1,000,000
Deferred tax assets	31,899
Deferred tax liabilities	<u>(1,387,455)</u>
Net assets acquired	14,544,444
Excess of interest in fair values of the acquiree's identifiable net assets over cost of the business combination	<u>(2,044,441)</u>
Total consideration	<u><u>12,500,003</u></u>
Consideration satisfied by:	
Cash	6,509,354
Fair value of 2,235,316,748 Units issued	5,990,649
	<u><u>12,500,003</u></u>

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



20. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements. At 30th June, 2007, the total future minimum lease receivables under non-cancellable operating leases falling due were as follows:

	(unaudited) HK\$'000
Within one year	667,821
In the second to fifth years, inclusive	1,883,640
	<hr/>
	2,551,461
	<hr/> <hr/>

Certain of the leases contained Variable Rent provisions, details of which are set out in note 5.

(b) As lessee

The Group leases certain premises under operating lease arrangements. At 30th June, 2007, the total future minimum lease payments under non-cancellable operating leases falling due were as follows:

	(unaudited) HK\$'000
Within one year	2,821
In the second to fifth years, inclusive	3,640
	<hr/>
	6,461
	<hr/> <hr/>

21. CAPITAL COMMITMENTS

At the balance sheet date, the Group had no outstanding capital commitments.

22. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the condensed consolidated interim financial statements, the Group had entered into the following material transactions with connected and 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 referred to as the "Regal Group")	Significant unitholder of Regal REIT
Regal Portfolio Management Limited (the "REIT Manager")	The Manager of Regal REIT and a member of the Regal Group

(a) Transactions with connected/related parties:

	Notes	(unaudited) HK\$'000
Contractual rental and rental-related income received/receivable from the Regal Group	(i)	182,465
Interest income received/receivable from the Deutsche Bank Group	(ii)	2,677
REIT Manager's fees	(iii)	(17,398)
Trustee's fees	(iii)	(868)

Notes:

- (i) These transactions were carried out in accordance with the terms of the relevant agreements.
- (ii) The interest income was related to bank balances maintained, and an interest rate swap contract entered into with the Deutsche Bank Group, which interest was earned in accordance with the bank agreements and swap contract with the Deutsche Bank Group.
- (iii) These transactions were carried out in accordance with the relevant terms of the Trust Deed.

(b) Balances with connected/related parties as at 30th June, 2007 are as follows:

	Notes	(unaudited) HK\$'000
Net amount due from/(to):		
The Regal Group	(i)	12,426
DB Trustees (Hong Kong) Limited	(ii)	(668)
Short-term deposits and bank balances with the Deutsche Bank Group		106,933

Notes:

- (i) Details of the balance are set out in notes 13 and 15.
 - (ii) The amount is unsecured and repayable in accordance with the terms of the Trust Deed.
- (c) The Regal Group had guaranteed to pay all amounts from time to time owing or payable by the lessee of the Initial Hotels to the Group under respective lease agreements, when the same become due, together with other charges and outgoings, interest, default interest, fees and costs. In this connection, the Regal Group has procured an unconditional and irrevocable bank guarantee in the amount of HK\$1.0 billion in favour of the Group and the Trustee. In addition, under the terms of the lease agreements, the Regal Group had guaranteed to pay a total Variable Rent, at a minimum, of HK\$220.0 million for the period from 30th March, 2007 to 31st December, 2010.
- (d) In connection with the initial public offerings of the Units, the Regal Group had guaranteed the total distributable income of Regal REIT for the period from the Listing Date to 31st December, 2007 to be not less than HK\$420.3 million.
- (e) Under a deed of trade mark licence, the Regal 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.

23. POST BALANCE SHEET EVENTS

- (a) On 30th July, 2007, 1,481,796 new Units were issued to the REIT Manager at HK\$2.734 per Unit in settlement of the REIT Manager's fees of approximately HK\$4.1 million for May 2007.
- (b) On 16th August, 2007, 1,473,890 new Units were issued to the REIT Manager at HK\$2.66 per Unit in settlement of the REIT Manager's fees of approximately HK\$3.9 million for June 2007.

24. COMPARATIVE AMOUNTS

The condensed consolidated interim financial statements are the first set of financial statements prepared by Regal REIT and, accordingly, no comparative amounts have been presented.



REVIEW OF INTERIM RESULTS

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed the interim report of Regal REIT for the period from 11th December, 2006 (date of establishment) to 30th June, 2007, in conjunction with the Regal REIT's external auditors. The review report of the external auditors is set out on page 50 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 27 to 48 which comprise the condensed consolidated balance sheet as at 30th June, 2007 and the related condensed consolidated income statement, statement of changes in net assets attributable to unitholders, distribution statement and cash flow statement for the period from 11th December, 2006 (date of the establishment of Regal REIT) to 30th June, 2007, and a summary of significant accounting policies and other 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

27th August, 2007

