



REGAL REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorised under section 104 of
the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 1881)

Managed by



2008 INTERIM ANNOUNCEMENT

FINANCIAL AND BUSINESS HIGHLIGHTS

| | Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$ million | *Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$ million |
|---|---|--|
| Gross rental revenue | 374.7 | 204.9 |
| Net rental income | 371.3 | 200.5 |
| Profit for the period | 278.3 | **2,165.0 |
| Distributable income for the period | <u>247.4</u> | <u>120.2</u> |
| Earnings per Unit attributable to Unitholders | <u>HK\$0.089</u> | <u>HK\$0.697</u> |
| Distribution per Unit | <u>HK\$0.083</u> | <u>HK\$0.057</u> |

- Initial Hotels achieved an average RevPAR growth of 7.8% outperforming the market (4.8%)
- Launched HK\$85 million capital additions programme to increase competitiveness of hotels

* Rental period from 30th March, 2007 to 30th June, 2007

** Included a one-off gain of HK\$2,044.4 million that arose from the acquisition of the Initial Hotels at a discount to their market valuations

PROFIT FOR THE INTERIM PERIOD

For the six months ended 30th June, 2008, Regal Real Estate Investment Trust (“Regal REIT”) attained an unaudited consolidated profit of approximately HK\$278.3 million. In the comparative period in 2007, covering the period from 11th December, 2006 (date of establishment of Regal REIT) to 30th June, 2007, Regal REIT recorded a profit of HK\$2,165.0 million which included a one-off gain of HK\$2,044.4 million that arose from the acquisitions of Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel (collectively, the “Initial Hotels”) from certain subsidiaries of Regal Hotels International Holdings Limited (“RHIHL”) at a discount to their market valuations in March 2007 when Regal REIT was listed.

DISTRIBUTABLE INCOME

The unaudited distributable income for the six-month period from 1st January, 2008 to 30th June, 2008 (the “Interim Period”) amounted to approximately HK\$247.4 million.

INTERIM DISTRIBUTION FOR 2008

Based on a policy of distributing 100% of the distributable income, the Directors of Regal Portfolio Management Limited (the “REIT Manager”) have resolved to declare a distribution of HK\$0.083 per unit of Regal REIT (the “Unit”) to unitholders of Regal REIT (the “Unitholders”) for the period ended 30th June, 2008.

CLOSURE OF REGISTER OF UNITHOLDERS

The Register of Unitholders will be closed from Wednesday, 17th September, 2008 to Friday, 19th September, 2008, both days inclusive, during which period no transfers of Units will be effected. In order to qualify for the interim distribution for 2008, all unit certificates with completed transfer forms must be lodged with Regal REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 16th September, 2008. The relevant distribution warrants are expected to be despatched on or about 9th October, 2008.

BUSINESS REVIEW

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

overseas markets, the catastrophes that occurred in China and the tightened visa restrictions imposed by the Chinese Government, the growth achieved in the visitor arrivals can be viewed as satisfactory.

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operational Review

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

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

Overall, the Initial Hotels increased room revenue by 14.7% arising from 194 additional rooms in four of the Initial Hotels and an aggregate of 7.8% in RevPAR growth.

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

During the Interim Period, Regal REIT received HK\$350.0 million cash base rent (the “Base Rent”). As the net property income from hotel operations was approximately HK\$332.7 million, approximately HK\$17.3 million below the cash Base Rent, no variable rent (“Variable Rent”) is payable to Regal REIT for the Interim Period. The second half of the year usually is the busier time for the hotel industry in Hong Kong and the Directors of the REIT Manager expect to see continued positive growth in net property income over the balance of the year.

For the six months ended 30th June, 2008, the gross rental revenue was approximately HK\$374.7 million and the net rental income was approximately HK\$371.3 million.

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

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

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

Financial Review

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

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

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

In the latter part of 2007, Regal REIT, through its subsidiaries, entered into five interest rate hedging arrangements at interest rates ranging from 4.33% to 4.50% for one year for an aggregate notional principal amount of HK\$2.0 billion effective from 18th January, 2008. The REIT Manager will continue to adopt a conservative hedging strategy to minimise the impact of interest rate fluctuations.

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

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

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

Hotel Industry Outlook

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

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

Growth Strategy

The REIT Manager's primary strategy is to maintain and grow a strong and balanced investment portfolio of hotels and hospitality-related properties. The REIT Manager intends to achieve its objective of long-term growth in distributions and in the net asset value ("NAV") per Unit through a combination of pro-active asset management and selective acquisitions of additional hotels and hospitality-related properties that meet the REIT Manager's investment criteria.

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

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

Net Asset Value

The NAV per Unit amounted to HK\$3.488 as at 30th June, 2008, down HK\$0.015 from the NAV as at 31st December, 2007, mainly due to the increased number of Units in issue arising from REIT Manager fees being paid in the form of Units (see “Number of Units in issue” on page 17).

Valuation of Investment Properties

Regal REIT values its properties on an annual basis and under the relevant Hong Kong Financial Reporting Standards (“HKFRS”), the fair value model for investment properties has been adopted. CB Richard Ellis Limited (“CBRE”), an independent professional property valuer, assessed the market values of the Initial Hotels subject to the lease agreements and the hotel management agreements and in accordance with the “HKIS Valuation Standards on Properties (First Edition 2005)”, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Code on Real Estate Investment Trust (the “REIT Code”). The Initial Hotels were valued at HK\$16,080.0 million as at 31st December, 2007. CBRE used the discounted cash flow (“DCF”) method based on key assumptions such as hotel room occupancies, hotel average room rates, terminal capitalisation rates and discount rates. The direct comparison method was used as a check on the valuation arrived at from the DCF method.

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

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

| | | Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000 | Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000 |
|--|--------------|--|---|
| | Notes | | |
| Gross rental revenue | 4 | 374,737 | 204,851 |
| Property operating expenses | | <u>(3,435)</u> | <u>(4,334)</u> |
| Net rental income | | 371,302 | 200,517 |
| Other income | 4 | 2,786 | 1,661 |
| Excess over the cost of a business combination | 14 | - | 2,044,441 |
| REIT Manager fees | 5 | (37,597) | (17,398) |
| Trust and other expenses | | (6,035) | (1,432) |
| Fair value changes of derivative financial instruments | | (6,263) | - |
| Net interest expense on derivative financial instruments | | (11,763) | - |
| Finance costs | 6 | <u>(88,009)</u> | <u>(53,246)</u> |
| Profit before tax | | 224,421 | 2,174,543 |
| Tax | 7 | <u>53,864</u> | <u>(9,511)</u> |
| Profit for the period | | <u><u>278,285</u></u> | <u><u>2,165,032</u></u> |
| Earnings per Unit attributable to Unitholders | | | |
| Basic and diluted | 8 | <u><u>HK\$0.089</u></u> | <u><u>HK\$0.697</u></u> |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

| | Notes | 30th June, 2008 (unaudited) HK\$'000 | 31st December, 2007 (audited) HK\$'000 |
|--|-------|--|--|
| Non-current assets | | | |
| Investment properties | 9 | 16,093,062 | 16,080,000 |
| Prepaid construction costs | | 430,000 | 430,000 |
| Construction in progress | | 5,149 | - |
| Deferred tax assets | | 13,517 | 21,765 |
| Total non-current assets | | <u>16,541,728</u> | <u>16,531,765</u> |
| Current assets | | | |
| Accounts receivable | 10 | 81,187 | 161,500 |
| Prepayments and other receivables | | 1,876 | 14,537 |
| Restricted cash | | 62,533 | 85,465 |
| Cash and cash equivalents | | 240,836 | 140,412 |
| Total current assets | | <u>386,432</u> | <u>401,914</u> |
| Total assets | | <u>16,928,160</u> | <u>16,933,679</u> |
| Current liabilities | | | |
| Accounts payable | 11 | 14,267 | 3,885 |
| Other payables and accruals | | 50,575 | 58,429 |
| Derivative financial instruments | | 20,115 | - |
| Total current liabilities | | <u>84,957</u> | <u>62,314</u> |
| Net current assets | | <u>301,475</u> | <u>339,600</u> |
| Total assets less current liabilities | | <u>16,843,203</u> | <u>16,871,365</u> |
| Non-current liabilities, excluding net assets attributable to Unitholders | | | |
| Interest-bearing bank borrowings | | 4,317,923 | 4,314,022 |
| Derivative financial instruments | | 41,767 | 24,382 |
| Deferred tax liabilities | | 1,555,773 | 1,617,885 |
| Total non-current liabilities | | <u>5,915,463</u> | <u>5,956,289</u> |
| Total liabilities, excluding net assets attributable to Unitholders | | <u>6,000,420</u> | <u>6,018,603</u> |
| Net assets attributable to Unitholders | | <u>10,927,740</u> | <u>10,915,076</u> |
| Number of Units in issue | 12 | <u>3,132,949,239</u> | <u>3,115,512,324</u> |
| Net asset value per Unit | 13 | <u>HK\$3.488</u> | <u>HK\$3.503</u> |

DISTRIBUTION STATEMENT

For the six months ended 30th June, 2008

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

Notes:

1. Pursuant to the trust deed constituting Regal REIT together with the related supplemental deed (the "Trust Deed"), Regal REIT is required to ensure that the total amount distributable to Unitholders shall not be less than 90% of Regal REIT's Total Distributable Income as defined in the Trust Deed for each financial year. The current policy of the REIT Manager is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year.

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

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

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

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

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

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

Notes:

1. GENERAL

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 were listed on the Stock Exchange on 30th March, 2007. Regal REIT is governed by the Trust Deed and the REIT Code.

The principal activity of Regal REIT and its subsidiaries (collectively, the “Group”) is to own and invest in income-producing hotels and hospitality-related properties with the objectives of producing stable and growing distributions to Unitholders and to achieve long-term growth in the net asset value per Unit.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 Securities and Futures Commission and the applicable disclosure requirements of Appendix 16 of the Listing Rules.

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

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

3. SEGMENT INFORMATION

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

4. GROSS RENTAL REVENUE AND OTHER INCOME

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

Notes:

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

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

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

5. REIT MANAGER FEES

| | Period from 1st January, 2008 to 30th June, 2008 (unaudited) HK\$'000 | Period from 11th December, 2006 (date of establishment) to 30th June, 2007 (unaudited) HK\$'000 |
|------------------------------------|--|---|
| Base Fees | | |
| In the form of Units | 25,331 | 12,154 |
| In the form of cash | 2,353 | - |
| Variable Fees in the form of Units | <u>9,913</u> | <u>5,244</u> |
| | <u>37,597</u> | <u>17,398</u> |

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

6. FINANCE COSTS

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

7. TAX

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

The deferred tax liabilities shown in the condensed consolidated balance sheet primarily relate to the deferred tax calculated on the revaluation 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.

8. EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

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

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

9. INVESTMENT PROPERTIES

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

The Group's investment properties were valued on 31st December, 2007 by CB Richards Ellis Limited, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$16,080,000,000 on an open market value, existing use basis. The REIT Manager considers that there is no material change in the fair values of the investment properties during the intervening period ended 30th June, 2008.

10. ACCOUNTS RECEIVABLE

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

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

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

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

11. ACCOUNTS PAYABLE

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

12. NUMBER OF UNITS IN ISSUE

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

During the six-month period ended 30th June, 2008, Regal REIT repurchased a total of 3,069,000 Units at an aggregate purchase price of HK\$4,849,890 on the Stock Exchange and were all duly cancelled subsequent to 30th June, 2008.

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

13. NET ASSET VALUE PER UNIT

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

14. BUSINESS COMBINATION

On 30th March, 2007, Regal REIT acquired the entire share capital of Regal Asset Holdings Limited, whose principal activity is indirectly holding the Initial Hotels, from Regal International (BVI) Holdings Limited ("RBVI") for a consideration of approximately HK\$12.5 billion. As a result, the Group recognised an excess over the cost of a business combination of approximately HK\$2,044.4 million representing, principally, the discount to the appraised values of the Initial Hotels. RBVI undertook to complete the AEP for a consideration of HK\$1.0 billion and RHIHL guaranteed this obligation to Regal REIT.

EMPLOYEES

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

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

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

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

NEW UNITS ISSUED

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The REIT Manager has adopted a compliance manual (the “Compliance Manual”) which 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 Interim Period, Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual, the Trust Deed and the REIT Code and the relevant provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules which are applicable to Regal REIT.

REVIEW OF INTERIM RESULTS

Regal REIT’s condensed consolidated interim financial statements for the Interim Period have not been audited, but have been reviewed by Ernst & Young, the external auditors of Regal REIT, whose review report is contained in the Interim Report of Regal REIT for the six months ended 30th June, 2008 to be despatched to Unitholders.

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed Regal REIT’s condensed consolidated interim financial statements for the Interim Period, including the accounting principles and practices adopted by Regal REIT, in conjunction with external auditors of Regal REIT.

ISSUANCE OF INTERIM REPORT

The Interim Report of Regal REIT for the Interim Period is expected to be despatched to Unitholders on or before 30th August, 2008.

By order of the Board
Regal Portfolio Management Limited
as manager of Regal Real Estate Investment Trust
LO Yuk Sui
Chairman

Hong Kong, 25th August, 2008

As at the date of this announcement, the Board of the REIT Manager comprises Mr. LO Yuk Sui as Chairman and Non-executive Director; Mr. Kai Ole RINGENSON as Chief Executive Officer and Executive Director; Mr. Donald FAN Tung and Mr. Jimmy LO Chun To as Non-executive Directors; and Mr. John William CRAWFORD, J.P., Mr. Alvin LAM Kwing Wai and Hon Abraham SHEK Lai Him, J.P. as Independent Non-executive Directors.