



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



2007 INTERIM ANNOUNCEMENT

FINANCIAL AND BUSINESS HIGHLIGHTS

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

Financial	(unaudited) HK\$ million
Gross rental revenue	204.9
Net rental income	200.5
Profit for the period	2,165.0
Net assets attributable to Unitholders	10,402.7
Distributable amount to be paid to Unitholders	156.0
Earnings per Unit	<u>HK\$0.697</u>
Net asset value per Unit	<u>HK\$3.350</u>
Distribution per Unit for the period to 30th June, 2007	<u>HK\$0.057</u>

- Favourable market conditions for hotels
- Rooms inventory will be increased with 194 new guest rooms in the 4th quarter of 2007
- Expect enhanced performance for the balance of the year
- Strategic Plans target ten to twenty hotel acquisitions in four to five years

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 (the “REIT Manager”) as the manager of Regal REIT 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 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”).

PROFIT FOR THE PERIOD

For the period from 11th December, 2006 (date of establishment) 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 (as defined hereinafter) at a discount to their market valuations.

REVIEW OF OPERATIONS

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 Favour Link International Limited (the “Lessee”) under long-term lease agreements (the “Lease Agreements”) with escalating base rents and sharing of upside performance to Regal REIT through the variable rent structure. The Lessee is responsible for the day-to-day running of the hotel businesses and has to that effect engaged Regal Hotels International Limited as the hotel manager (the “Hotel Manager”) under long-term hotel management agreements (the “Hotel Management Agreements”). The Lessee and the Hotel Manager are wholly-owned subsidiaries of RHIHL (RHIHL, together with its relevant subsidiaries, collectively, the “Regal Group”).

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 net property income (“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 period from the Listing Date to 30th June, 2007 (the “Operating Period”) were HK\$160.9 million and approximately HK\$13.9 million, respectively.

The underlying performance of the hotel business in the Initial Hotels during 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.

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	30th March, 2006 to 30th June, 2006	Variance
Operating Results	(HK\$ million)	(HK\$ million)	(%)
Room revenue	209.5	196.1	6.8%
Food & beverage revenue	93.9	75.5	24.4%
Other income	40.7	14.5	180.7%
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Total hotel revenue	344.1	286.1	20.3%
Operating expenses	(164.9)	(139.5)	18.2%
	<hr/>	<hr/>	
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%)
	<hr/>	<hr/>	
Net property income	174.8	143.6	21.7%
	<hr/>	<hr/>	
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.

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 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 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, has sufficient financial resources to satisfy its short and medium term financial commitments and working capital requirements.

Furniture, Fixtures and 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 AEP encompassing 468 additional guest rooms in four of the Initial Hotels is well underway and 194 new rooms will be ready for letting by 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 revenue per available room (“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 of Regal REIT (the “Unitholders”) through active ownership of hotels and strategic investments in hotel and hospitality-related properties.

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.

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.

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

DISTRIBUTABLE INCOME FOR THE PERIOD ENDED 30TH JUNE, 2007

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 Operating Period from 30th March, 2007 to 30th June, 2007 amounted to approximately HK\$120.2 million, representing a distribution per Unit ("DPU") for Units expected to be entitled to distribution of HK\$0.0439.

INTERIM DISTRIBUTION FOR 2007

In accordance with the indicative DPU in the offering circular dated 19th March, 2007 issued in connection with the listing of Units (the "Offering Circular") and taking into account the seasonality of the hotel business, the directors of the REIT Manager have resolved to distribute HK\$0.057 per Unit for the period to 30th June, 2007. This 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 despatched on or about 11th October, 2007.

CONDENSED CONSOLIDATED INCOME STATEMENTS

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

	Notes	(unaudited) HK\$'000
Gross rental revenue	4	204,851
Property operating expenses		<u>(4,334)</u>
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	18	2,044,441
REIT Manager's fees	5	(17,398)
Trustee's fees		(868)
Administrative expenses		(564)
Finance costs	6	<u>(53,246)</u>
PROFIT BEFORE TAX		2,174,543
Tax	7	<u>(9,511)</u>
PROFIT FOR THE PERIOD		<u>2,165,032</u>
EARNINGS PER UNIT (in HK\$)	8	<u>0.697</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

	Notes	(unaudited) HK\$'000
NON-CURRENT ASSETS		
Investment properties	9	14,900,935
Prepaid construction costs	10	1,000,000
Derivative financial assets	11	28,571
Deferred tax assets		<u>39,752</u>
Total non-current assets		<u>15,969,258</u>
CURRENT ASSETS		
Debtors	12	38,782
Prepayments and other receivables		3,974
Restricted cash	13	57,694
Cash and bank balances		<u>102,604</u>
Total current assets		<u>203,054</u>
CURRENT LIABILITIES		
Creditors and accruals	14	<u>54,574</u>
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	15	4,310,232
Deferred tax liabilities	7	<u>1,404,819</u>
Total non-current liabilities, excluding net assets attributable to Unitholders		<u>5,715,051</u>
Net assets attributable to Unitholders		<u><u>10,402,687</u></u>
Number of Units in issue	16	<u><u>3,106,165,802</u></u>
Net asset value per Unit (in HK\$)	17	<u><u>3.35</u></u>

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:

- Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributable to the Unitholders shall be no less than 90% of Regal REIT's total distributable income for each financial year or relevant period. The REIT Manager's current policy 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 DPU in the Offering Circular 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 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 Unitholders on or about 11th October, 2007. The total distributable amount to be paid to 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. 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
In issue at the Record Date	3,109,121,488
Less: AEP Units	(373,134,326)
Units expected to be entitled to distribution at the Record Date	<u>2,735,987,162</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.

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 hotel and hospitality-related properties with the objectives of producing stable and growing distributions to unitholders of Regal REIT (the “Unitholders”) and to achieve long-term growth in the net asset value per Unit.

2. BASIS OF PREPARATION

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

The 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.

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

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

5. 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:

- (i) a base fee of currently 0.3% (subject to a maximum of 0.5%) per annum of the value of the consolidated gross assets of Regal REIT as disclosed in the offering circular dated 19th March, 2007 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
- (ii) 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.

6. 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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7. TAX

This 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 deferred tax liabilities shown in the condensed consolidated balance sheet 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 standards. 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

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.

9. INVESTMENT PROPERTIES

	(unaudited) HK\$'000
Additions through the business combination upon listing (Note 18)	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 15).

10. PREPAID CONSTRUCTION COSTS

This represents the prepaid project costs for 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.

11. DERIVATIVE FINANCIAL ASSETS

	(unaudited) HK\$'000
Interest rate swaps	28,571

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rate term loan (note 15). 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 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.

12. 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.

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.

13. 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.

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

15. INTEREST-BEARING BANK BORROWINGS

	(unaudited) HK\$'000
Interest-bearing bank borrowings repayable within five years	4,350,000
Debt establishment costs	(39,768)
	<hr style="border-top: 1px solid black;"/>
	4,310,232 <hr style="border-top: 3px double black;"/>

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 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 which 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 11.

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, title 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.

16. 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
	<hr/> 1,560,054 <hr/>
As at 30th June, 2007	<hr/> <hr/> 3,106,165,802 <hr/> <hr/>

17. 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.

18. 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 the Vendor 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 follows:

	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	(1,387,455)
Net assets acquired	<u>14,544,444</u>
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>12,500,003</u>
Consideration satisfied by:	
Cash	6,509,354
Fair value of 2,235,316,748 Units issued	5,990,649
	<u>12,500,003</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.

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 the base fees during the Operating Period, no further Units have been issued during the Operating Period.

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.

CORPORATE GOVERNANCE

The REIT Manager has put into effect 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 period from 11th December, 2006 (date of establishment) to 30th June, 2007, Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual.

REVIEW OF RESULTS

Regal REIT’s condensed consolidated interim financial statements for the period from 11th December, 2006 (date of establishment) to 30th June, 2007 have not been audited, but have been reviewed by Ernst & Young, the external auditors of Regal REIT, whose review report is contained in Regal REIT’s interim report for the period ended 30th June, 2007 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 period from 11th December, 2006 (date of establishment) to 30th June, 2007, including the accounting principles and practices adopted by Regal REIT, in conjunction with external auditors of Regal REIT.

ISSUANCE OF RESULTS

The interim report of Regal REIT for the period from 11th December, 2006 (date of establishment) to 30th June, 2007 will be despatched to Unitholders on or before 31st August, 2007.

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

Hong Kong, 27th August, 2007

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.