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## 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 ANNUAL RESULTS ANNOUNCEMENT

#### FINANCIAL AND BUSINESS HIGHLIGHTS

For the year ended 31st December, 2008

	Year ended 31st December, 2008 HK\$ million	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 <sup>1</sup> HK\$ million
Gross rental revenue	762.0	672.8
Net rental income	750.0	665.7
(Loss)/profit for the year/period, before distributions to Unitholders	(2,150.2) <sup>3</sup>	2,850.2 <sup>2</sup>
Distributable income for the year/period	<u>501.9</u>	<u>421.5</u>
Total assets	<u>13,916.1</u>	<u>16,933.7</u>
Net assets attributable to Unitholders	<u>8,156.8</u>	<u>10,915.1</u>
Final distribution per Unit	<u>HK\$0.08461</u>	<u>HK\$0.09627</u>
Total distributions per Unit	<u>HK\$0.16761</u>	<u>HK\$0.15327</u>
Net asset value per Unit	<u>HK\$2.596</u>	<u>HK\$3.503</u>

- The hotel portfolio achieved an increase of 0.7% in 2008 RevPAR outperforming the market average
- Total distributions per Unit up 9.4% over the prior period

<sup>1</sup> Rental period from 30th March, 2007 to 31st December, 2007

<sup>2</sup> Include 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 valuation and a revaluation gain of HK\$591.8 million that arose from the changes in the fair values of the Initial Hotels based on the independent valuer's appraisal as at 31st December, 2007

<sup>3</sup> Includes a revaluation deficit of HK\$3,133.7 million that arose from the changes in the fair values of the Initial Hotels based on the independent valuer's appraisal as at 31st December, 2008

## **GENERAL BUSINESS REVIEW**

For the year ended 31st December, 2008, Regal Real Estate Investment Trust (“Regal REIT”) recorded a consolidated net loss before distributions to unitholders of Regal REIT (the “Unitholders”) of approximately HK\$2,150.2 million. The loss incurred was primarily attributable to the revaluation deficit arising from the changes in the fair values of Regal REIT’s hotel portfolio (the “Initial Hotels”) based on the independent valuer’s appraisal as at 31st December, 2008. The decrease in the fair values of the hotel properties largely reflected the significant downturn in the financial and property market conditions in Hong Kong which, in turn, was brought about by the recent global financial crisis. The revaluation deficit is, however, a non-cash item and does not have an immediate impact on the cash flow of Regal REIT.

Total distributable income for the year under review amounted to approximately HK\$501.9 million, as compared to HK\$421.5 million for the period ended 31st December, 2007. Based on distributing 100% of the total distributable income, the directors (the “Directors”) of Regal Portfolio Management Limited (the “REIT Manager”) have declared a final distribution of HK\$0.08461 per unit of Regal REIT (the “Unit”) for the year ended 31st December, 2008, bringing the total distributions per Unit for 2008 to HK\$0.16761, up by 9.4% from HK\$0.15327 for 2007. Due to the decrease in the market valuations of the Initial Hotels as compared with their last appraised values as at 31st December, 2007, the net asset value per Unit has decreased to HK\$2.596 as at 31st December, 2008, as compared to HK\$3.503 per Unit at the end of 2007.

Given the volatile economic situation around the world, it is likely that the global economy will take some time to return to normal. While it is difficult to predict accurately when recovery will come about and although we expect that 2009 will be a very challenging year, Regal REIT’s existing lease structure provides a strong shelter to protect against fluctuations in market conditions. Moreover, all our hotels are of good quality and cater strategically to different market segments.

At the upcoming annual general meeting to be held on 8th May, 2009, the Directors will propose, among other proposals, to modify Regal REIT’s distribution policy from distributing 100% of Regal REIT’s total distributable income to no less than 90% for each financial year commencing from the year ending 31st December, 2009. By allowing flexibility to the REIT Manager to distribute 90% to 100% of the total distributable income, the REIT Manager will be able to utilise up to 10% of Regal REIT’s total distributable income annually for capital additions projects as well as for potential acquisition opportunities which will benefit Unitholders in the long term.

The delay in the implementation of the expansion plans for the acquisition of hotel properties has apparently proven to have been a correct strategy. Management continues to actively review hotel acquisition opportunities but in view of the uncertainty on the timing of an overall economic revival, the near-term focus is still to preserve liquidity and be prepared for any appropriate acquisition opportunities that may arise.

The Directors continue to be confident on the competitive strengths of the Initial Hotels as well as the capability of Regal REIT to grow the long-term value of its investment portfolio once the economy recovers.

## **CLOSURE OF REGISTER OF UNITHOLDERS**

The Register of Unitholders will be closed from Wednesday, 6th May, 2009 to Friday, 8th May, 2009, 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 4:30 p.m. on Tuesday, 5th May, 2009. The relevant distribution warrants are expected to be despatched on or about 20th May, 2009.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Operational Review**

During the year under review, Regal REIT received HK\$701.9 million cash base rent and HK\$29.0 million contribution for furniture, fixtures and equipment reserve.

Following a strong 2007, the business for the hotel industry in Hong Kong stayed relatively stable for the first nine months of 2008 and benefited from a 6.9% growth in the number of visitor arrivals to Hong Kong during January to September 2008 (10.5% growth in visitor arrivals from Mainland China).

In the fourth quarter of 2008, tourism travel and hotel businesses worldwide were severely affected by the strain on the international financial systems in the aftermath of the collapse and near collapse of some major U.S. financial institutions. Correspondingly, tourism travel to Hong Kong saw diminishing demand from key overseas markets. Visitor arrivals to Hong Kong dropped in the fourth quarter by 16% from the Americas, 11% from Europe, Africa & Middle East and 10% from North Asia regions. However, mostly offset by visitors from Mainland China (up 4.4%), the resulting drop in visitor arrivals was limited to a modest overall reduction of 0.9% in the fourth quarter and the full year number of visitor arrivals recorded a positive growth of 4.7%.

The performance of the Initial Hotels in 2008 was equally impacted by the weaker demand from overseas markets and from higher priced segments such as the financial sector in Hong Kong. Room occupancy rates in the Initial Hotels decreased by 3.4% percentage points (calculated based on increased hotel room capacity) compared with the same period in 2007.

The ongoing efforts of Regal Hotels International Limited as the hotel manager to upgrade services and to effect the improvements to the properties to increase the competitiveness of the hotels, have permitted room rate increases of 4.8% during the year and, thereby outperforming the Hong Kong hotel market. Overall, the Initial Hotels achieved a revenue per available room (“RevPAR”) growth of 0.7%, which is better than the negative RevPAR growth of the overall market. Moreover, due to increased hotel room capacity and more occupied rooms compared with 2007, the total room revenue increased by 5.5%.

Regal Airport Hotel was recognised as “Best Airport Hotel in the World 2008” by Business Traveller, UK Magazine in 2008 and “Best Airport Hotel in Asia-Pacific” by Business Traveller Asia-Pacific Magazine and TTG Asia Media Pte Limited for many consecutive years since 2001 and 2005, respectively, as well as “The Top 10 Convention & Exhibition Hotels of China of China Hotels Starlight Award (2007-2008)”. The Michelin Guide, Hong Kong and Macao, 2009 edition endorsed Regal Palace, the Chinese Restaurant in Regal Hongkong Hotel with a one star award. Regal Oriental Hotel was also awarded “The Top 10 City-Nova Hotels of China of China Hotels Starlight Award (2008)”.

The target date of the completion for the second stage of the Asset Enhancement Programme (the “AEP”) at Regal Riverside Hotel is expected to be extended to around mid-2009. The main reasons for the delay are primarily attributable to further introduction of value-enhancing design changes to the room configurations.

In 2008, capital additions projects have been committed with a total cost of about HK\$85 million covering all the five Initial Hotels. Notable projects that have since been completed included the conversion of space in Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel to add a total of approximately 16,700 square feet of state-of-the-art conference and meeting facilities, the renovation and upgrade of one guest room floor with 51 hotel rooms in Regal Kowloon Hotel to club floor standard, the setting up of 3 additional food outlets in Regal Riverside Hotel offering various choices of specialty cuisine, and the upgrade of the external façade at Regal Oriental Hotel. Projects scheduled for completion in 2009 include the re-decoration and upgrade of the Chinese restaurant in Regal Kowloon Hotel and the renovation and upgrade of the external façades at Regal Kowloon Hotel and Regal Riverside Hotel.

## **Financial Review**

As at 31st December, 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. The revolving credit facility has been drawn down subsequent to the balance sheet date and converted into a term loan. The loan facilities are repayable in full on 30th March, 2012.

The loan facilities 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.

As at 31st December, 2008, the gearing ratio was 31.3%, being the gross amount of the outstanding loans of HK\$4.35 billion as compared to the total gross assets of Regal REIT of approximately HK\$13.9 billion, which is comfortably below the 45% limit permitted under the Code on Real Estate Investment Trusts (the “REIT Code”).

Regal REIT had a total of approximately HK\$173.8 million in unrestricted cash balances and bank deposits as at 31st December, 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 31st December, 2008, Regal REIT’s investment properties were pledged to secure bank loan facilities granted to Regal REIT.

### **Hotel Industry Outlook**

For the year 2009, we expect the hotel business environment in Hong Kong to be very challenging. However, the hotel market in Hong Kong is showing remarkable resilience due to continued positive demand growth from Mainland China.

The government has declared tourism as one of the “four pillar industries” of Hong Kong and is providing proactive support to facilitate growth. In late December, the Chinese Government announced additional measures to further facilitate Mainland residents to visit Hong Kong under the Individual Visit Scheme covering over 8.6 million Shenzhen residents. As a next step, the Hong Kong Government is collaborating with the Guangdong and Macao governments with a view to extending the further liberated visitation scheme to the rest of the nearby Guangdong Province.

Events and initiatives to strengthen Hong Kong’s destination appeal in 2009 include “The Hong Kong 2009 East Asian Games”, “World of Food & Wine Festival”, “Asian Music Festival”, “Hiking Festival” and “Arts and Film Festivals”.

The Hong Kong Government is expediting investment in major infrastructure projects including the Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Shenzhen Airport Rail Link and the Liantang/Heung Yuen Wai Boundary Control Point, thereby continuing the integration with the Pearl River Delta and the Mainland, in a bid to create employment and economic growth.

The underlying strength of the growing Mainland China economy and the rising disposable incomes of its citizens coupled with the ongoing easing of travel restrictions continue to produce large numbers of new travellers entering the tourism markets. Hong Kong's favourable location, its attraction to Mainlanders and other source markets and increased efforts of the Hong Kong Government to strengthen its destination appeal, are all supporting a resilient tourism travel market in Hong Kong.

### **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.

Over the past year, management has actively reviewed numerous hotel investment proposals. However, faced with weakening hotel demand in the region in the wake of the "financial tsunami" and overbuilding in key cities on the Mainland, property values continues to fall in our target markets. It is likely that this trend will continue until the international financial systems have stabilised. In the meantime, the REIT Manager will actively monitor target markets for opportunities while remaining disciplined with the set investment criteria.

### **Net Asset Value**

The NAV per Unit amounted to HK\$2.596 as at 31st December, 2008, as compared to HK\$3.503 per Unit as at 31st December, 2007, mainly due to the revaluation deficit arising from the decrease in the fair values of the hotel properties.

### **Valuation of Investment Properties**

As at 31st December, 2008, Regal REIT's investment properties portfolio was valued at HK\$13,020,000,000 as compared with the valuation as at 31st December, 2007 of HK\$16,080,000,000.

CB Richard Ellis Limited ("CBRE"), an independent professional property valuer, assessed the market values of the Initial Hotels subject to the lease agreements and the hotel management agreements and in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)", the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the REIT Code. CBRE has 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 has been used as a check on the valuation arrived at from the DCF method.

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31st December, 2008

		<b>Year ended</b>	Period from 11th
	<b>Notes</b>	<b>31st December, 2008</b>	December, 2006 (date
		<b>HK\$'000</b>	of establishment) to
			31st December, 2007
			HK\$'000
Gross rental revenue	5	<b>761,963</b>	672,787
Property operating expenses		<b>(11,924)</b>	(7,105)
Net rental income		<b>750,039</b>	665,682
Other income	5	<b>4,452</b>	5,433
Excess over the cost of a business combination	15	-	2,044,441
Fair value changes on investment properties	10	<b>(3,133,715)</b>	591,841
REIT Manager fees	6	<b>(66,694)</b>	(53,525)
Trust and other expenses		<b>(12,836)</b>	(6,116)
Fair value changes of derivative financial instruments		<b>(23,920)</b>	-
Net interest expense on derivative financial instruments		<b>(22,558)</b>	-
Finance costs – excluding distributions to Unitholders	7	<b>(179,709)</b>	(156,994)
<b>(Loss)/profit before tax and distributions to Unitholders</b>		<b>(2,684,941)</b>	3,090,762
Tax	8	<b>534,770</b>	(240,564)
<b>(Loss)/profit for the year/period, before distributions to Unitholders</b>		<b>(2,150,171)</b>	2,850,198
Finance costs – distributions to Unitholders		<b>(511,441)</b>	(155,951)
<b>(Loss)/profit for the year/period, after distributions to Unitholders</b>		<b>(2,661,612)</b>	2,694,247
<b>(Loss)/earnings per Unit attributable to Unitholders</b>			
Basic and diluted	9	<b>HK\$(0.688)</b>	HK\$0.917

## CONSOLIDATED BALANCE SHEET

As at 31st December, 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Non-current assets</b>			
Investment properties	10	13,020,000	16,080,000
Prepaid construction costs		430,000	430,000
Construction in progress		16,743	-
Deferred tax assets		116,455	21,765
Total non-current assets		<u>13,583,198</u>	<u>16,531,765</u>
<b>Current assets</b>			
Accounts receivable	11	96,144	161,500
Prepayments and other receivables		10,272	14,537
Tax recoverable		5,062	-
Restricted cash		47,673	85,465
Cash and cash equivalents		173,789	140,412
Total current assets		<u>332,940</u>	<u>401,914</u>
<b>Total assets</b>		<u>13,916,138</u>	<u>16,933,679</u>
<b>Current liabilities</b>			
Accounts payable	12	6,887	3,885
Other payables and accruals		57,370	58,429
Total current liabilities		<u>64,257</u>	<u>62,314</u>
<b>Net current assets</b>		<u>268,683</u>	<u>339,600</u>
<b>Total assets less current liabilities</b>		<u>13,851,881</u>	<u>16,871,365</u>
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Interest-bearing bank borrowings		4,321,866	4,314,022
Derivative financial instruments		196,587	24,382
Deferred tax liabilities		1,176,651	1,617,885
Total non-current liabilities		<u>5,695,104</u>	<u>5,956,289</u>
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<u>5,759,361</u>	<u>6,018,603</u>
<b>Net assets attributable to Unitholders</b>		<u>8,156,777</u>	<u>10,915,076</u>
<b>Number of Units in issue</b>	13	<u>3,142,196,102</u>	<u>3,115,512,324</u>
<b>Net asset value per Unit</b>	14	<u>HK\$2.596</u>	<u>HK\$3.503</u>

## DISTRIBUTION STATEMENT

For the year ended 31st December, 2008

	Notes	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
<b>(Loss)/profit for the year/period, before distributions to Unitholders</b>		<b>(2,150,171)</b>	2,850,198
Adjustments:			
Excess over the cost of a business combination		-	(2,044,441)
Difference in accounting Base Rent and actual contractual cash Base Rent		(21,310)	(70,010)
Amount set aside on account for the furniture, fixtures and equipment reserve		(29,011)	(22,214)
REIT Manager fees paid/payable in the form of Units		72,867	53,525
Amortisation of debt establishment costs		7,844	5,705
Fair value changes on investment properties		3,133,715	(591,841)
Fair value changes of derivative financial instruments		23,920	-
Deferred tax (credit)/charge		(535,924)	240,564
<b>Distributable income for the year/period</b>	(a)	<b>501,930</b>	421,486
Distributable income at the beginning of the year/period		265,535	-
Distributions paid during the year/period		(511,441)	(155,951)
<b>Distributable income for final distribution</b>	(b) & (d)	<b>256,024</b>	265,535
		HK\$	HK\$
<b>Distribution per Unit:</b>			
Interim	(a)	0.08300	0.05700
Final	(b) & (c)	0.08461	0.09627
		0.16761	0.15327

### Notes:

- (a) Pursuant to the Trust Deed, Regal REIT is required to ensure that the total amount distributable to Unitholders shall not be less than 90% of Regal REIT's total distributable income 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 interim period of each financial year is at the discretion of the REIT Manager. The REIT Manager resolved to make an interim distribution of HK\$0.083 per Unit for the interim period ended 30th June, 2008.

- (b) 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 8th May, 2009 in respect of the final distribution for the period from 1st July, 2008 to 31st December, 2008. The final distribution will be paid out to Unitholders on or about 20th May, 2009. The final distribution per Unit to be paid to Unitholders for the period from 1st July, 2008 to 31st December, 2008 is arrived at based on the distributable amount to be paid to Unitholders for that period and the number of Units expected to be in issue at the Record Date that are entitled to the distribution.
- (c) Pursuant to the distribution deed dated 2nd March, 2007, Great Prestige Investments Limited, a wholly-owned subsidiary of Regal Hotels International Holdings Limited (“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 and final distributions for the year ended 31st December, 2008. No AEP was completed during 2008. The number of Units expected to be entitled to distribution for the period from 1st July, 2008 to 31st December, 2008 is calculated as follows:

	<b>Number of Units</b>
In issue as at 31st December, 2008	3,142,196,102
Issued on 23rd January, 2009 to the REIT Manager for the REIT Manager Base Fees for November 2008	5,415,600
Issued on 27th February, 2009 to the REIT Manager for the REIT Manager Base Fees for December 2008	4,448,050
To be issued to the REIT Manager for the REIT Manager Variable Fees for the year ended 31st December, 2008	22,605,114
To be issued to the REIT Manager for the REIT Manager Base Fees for January 2009 and February 2009	<u>7,056,684</u>
Units expected to be in issue at the Record Date	3,181,721,550
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 distribution at the Record Date	<u><u>3,026,042,446</u></u>

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

- (d) The final distribution of HK\$0.08461 per Unit for the period from 1st July, 2008 to 31st December, 2008, involving a total distributable amount of approximately HK\$256.0 million, was resolved and declared by the REIT Manager on 26th March, 2009. Accordingly, the distribution is not reflected as a distribution payable in the consolidated financial statements and will be reflected in the consolidated financial statements for the year ending 31st December, 2009. The final distribution for the period from 1st July, 2007 to 31st December, 2007 of approximately HK\$264.8 million was included in the amount of distributions paid during the year as reported in the current year consolidated financial statements.

## Notes to Consolidated Financial Statements:

### 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 its 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, hospitality-related properties and other commercial 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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the REIT Code.

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

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year consolidated financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures – Reclassification of Financial Assets</i>
HK(IFRIC)-Int 11	HKFRS 2 – <i>Group and Treasury Share Transactions</i>
HK(IFRIC)-Int 12	<i>Service Concession Arrangements</i>
HK(IFRIC)-Int 14	HKAS 19 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>

The adoption of these new interpretations and amendments has had no significant financial effect on the consolidated financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Joint Controlled Entity or Associate</i> <sup>1</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i> <sup>1</sup>
HKFRS 3 (Revised)	<i>Business Combinations</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i> <sup>1</sup>
HKFRS 8	<i>Operating Segments</i> <sup>1</sup>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> <sup>1</sup>
HKAS 23 (Revised)	<i>Borrowing Costs</i> <sup>1</sup>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> <sup>1</sup>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> <sup>2</sup>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 9 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i> <sup>5</sup>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i> <sup>3</sup>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i> <sup>1</sup>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i> <sup>4</sup>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> <sup>2</sup>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> <sup>2</sup>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs*\* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1st July, 2009, the amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2008

<sup>4</sup> Effective for annual periods beginning on or after 1st October, 2008

<sup>5</sup> Effective for annual periods ending on or after 30th June, 2009

\* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that, while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures and presentation of financial statements, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

#### 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 AND OTHER INCOME

	Notes	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
<b>Gross rental revenue</b>			
Rental income	(a)	723,198	647,526
Other rental-related income	(b)	29,011	22,214
Other		9,754	3,047
		<u>761,963</u>	<u>672,787</u>
<b>Other income</b>			
Bank interest income		4,452	5,428
Other		-	5
		<u>4,452</u>	<u>5,433</u>

Notes:

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

	Year ended 31st December, 2008 HK\$'000	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
Base Rent:		
Cash Base Rent	700,000	475,900
Cash Additional Base Rent *	1,888	-
Difference in accounting Base Rent and actual contractual cash Base Rent	21,310	70,010
	<u>723,198</u>	<u>545,910</u>
Variable Rent	-	101,616
	<u>723,198</u>	<u>647,526</u>

\* Cash Additional Base Rent represents additional Base Rent for capital additions projects which are proposed by the lessee, are approved and funded by Regal REIT and are intended to increase revenue and rental payment capacity of the relevant hotel property.

- (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.

## 6. REIT MANAGER FEES

	<b>Year ended 31st December, 2008 HK\$'000</b>	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
Base Fees:		
In the form of Units	50,940	36,200
In the form of cash	(6,839)	-
Variable Fees:		
In the form of Units	21,927	17,325
In the form of cash	666	-
	<u>66,694</u>	<u>53,525</u>
Total REIT Manager Fees:		
In the form of Units	72,867	53,525
In the form of cash	(6,173)	-
	<u>66,694</u>	<u>53,525</u>

During the year ended 31st December, 2008, REIT Manager fees of approximately HK\$42.5 million (period ended 31st December, 2007: HK\$28.2 million) were settled by 28,222,178 Units (period ended 31st December, 2007: 10,906,576 Units). REIT Manager fees of approximately HK\$30.4 million (period ended 31st December, 2007: HK\$25.3 million), comprising Base Fees for November 2008 and December 2008 and Variable Fees for the year ended 31st December, 2008, are to be settled subsequent to the balance sheet date in Units in accordance with the terms of the Trust Deed.

## 7. FINANCE COSTS – EXCLUDING DISTRIBUTIONS TO UNITHOLDERS

	<b>Year ended 31st December, 2008 HK\$'000</b>	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
Interest expenses on interest-bearing bank borrowings repayable within five years	147,467	173,501
Fair value changes of derivative financial instruments - cash flow hedge (transfer from hedging reserve)	23,792	(22,726)
Amortisation of debt establishment costs	7,844	5,705
Loan commitment fees	376	284
Loan agency fee	230	230
	<u>179,709</u>	<u>156,994</u>

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31st December, 2008. No provision for Hong Kong profits tax had been made in the prior period as the Group had available tax losses attached to the holding companies holding the Initial Hotels acquired by the Group to offset the assessable profits generated during the prior period.

	<b>Year ended 31st December, 2008 HK\$'000</b>	Period from 11th December, 2006 (date of establishment) to 31st December, 2007 HK\$'000
Charge for the year/period	1,154	-
Deferred tax (credit)/charge	<u>(535,924)</u>	<u>240,564</u>
Total tax (credit)/charge for the year/period	<u><u>(534,770)</u></u>	<u><u>240,564</u></u>

The deferred tax liabilities and assets shown in the consolidated balance sheet primarily relate to the deferred tax calculated on the revaluation surplus/deficit on the Initial Hotels in accordance with HKAS 12 *Income Tax*. However, based on the current tax legislation in Hong Kong, no capital gains tax is payable upon disposal of the Initial Hotels.

## 9. (LOSS)/EARNINGS PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The calculation of the basic loss per Unit is based on the loss for the year before distributions to Unitholders of approximately HK\$2,150,171,000 (period ended 31st December, 2007: profit of HK\$2,850,198,000) and the weighted average of 3,126,064,726 Units (period ended 31st December, 2007: 3,108,353,881 Units) in issue during the year. The basic loss per Unit for the year amounted to HK\$0.688 (period ended 31st December, 2007: basic earnings per Unit of HK\$0.917).

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

## 10. INVESTMENT PROPERTIES

	<b>2008 HK\$'000</b>	2007 HK\$'000
At beginning of the year/period	16,080,000	-
Additions through a business combination upon listing	-	14,900,000
Fair value changes	(3,133,715)	591,841
Transfer from prepaid construction costs	-	570,000
Capital expenditures for the year/period	<u>73,715</u>	<u>18,159</u>
At the end of the year/period	<u><u>13,020,000</u></u>	<u><u>16,080,000</u></u>

The Group's investment properties were valued on 31st December, 2008 by CBRE, an independent professionally qualified valuer and the principal valuer of Regal REIT, at HK\$13,020,000,000 on an open market value, existing use basis.

#### 11. ACCOUNTS RECEIVABLE

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Difference in accounting Base Rent and actual contractual cash Base Rent	<b>91,320</b>	70,010
Cash Additional Base Rent receivables	<b>1,888</b>	-
Variable Rent receivables	-	87,705
FF&E Reserve contribution receivables	<b>2,936</b>	3,785
	<b>96,144</b>	161,500

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 cash Additional Base Rent receivables, Variable Rent receivables and FF&E Reserve contribution receivables represent amounts due from related companies. The amounts are unsecured and repayable within one year in accordance with the terms of the respective agreements.

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

#### 12. ACCOUNTS PAYABLE

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

#### 13. NUMBER OF UNITS IN ISSUE

	<b>Number of Units</b>	
	<b>2008</b>	2007
Units in issue:		
At beginning of the year/period	<b>3,115,512,324</b>	-
Issue of new Units upon listing on 30th March, 2007	-	3,104,605,748
REIT Manager fees paid in the form of Units	<b>40,075,778</b>	10,906,576
	<b>3,155,588,102</b>	3,115,512,324
Units repurchased	<b>(13,392,000)</b>	-
At the end of the year/period	<b>3,142,196,102</b>	3,115,512,324

During the year ended 31st December, 2008, Regal REIT repurchased a total of 13,392,000 Units at an aggregate purchase price of HK\$21,172,010 on the Stock Exchange, which were all cancelled during the year.

#### 14. NET ASSET VALUE PER UNIT

The net asset value per Unit is calculated by dividing the net assets attributable to Unitholders as at 31st December, 2008 of approximately HK\$8,156,777,000 (31st December, 2007: HK\$10,915,076,000) by the number of Units in issue of 3,142,196,102 (31st December, 2007: 3,115,512,324) as of that date.

#### 15. 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 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 year, Regal REIT repurchased a total of 13,392,000 Units at an aggregate purchase price of HK\$21,172,010 on the Stock Exchange. Details of the repurchases of such Units were as follows:

Month of repurchase	Number of Units repurchased	Price per Unit		Aggregate purchase price HK\$
		Highest HK\$	Lowest HK\$	
June 2008	3,069,000	1.61	1.56	4,849,890
July 2008	9,912,000	1.62	1.54	15,699,400
September 2008	411,000	1.60	1.28	622,720
Total	<u>13,392,000</u>			21,172,010
Total expenses on Units repurchased				<u>96,739</u>
				<u>21,268,749</u>

The above repurchases were effected by the REIT Manager pursuant to the mandate from Unitholders. The 13,392,000 repurchased Units were cancelled during the year.

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

#### NEW UNITS ISSUED

Save for the 40,075,778 new Units allotted and issued to the REIT Manager in payment of Base Fees and Variable Fees, no further new Units have been issued during the year.

## **PUBLIC FLOAT**

As at 31st December, 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.

For the year ended 31st December, 2008, Regal REIT and the REIT Manager have complied with the provisions of the Compliance Manual.

## **REVIEW OF RESULTS**

The Disclosure Committee and the Audit Committee of the REIT Manager have reviewed Regal REIT’s consolidated financial statements for the year ended 31st December, 2008, including the accounting principles and practices adopted by Regal REIT, in conjunction with the external auditors of Regal REIT.

## **ISSUANCE OF ANNUAL REPORT**

The Annual Report of Regal REIT for the year ended 31st December, 2008 is expected to be despatched to Unitholders on or about mid-April 2009.

## **ANNUAL GENERAL MEETING**

An Annual General Meeting of Regal REIT will be convened on Friday, 8th May, 2009. The Notice of the Annual General Meeting will be published and sent to the Unitholders, together with the 2008 Annual Report of Regal REIT, in due course.

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

Hong Kong, 26th March, 2009

*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 Leslie LAM Kwing Wai and Hon Abraham SHEK Lai Him, J.P. as Independent Non-executive Directors.*