

acquisition activity

In December 2006, Champion REIT announced its inaugural acquisition, the purchase of three additional floors in Citibank Tower. The transaction was subject to the approval of unitholders in an extraordinary general meeting where unitholders found the terms of the transaction to their liking. More than 99.99% of the votes cast gave their support for the acquisition and the transaction was subsequently completed in early January 2007.

The acquisition achieved many purposes. It allowed Champion REIT to grow its asset base and consolidate its ownership of Citibank Plaza to 95.7% of the office complex. It had a positive impact on net asset value per unit as the purchase price was at a discount to the corresponding appraised value. It made Champion REIT the sole landlord at Citibank Plaza with the flexibility that

that entails, as the few floors remaining outside of Champion REIT's control are owner-occupied.

The acquisition also placed Champion REIT at the forefront of the Hong Kong REIT industry and was ground-breaking from several aspects. With a purchase consideration of almost HK\$1 billion, it was the first sizeable acquisition by a real estate investment trust in Hong Kong. A unique five year rental stabilization arrangement to enhance the stability of distributions by Champion REIT was introduced as part of the transaction. In essence, the stabilization arrangement allowed a gross property yield of as high as 6.2% for the three floors over the following five years, making it an attractive acquisition target from the perspective of a REIT.



CONVERTIBLE BOND ISSUE

In the process of funding the acquisition, Champion REIT introduced to the region the innovative concept of using convertible bond issues as an optimal source of funding for REITs. Such an issue was used to raise capital for the acquisition, the first for a REIT in the Far East outside of Japan. The convertible bond issued by Champion REIT had two complimentary merits. Firstly, in issuing the bond Champion REIT was able to source debt with a yield to maturity of 4.15%, substantially lower than any interest rate attainable under a comparable conventional loan. On the other hand, upon the conversion of the bond to units, the bondholder would have to pay a subscription price that was substantially higher than what a placement issue could deliver. In fact, any conversion of the bond will reduce the effective borrowing rate further from 4.15% to 2.00%, the coupon rate.

KEY TERMS OF ACQUISITION

Size of Transaction	HK\$994.6 million
Unit Cost	HK\$14,900 per sq.ft.
Gross Floor Area	66,752 sq.ft.
Stabilized Gross Yield	Up to 6.2%

KEY TERMS OF CONVERTIBLE BOND ISSUE

Issue Size	HK\$765 million
Coupon Rate	2.00%
Yield to Maturity	4.15%
Conversion Premium ¹	18%

Note

¹ to average price on 8 December 2006