

# financial review

## DISTRIBUTION AND DISTRIBUTION POLICY

The total distributable income of Champion REIT for the Reporting Period amounted to HK\$257,039,000. The total distributable income represents the consolidated profit for the Reporting Period before distribution to unitholders in the amount of HK\$725,699,000. This was adjusted to eliminate the effects of adjustments (as set out in the Trust Deed constituting Champion REIT) including non-cash finance cost of HK\$185,143,000 in relation to the interest rate swap and debt front-end fee. The effects of these have been taken into account in the consolidated income statement. The non-cash finance cost of HK\$185,143,000 is equivalent to HK\$0.0663 and HK\$0.1441 per unit before and after the Distribution Waiver (as defined below) respectively.

It is the policy of the REIT Manager to distribute 100% of Champion REIT's total distributable income to its Unitholders. Its first and only distribution for the period from the Listing Date to 31 December 2006 (the "FY06 Distribution Period"), amounted to HK\$257,039,000. A distribution will be paid to persons who are registered Unitholders of Champion REIT as at the Record Date (as set out hereinafter). The Distribution Entitlement Waiver Deed dated 26 April 2006 stipulated that each of Top Domain International Limited ("Top Domain"), a wholly-owned subsidiary of Great Eagle

Holdings Limited, Fortune Mega Investments Limited, a wholly-owned subsidiary of Kerry Properties Limited, and Wing Tai Corporation Limited agreed to waive 100% of its entitlement to receive distributions for the FY06 Distribution Period with respect to all of the units it holds as of the Listing Date ("Distribution Waiver"). After accounting for the impact, an equivalent to a distribution per unit of HK\$0.2000 is arrived at, subject to dilution upon conversion (if any, at an initial conversion price of HK\$4.6047 per unit) of the 2% guaranteed convertible bonds due 2011 ("Bonds") before the Record Date (HK\$0.1771 on a fully diluted basis). The distribution per unit of HK\$0.2000 represents an annualized distribution yield of 8.75% based on the closing unit price of HK\$3.76 as at 29 December 2006.

Pursuant to the DPU Guarantee Deed dated 26 April 2006 entered into by Top Domain, the minimum guaranteed distribution per unit for the FY06 Distribution Period is HK\$0.1694.

## CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from Monday, 7 May 2007 (the "Record Date") to Monday, 14 May 2007, both days inclusive, during which period no transfer of units will be effected. In order to become registered Unitholders on the Record Date and qualify for the distribution, all unit certificates with completed transfer

forms must be lodged with Champion REIT's unit registrar, Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 4 May 2007.

## FINANCIAL STRUCTURE

Upon listing, a total number of 2,742,710,561 units were issued by Champion REIT at HK\$5.10 per unit, out of which 1,508,490,809 units had been issued to partially finance the acquisition of properties. Total proceeds of approximately HK\$6,294.5 million were received from the initial public offering. Together with the debt financing of HK\$7,000 million drawn down on 24 May 2006, a total of HK\$13,294.5 million was raised on the Listing Date.

Champion REIT had a syndicated bank loan facility of HK\$7,200 million (the "Facility") out of which the term loan of HK\$7,000 million was outstanding as at 31 December 2006. The revolving credit facility of HK\$200 million remains undrawn since the Listing Date. The Facility is for a term of five years and bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, effective on the Listing Date, the Trust entered into interest rate swap agreements for a total notional amount equivalent to HK\$7,000 million. Under the terms of

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the interest rate swap arrangements, the interest rate of the term loan of the facility had been fixed from the Listing Date until May 2011 in a “step up” structure as follows:

1st year:	0.25% p.a.
2nd year:	0.50% p.a.
3rd year:	1.00% p.a.
4th year:	1.50% p.a.
5th year:	2.00% p.a.

On 22 December 2006, Champion REIT, through one of its indirect wholly-owned and controlled entities, issued the Bonds in an aggregate principal amount of HK\$765 million for the purpose of partially financing the acquisition of 3 floors (together with 3 car parking spaces) in Citibank Plaza (the “Acquisition”). The Bonds are due in 2011. They feature a yield to maturity of 4.15%, a coupon of 2.00% and are convertible into units of Champion REIT at an initial conversion price of HK\$4.6047 per unit.

As at 31 December 2006, total borrowings of the Trust (comprising the abovementioned HK\$7,000 million term loan and the principal amount of the Bonds in the sum of HK\$765 million) as a percentage of its gross assets was 30.0%. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets was 36.0%.

### NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

As at 31 December 2006, net assets attributable to unitholders was HK\$16,562.8 million or HK\$6.04 per unit, a 60.6% premium to the closing unit price of HK\$3.76 as of 29 December 2006, the last trading day in the Reporting Period.

### CASH POSITION

As at 31 December 2006, Champion REIT had HK\$1,241.9 million cash balance of which HK\$675.1 million had been subsequently used to pay for the balance of the purchase consideration of the Acquisition upon completion on 5 January 2007 (the “Completion”). Taking into consideration the financial resources available to the Trust, Champion REIT has sufficient liquid assets to satisfy its working capital and operating requirements.

### PLEDGE OF ASSETS

As at 31 December 2006, the properties of Champion REIT (excluding the properties under the Acquisition) with a fair value of HK\$23,500 million together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the properties were mortgaged or pledged to secure the banking facilities granted to the Trust.

The properties under the Acquisition were mortgaged to the Bond Trustee upon Completion to secure the obligations of the issuer of the Bonds under the Bonds.

### FINAL CONSIDERATION FOR THE ACQUISITION OF HOLDING COMPANY SHARES UNDER THE REORGANIZATION AGREEMENTS

On 26 April 2006, six reorganization agreements were entered into between the Trustee and six subsidiaries of Great Eagle Holdings Limited (“Vendor Companies”) respectively (“Reorganization Agreements”). The six Vendor Companies, through six holding companies (“Holding Companies”) together owned the legal and beneficial interest in a substantial portion of Citibank Plaza (“Property”). Pursuant to the Reorganization Agreements, the Trustee on behalf of Champion REIT had agreed to acquire the entire issued share capital of the six Holding Companies (“Holding Company Shares”) from the six Vendor Companies.

#### Initial Consideration

The aggregate initial consideration payable by the Trustee, on behalf of Champion REIT, for the acquisition of the Holding Companies pursuant to the Reorganization Agreements was approximately HK\$18,663,845,000.

## Adjustments

### IPO Adjustment

The IPO Adjustment determined in accordance to the Reorganization Agreements amounted to approximately HK\$637,003,000 in aggregate. The main purpose of the IPO Adjustment is to ensure that the consideration for the acquisition of the Holding Company Shares reflected the value of the Property implied by the Offer Price attributable to the Holding Companies.

### Post-Completion Adjustment

The Post-Completion Adjustment determined after the audit of the accounts and the review of the Pro Forma Completion Balance Sheet as stipulated in each Reorganization Agreements of each Holding Company and its subsidiaries by the auditors amounted to an understatement of net assets of approximately HK\$713,000 when compared to the Pro Forma Completion Balance Sheet in aggregate.

### Final Consideration

Based on the foregoing, the Manager has determined that the initial consideration is subject to a further adjustment of HK\$636,290,000 in aggregate. Accordingly, the final consideration paid by Champion REIT for the acquisition of the Holding Company Shares amounted to HK\$19,300,135,000.

## MAJOR REAL ESTATE AGENTS AND CONTRACTORS

The top five real estate agents and contractors and their respective value of service were as follows:

Real Estate Agents and Contractors	Nature of Service	Value of Contract	Relevant Cost
		HK\$	%
The Great Eagle Properties Management Company, Limited	Building Management	48,945,000	70.0
Eagle Property Management (CP) Limited	Leasing and Marketing	15,284,000	21.9
Toptech Co. Limited	Repairs and maintenance	3,070,000	4.4
Jones Lang LaSalle Limited	Leasing	933,000	1.3
The Great Eagle Engineering Company Limited	Repairs and maintenance	685,000	1.0
<b>Total</b>		<b>68,917,000</b>	<b>98.6</b>

### NEW UNITS ISSUED

There were no new Units issued during the Relevant Period.

### SUMMARY OF ALL REAL ESTATE SALES AND PURCHASE

During the Relevant Period, Champion REIT entered into a conditional sale and purchase agreement for the acquisition of 3 floors and 3 carparking spaces in Citibank Plaza. For details, please refer to the section under Connected Party Transactions.

### EMPLOYEES

Champion REIT is managed by the REIT Manager and does not employ any staff itself.

### REVIEW OF RESULTS FOR THE REPORTING PERIOD

The results of Champion REIT for the Reporting Period have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.