

corporate governance report

Champion REIT is committed to attaining best practices and standards and has in place strict corporate governance procedures to ensure that the REIT Manager carries out its fiduciary and other duties. The corporate governance framework emphasizes accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, compliance with provisions of the Code on Real Estate Investment Trusts, the Trust Deed constituting Champion REIT and other relevant regulations and sound operating and investing procedures. The REIT Manager has adopted its compliance manual (the "Compliance Manual") for use in relation to the management and operation of Champion REIT, which sets out the key processes, systems and measures and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Champion REIT.

AUTHORISATION STRUCTURE

Champion REIT is a collective investment scheme constituted as a unit trust and authorised by the Securities and Futures Commission ("SFC") under section 104 of the Securities and Futures Ordinance (Cap. 571) ("SFO") and regulated by the provisions of the Code on Real Estate Investment Trusts (the "REIT Code"). The REIT Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Stewardson, Jeremy Bellinger, the Chief Executive Officer and Executive Director, Mr. Choo Chong Yao, Patrick, the Chief Investment Officer, and Mr. Kwong Chi Kwong, the Chief Operating Officer are the responsible officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code.

HSBC Institutional Trust Services (Asia) Limited (the "Trustee") is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 29). The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

ROLES OF THE TRUSTEE AND THE REIT MANAGER

The Trustee and the REIT Manager are independent of each other. Under the trust deed dated 26 April 2006 as supplemented by a first supplemental deed dated 5 December 2006 (the "Trust Deed"), the Trustee is responsible for the safe custody of the assets of Champion REIT on behalf of Unitholders. The REIT Manager's role under the Trust Deed is to manage Champion REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of Champion REIT's assets are professionally managed in the sole interests of Unitholders.

FUNCTIONS OF THE BOARD OF DIRECTORS OF THE REIT MANAGER

The Board principally oversees the day-to-day management of the REIT Manager's affairs and the conduct of its business and is responsible for the overall governance of the REIT Manager. The Board exercises its general powers within the limits defined by the Articles of Association, with a view to ensuring that management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board will also review major financial decisions and the performance of the REIT Manager. In accordance with the REIT Code, the REIT Manager is required to act in the best interests of Unitholders, to whom it owes a fiduciary duty.

Board Composition

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of 5 Directors and a maximum of 13 Directors. Pursuant to the REIT Manager's corporate governance policy, Independent Non-executive Directors ("INEDs") must be individuals who fulfill the independence criteria set out in the Compliance Manual.

The composition of the Board is determined using the following principles:

- the Chairman of the Board should be a Non-executive Director of the REIT Manager;
- the Board should comprise Directors with a broad range of commercial experience including expertise in funds management and the property industry; and
- at least one-third, and a minimum of three members, of the Board should be INEDs.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board presently comprises nine members, four of whom are INEDs. All Directors shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT Manager.

The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Dr. Lo Ka Shui who is a Non-executive Director. The Chief Executive Officer is Mr. Stewardson, Jeremy Bellinger who is an Executive Director.

The Audit Committee of the REIT Manager has received written annual confirmation from each INED of his independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual.

During the Reporting Period, two board meetings were held on 11 August 2006 and 1 December 2006 and the attendance at the two meetings were 70%.

Audit Committee

The REIT Manager established an Audit Committee on 28 March 2006. The Audit Committee is appointed by the Board of Directors from among the Non-executive Directors of the REIT Manager; a majority of the members of the Audit Committee are required to be INEDs. The Audit Committee comprises three INEDs (namely, Mr. Eldon, David Gordon, Professor K.C. Chan and Mr. Shek Lai Him, Abraham) and two Non-executive Directors (namely, Dr. Lo Ka Shui and Mr. Ang Keng Lam). Mr. Eldon, David Gordon is the Chairman of the Audit Committee.

The role of the Audit Committee is to monitor and evaluate the effectiveness of the REIT Manager's internal controls. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports issued by the REIT Manager. The Audit Committee is responsible for the nomination of external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance.

The Audit Committee's responsibilities also include:

- (a) reviewing external audit reports to ensure that, where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- (b) monitoring the procedures in place to ensure compliance with applicable legislation, the REIT Code and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules");
- (c) reviewing all financial statements and all internal audit reports;
- (d) monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Champion REIT and a "connected person" (as defined in the REIT Code); and
- (e) making recommendations to the Board on persons for appointment and reappointment as Directors to, and persons for removal as Directors from, the full Board.

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Two meetings of the Audit Committee were held on 11 August 2006 and 25 November 2006 and the attendance at the two meetings were 60% and 80% respectively.

Disclosures Committee

The REIT Manager established a Disclosures Committee on 28 March 2006. The Disclosures Committee is appointed by the Board of Directors from among the Directors. The Disclosures Committee consists of Mr. Shek Lai Him, Abraham, an INED, Dr. Lo Ka Shui, the Chairman and Non-executive Director, and Mr. Stewardson, Jeremy Bellinger, the Chief Executive Officer and Executive Director. Mr. Shek Lai Him, Abraham acted as Chairman of the Disclosures Committee for the period from 28 March 2006 to 31 December 2006 and Mr. Stewardson, Jeremy Bellinger was appointed Chairman on 1 January 2007. The role of the Disclosures Committee is to review matters relating to the disclosure of information to Unitholders and public announcements. The Disclosures Committee also works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee's responsibilities include:

- (a) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, financial reporting, connected party transactions, and potential areas of conflict of interests;
- (b) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Champion REIT to the public and applicable regulatory agencies;
- (c) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Champion REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable; and
- (d) reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies.

Two meetings of the Disclosures Committee were held on 11 August 2006 and 1 December 2006 and the attendance at the two meetings were 100%.

MANAGEMENT OF BUSINESS RISK

The Board will meet quarterly or more often if necessary and will review the financial performance of the REIT Manager and Champion REIT against a previously approved budget. The Board will also review any risks to assets of Champion REIT, examine liability management and will act upon any comments from the auditors of Champion REIT.

The REIT Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the REIT Manager and Champion REIT. In assessing business risk, the Board will consider the economic environment and the property industry risk. It will review management reports and feasibility studies on individual development projects prior to approving major transactions.

CONFLICTS OF INTEREST AND BUSINESS COMPETITION WITH GREAT EAGLE HOLDINGS LIMITED

Great Eagle Holdings Limited ("Great Eagle"), which is headquartered in Hong Kong, is engaged principally in property development, management and investment in the office, retail and hotel sectors in Hong Kong. It also invests in office properties in the United States, and invests in and manages hotels in North America, Europe, Australia and New Zealand.

There may be circumstances where Champion REIT competes directly with Great Eagle and/or its subsidiaries or associates for acquisitions or disposals of properties as well as for tenants within the Hong Kong market as Great Eagle, its subsidiaries and associates are engaged in and/or may engage in, amongst other things, investment in, and the development and management of, properties in the office, retail, residential and hotel sectors in Hong Kong and elsewhere.

In addition, there may be potential conflicts of interests between Great Eagle and Champion REIT in respect of the performance of estate management services in relation to Citibank Plaza or other properties that may be acquired by Champion REIT, as the REIT Manager, Eagle Property Management (CP) Limited (the "Property Manager"), Longworth Management Limited (the "DMC Manager"), and The Great Eagle Properties Management Company, Limited (appointed by the DMC Manager) (the "DMC Sub-manager") are each a wholly-owned subsidiary of Great Eagle and two members of the Board are directors of Great Eagle and/or its affiliated companies.

The REIT Manager has instituted the following procedures to deal with conflicts of interests issues:

- (a) The REIT Manager is a dedicated manager to Champion REIT and will not manage any other real estate investment trust or be involved in any other real property business.
- (b) The majority of the Board are not related to Great Eagle and the INEDs will act independently for the interests of Champion REIT. Furthermore, the management structure of the REIT Manager includes the Audit Committee and the Disclosures Committee to promote a high level of corporate governance and address any potential conflicts of interests with Great Eagle. In addition, the REIT Manager has adopted the Compliance Manual which sets out detailed compliance procedures in connection with its operations.
- (c) The REIT Manager has a team of full-time senior management and employees that operates independently of Great Eagle.
- (d) All connected party transactions are managed in accordance with the procedures set out in the REIT Code, the Compliance Manual and other relevant policies and guidelines issued for and adopted by Champion REIT.

In respect of matters in which a Director has an interest, direct or indirect, in any contract or arrangement to which Champion REIT (whether through the REIT Manager or the Trustee) is a party, such interested Director shall disclose his interest to the Board and abstain from voting at a meeting of the Directors at which the relevant matters are to be decided.

With respect to estate management services, the REIT Manager does not anticipate any significant likelihood of conflicts of interests arising between Great Eagle and Champion REIT. Further, given the extensive experience of the DMC Manager and the DMC Sub-manager in the estate management of Citibank Plaza, the REIT Manager considers that it is in the interest of Champion REIT for the existing estate management arrangements to continue. Although the DMC Manager is also currently the manager of the office block in Langham Place which is majority owned by Great Eagle, the DMC Manager does not have a substantive role in property management of Citibank Plaza as such functions have been delegated to the DMC Sub-manager. The DMC Sub-manager currently has a team of more than 40 full time staff exclusively dedicated to carrying out property management services in respect of Citibank Plaza with a separate office location and IT system.

With respect to leasing and marketing functions, the REIT Manager does not anticipate any significant likelihood of conflicts of interests arising between Great Eagle and Champion REIT because the Property Manager provides property management services (including leasing and marketing functions) in respect of Citibank Plaza exclusively and will not perform any property management functions in respect of Great Eagle's properties. The Property Manager has an office location that is separate from the other Great Eagle entities that perform leasing and marketing functions in respect of other properties held by Great Eagle. To ensure that there is segregation of information between the Property Manager and other Great Eagle entities, the Property Manager has its own database with access and security codes different from those of Great Eagle.

GENERAL MEETINGS

Champion REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The Trustee or the REIT Manager may at any time convene a meeting of Unitholders. The REIT Manager will also convene a meeting of Unitholders if requested in writing by not less than two Unitholders registered as holding together not less than 10% of the Units for the time being in issue and outstanding. Except as otherwise provided by in the Trust Deed, at least 14

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days' notice of the meeting will be given to Unitholders where an Ordinary Resolution is proposed for consideration at such meeting, and at least 21 days' notice will be given to Unitholders where a Special Resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transaction of all business, except for the purpose of passing a Special Resolution. The quorum for passing a Special Resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units for the time being in issue and outstanding.

For a meeting at which Unitholders have a material interest in the business to be conducted and that interest is different from the interests of other Unitholders (as determined by the REIT Manager (where the Unitholder(s) concerned is (are) not connected persons related to the REIT Manager) or the Trustee (where the Unitholder(s) concerned is (are) connected persons related to the REIT Manager), if appropriate, in its absolute opinion) including an issue of new Units where a Unitholder may increase his holdings of Units by more than his pro rata share, such Unitholders shall be prohibited from voting their own Units at such meeting or being counted in the quorum for such meeting.

At any meeting, a resolution put to the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder provided such Units are fully paid up. Votes cast by a Unitholder in contravention of the REIT Code or the Listing Rules shall not be counted. On a poll, votes may be given either personally or by proxy. The form of the instrument of proxy used shall be in accordance with the form illustrated in the Trust Deed or in any other form which the Trustee shall approve.

Any Unitholder being a corporation may by resolution of its directors (or other governing body) authorize any person to act as its representative at any meeting of Unitholders. A person so authorized shall have the same rights and powers as if he were an individual Unitholder.

REPORTING AND TRANSPARENCY

Champion REIT will prepare its accounts in accordance with Hong Kong GAAP with a financial year end of 31 December and a financial half-year end of 30 June. In accordance with the REIT Code, the annual report and accounts for Champion REIT will be published and sent to Unitholders no later than four months following each financial year end and the interim results no later than two months following each financial half year.

The REIT Manager will furnish to Unitholders notices of meetings of Unitholders, announcements relating to Champion REIT, circulars in respect of transactions that require Unitholders' approval or information that is material in relation to Champion REIT (such as connected party transactions, transactions that exceed a stated percentage threshold, a material change in Champion REIT's financial forecasts, an issue of new Units or a valuation of real estate held by Champion REIT). Under the Trust Deed, the REIT Manager is required to keep Unitholders informed of any material information pertaining to Champion REIT in a timely and transparent manner as required by the REIT Code.

ISSUES OF FURTHER UNITS POST-LISTING

To minimize the possible material dilution of holdings of Unitholders, any further issue of units will need to comply with the pre-emption provisions contained in the REIT Code and the Trust Deed. Such provisions require that further issues of units be first offered on a pro rata pre-emptive basis to existing Unitholders except that Units may be issued, or agreed (conditionally or unconditionally) to be issued, in any financial year (whether directly or pursuant to any Convertible Instruments (as defined in the Trust Deed) otherwise than on a pro rata basis to all existing Unitholders and without the approval of Unitholders if:

- (a) the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that financial year, without taking into account:

- (1) any new Units issued or issuable in that financial year pursuant to any Convertible Instruments issued (whether in that or any prior financial year) pursuant to and in compliance with Clause 7.1.6 of the Trust Deed, to the extent that such new Units are covered by the aggregate number of new Units contemplated under Clause 7.1.6(i)(b) of the Trust Deed at the Relevant Date (as defined in the Trust Deed) applicable to the relevant Convertible Instruments;
- (2) such number of new Units issued or issuable pursuant to any such Convertible Instruments as a result of adjustments arising from the consolidation or sub-division or re-designation of Units;
- (3) any new Units issued in that financial year pursuant to any agreement for the issuance of Units, to the extent that such new Units were previously taken into account in the calculation made under Clause 7.1.6(i)(a) of the Trust Deed (whether in that or any prior financial year) at the Relevant Date applicable to that agreement; and/or
- (4) any new Units issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and in respect of which the specific prior approval of Unitholders in accordance with the relevant requirements of the Trust Deed and under applicable laws and regulations (including the REIT Code) has been obtained;

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- (b) (1) the maximum number of new Units issuable at the Initial Issue Price (as defined in Clause 7.2.2 of the Trust Deed) pursuant to any Convertible Instruments issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Unitholders and whose Relevant Date falls within that financial year; and
- (2) the maximum number of any other new Units which may be issuable pursuant to any such Convertible Instruments as at the Relevant Date thereof as estimated or determinable by the REIT Manager in good faith and using its best endeavours and confirmed in writing to the Trustee and the SFC, having regard to the relevant terms and conditions of such Convertible Instruments (including any additional new Units issuable under any adjustment mechanism thereunder other than adjustments arising from the consolidation or sub-division or re-designation of Units),

does not increase the number of Units that were outstanding at the end of the previous financial year (or, in the case of an issue of, or an agreement (whether conditional or unconditional) to issue, Units or Convertible Instruments during the first financial year, the number of Units that were outstanding as of the Listing Date) by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC).

In circumstances where pre-emption rights apply, only to the extent that the Units offered are not taken up by such holders may they be allotted to or issued to other persons or otherwise than pro rata to their existing holdings.

An issue of Units to a connected person of Champion REIT (other than as part of an offer made to all Unitholders on a pro rata basis, and other than issues of Units to the REIT Manager as payment of the REIT Manager's fee in accordance with certain waivers granted by the SFC) shall require specific prior approval of Unitholders by way of an Ordinary Resolution in respect of which the connected person shall be prohibited from voting or being counted in the quorum for the meeting of the Unitholders. Where the issue of Units would give rise to a conflict of interest on the part of the REIT Manager or its connected persons, the REIT Manager and its connected persons shall abstain from voting in relation to any issuance of Units.

DISTRIBUTION

Unitholders will be entitled to receive distributions when declared by the REIT Manager out of assets legally available for the payment of distributions. Under the Trust Deed, the REIT Manager is required to distribute to Unitholders each year an amount not less than 90% of Annual Distributable Income (as defined in the Trust Deed) for the financial year. It is the REIT Manager's policy to distribute to Unitholders as dividends an amount equal to 100% of Champion REIT's Annual Distributable Income for each financial year.

INTEREST OF, AND DEALINGS IN UNITS BY, DIRECTORS, THE REIT MANAGER OR THE SIGNIFICANT UNITHOLDERS

To monitor and supervise any dealings of Units, the REIT Manager has adopted a code governing dealings in the securities of Champion REIT by the Directors and the REIT Manager (the "Governing Code") equivalent to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules. Pursuant to this Governing Code, any Directors or the REIT Manager wishing to deal in the Units must first have regard to provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct. In addition, a Director must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of himself or others.

Directors who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any price-sensitive information must refrain from dealing in the Units as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules. Directors who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors who are not so privy that there may be unpublished price-sensitive information and that they must not deal in Champion REIT's securities for a similar period.

Similarly, where the REIT Manager is in possession of any unpublished price-sensitive information, it must refrain from dealing in the Units as soon as it becomes aware of, or privy to, such information until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules.

During the period commencing one month immediately preceding the earlier of the date of the board meeting for the approval of Champion REIT's results for any period as required under the REIT Code and the deadline for Champion REIT to publish an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, a Director or the REIT Manager must not deal in any Units unless the circumstances are exceptional, for example, the exceptional circumstances as described in Rule C14 of Appendix 10 to the Listing Rules. In any event, in the case of dealings by a Director or the REIT Manager, the Directors or the REIT Manager must comply with the procedure set out in the Governing Code.

The above codes of good practice may also be extended to senior executives, officers and other employees of the REIT Manager as the Board may determine.

The REIT Manager has also adopted procedures for the monitoring of disclosure of interests by Directors and the Chief Executive Officer of the REIT Manager, and the REIT Manager. The provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager, the Directors and Chief Executive Officer of the REIT Manager and each Unitholder and all persons claiming through or under them.

Under the Trust Deed and by virtue of the deemed application of Part XV of the SFO, Unitholders will have a notifiable interest if their holdings of Units reach or exceed the notifiable percentage level (as defined in the SFO for the purposes of Part XV of the SFO) i.e. 5% of the Units then in issue, and will be required to notify The Stock Exchange of Hong Kong Limited and the REIT Manager of their holdings in Champion REIT. The REIT Manager shall keep a register for these purposes and it shall record in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the REIT Manager.

CONFIRMATION OF COMPLIANCE WITH THE GOVERNING CODE

Specific enquiry has been made with the Directors and the REIT Manager and they have confirmed that they complied with the required standards set out in the Governing Code.

MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of Special Resolution. Such matters include:

- (a) change in the REIT Manager's investment policies/strategies for Champion REIT;
- (b) disposal of any real estate investment of Champion REIT or shares in any special purpose vehicles holding such real estate investment within two years of acquisition;
- (c) any increase in the rate of the REIT Manager's fees above the permitted limit or changing the structure of the REIT Manager's fees;
- (d) any increase in the rate of the Trustee's fees above the permitted limit or change in the structure of the Trustee's fees;
- (e) certain modifications of the Trust Deed;
- (f) termination of Champion REIT;
- (g) merger of Champion REIT;
- (h) removal of Champion REIT's auditors and appointment of new auditors; and
- (i) removal of the Trustee or the REIT Manager.

As stated above, the quorum for passing a Special Resolution is two or more Unitholders present in person or by proxy registered as holding not less than 25% of the units in issue and outstanding. A Special Resolution may only be passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at duly convened meeting and the votes shall be taken by way of poll.

REPURCHASE, SALE OR REDEMPTION OF UNITS

Under the Trust Deed constituting Champion REIT, the REIT Manager is not permitted to repurchase or redeem any of the Units in Champion REIT until permitted to do so by the relevant codes and guidelines issued by the SFC from time to time. During the Reporting Period, there was no purchase, sale or redemption of the Units by Champion REIT or its wholly owned and controlled entities.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued and outstanding Units were held in public hands as of 31 December 2006.

COMPLIANCE

The REIT Manager has complied with the provisions of the Compliance Manual.