notes to the consolidated financial statements

For the period from 26 April 2006 (the date of establishment) to 31 December 2006
(operations since 24 May 2006, the listing date)

1. GENERAL

Champion Real Estate Investment Trust ("Champion 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 have been listed on The Stock Exchange of Hong Kong Limited since 24 May 2006. Champion REIT is governed by the deed of trust dated 26 April 2006, as amended by a first supplemental deed dated 5 December 2006 (the "Trust Deed"), entered into between Eagle Asset Management (CP) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts (the "Code") issued by the Securities and Futures Commission of Hong Kong.

The principal activity of Champion REIT and its controlled entities (the "Group") is to own and invest in income-producing commercial properties in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit. The address of the registered office of the Manager and the Trustee, is Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, and 1 Queen's Road Central, Hong Kong, respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of Champion REIT.

In the interim financial statements, the units issued by Champion REIT were classified as equity instruments. However, as Champion REIT has a limited life of 80 years, the units contain a contractual obligation upon the termination of Champion REIT to distribute all assets of Champion REIT less any liabilities to its unitholders. This obligation therefore results in the units being classified as financial liabilities in accordance with Hong Kong Accounting Standard 32: *Financial Instruments: Disclosure and Presentation.*

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the relevant provisions of the Trust Deed, the Code and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical basis, except for investment properties and certain financial instruments, which are measured at fair values.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Champion REIT and the entities controlled by Champion REIT. Control is achieved when Champion REIT has the power to govern the financial and operating policies of the entities so as to obtain benefits from their activities. The results of entities acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment properties are included in profit and loss for the period in which they arise.

Leasing

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Loans and receivables (including trade and other receivables and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability. The Group's financial liabilities (including trade and other payables, secured term loan, convertible bonds and unitholders' funds) are subsequently measured at amortised cost, using the effective interest method except for the derivative component of convertible bonds which is stated at fair value.

Unitholders' funds

In accordance with the Trust Deed, Champion REIT has a limited life of 80 years. Accordingly, the units contain a contractual obligation upon the termination of Champion REIT to distribute a share of all net cash proceeds derived from the sale or realisation of the assets of Champion REIT less any liabilities to its unitholders, in accordance with their proportionate interests in Champion REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with Hong Kong Accounting Standard 32: *Financial Instruments: Disclosure and Presentation*. It is presented on the balance sheet as net assets attributable to unitholders.

In addition, in accordance with the Trust Deed, Champion REIT is required to distribute to unitholders not less than 90% of its distributable income from each financial period and it is the Manager's stated policy to distribute to unitholders 100% of the distributable income.

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group uses interest rate swaps to hedge its exposure against changes in interest rates. Hedge relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in a hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in a hedging reserve are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in a hedging reserve at that time remains in a hedging reserve is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in a hedging reserve is recognised immediately in profit or loss.

The hedging reserve is presented within net assets attributable to unitholders.

Convertible bonds
Convertible bonds issued by the Group that contain both liability and derivative components are classified separately into the respective items on initial recognition. At the date of issue, both the liability and derivative components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative option components in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in net assets attributable to unitholders is recognised in profit and loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for service provided in the normal course of business.

Rental income from operating lease is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases. Lease incentives provided to the leasees are amortised on a straight-line basis over the respective term of the lease.

Building management fee income is recognised when building management services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs

Borrowing costs are recognised as an expense in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to net assets attributable to unitholders, in which case the deferred tax is also dealt with in net assets attributable to unitholders and presented within net assets attributable to unitholders.

Potential impact arising from recently issued accounting standards

At the date of authorisation of the consolidated financial statements, the following Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC)") were issued but not yet effective. The Manager anticipates that the application of these standards or interpretations will have no material impact on the consolidated financial statements of the Group:

HKAS 1 (Amendment)	Capital Disclosures [a]
HKFRS 7	Financial Instruments: Disclosures [a]
HKFRS 8	Operating segments [h]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [b]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [c]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [d]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment [e]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions [f]
HK(IFRIC) – INT 12	Service Concession Arrangements [g]

a Effective for annual periods beginning on or after 1 January 2007
b Effective for annual periods beginning on or after 1 March 2006.
c Effective for annual periods beginning on or after 1 May 2006.
d Effective for annual periods beginning on or after 1 June 2006.
e Effective for annual periods beginning on or after 1 November 2006.
f Effective for annual periods beginning on or after 1 March 2007.
g Effective for annual periods beginning on or after 1 January 2008.
h Effective for annual periods beginning on or after 1 January 2009.

3. FINANCIAL INSTRUMENTS

Financial risks management objectives and policies

Credit risk

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the Group, as and when they fall due. The Manager has established credit limits for tenants and monitors their balances on an ongoing basis. The Manager reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments are limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Manager has put in place interest rate swap arrangements to minimise the variability in cash flows attributable to changes in interest rate. This involves fixing the portion of interest payable on its underlying debt liabilities via financial derivatives.

Liquidity risk

The Group is in a net current liability position at the balance sheet date. The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the Manager observes the Code concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit. A revolving credit facility has also been put in place for contingency purposes as disclosed in note 21.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions;

(ii) The fair value of derivative instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

The Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES

In the process of applying the Group's accounting policies, which are described in note 2, the Manager has made judgments about assumptions concerning the future that have a significant risk of causing a material adjustment on the amounts recognised in the consolidated financial statements in the next financial year.

As described in note 15, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates. In relying on the valuation report, the Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in notes 16 and 22, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates.

5. 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 investing in commercial properties. Accordingly, no segment information by business and geographical segment is presented.

6. RENTAL INCOME

	HK$'000
Rental income	284,445
Car park income	6,959
	291,404

7. RENTAL RELATED INCOME

	HK$'000
Interest income from tenants	55
Sundry income	228
	283

8. PROPERTY OPERATING EXPENSES

	HK$'000
Building management fees	48,945
Car park operating expenses	856
Government rent and rates	9,043
Legal cost and stamp duty	1,255
Property and lease management service fee	8,310
Property miscellaneous expenses	677
Rental commission	8,755
Repairs and maintenance	807
	78,648

9. MANAGER'S FEE

Under the Trust Deed, provided that Champion REIT achieves net property income (before deduction therefrom of the Manager's Fee) of HK$270 million for the period from the Listing Date to 31 December 2006, the Manager will receive a Manager's Fee of 12% of the net property income of Champion REIT (before deduction therefrom of the Manager's Fee) for such period.

As the net property income for the period from the Listing Date to 31 December 2006 was HK$260,867,000, the Manager is not entitled to any Manager's Fee.

10. TRUST AND OTHER EXPENSES

	HK$'000
Auditors' remuneration	1,218
Trustee's remuneration	2,671
Principal valuer's fee	110
Other professional fees and charges	1,438
	5,437

11. FINANCE COSTS

	HK$'000
Finance costs represent:	
Interest expense on bank borrowings wholly repayable within five years	195,787
Interest expense on convertible bonds wholly repayable within five years	1,113
Commitment fee	183
	197,083

12. INCOME TAXES

	HK$'000
Hong Kong Profits Tax:	
Current tax	335
Deferred tax (note 23)	155,888
	156,223

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period and the income taxes for the period can be reconciled to the profit before tax and distribution to unitholders as follows:

	HK$'000
Profit before tax and distribution to unitholders	881,922
Tax at the domestic income tax rate of 17.5%	154,336
Tax effect of income not taxable for tax purpose	(2,309)
Tax effect of expenses not deductible for tax purpose	3,712
Tax effect of tax loss not recognised	484
Income taxes for the period	156,223

13. BASIC AND DILUTED EARNINGS PER UNIT

The calculation of the basic and diluted earnings per unit before distribution to unitholders is based on the following data:

	HK$'000
Earnings	
Profit for the period, before distribution to unitholders	
for the purpose of basic earnings per unit	725,699
Effect of dilutive potential units:	
Interest on convertible bonds	1,113
Change in fair value of derivative components of convertible bonds	740
Profit for the period, before distribution to unitholders	
for the purpose of diluted earnings per unit	727,552
Number of units	
Weighted average number of units for the purpose of	
basic earnings per unit	2,742,710,561
Effect of dilutive potential units:	
Convertible bonds	7,483,541
Weighted average number of units for the purpose of	
diluted earnings per unit	2,750,194,102
Basic earnings per unit	HK$0.26
Diluted earnings per unit	HK$0.26

14. TOTAL DISTRIBUTABLE INCOME

The total distributable income is the profit for the period, before distribution to unitholders as adjusted to eliminate the effects of Adjustments (as set out in the Trust Deed) which have been recorded in the consolidated income statement for the relevant period. The adjustments to arrive at total distributable income for FY06 Distribution Period are set out below:

	HK$'000
Profit for the period, before distribution to unitholders	725,699
Adjustments:	
Manager's fee	–
Listing expenses	16,249
Increase in fair value of investment properties	(827,368)
Change in fair value of derivative component of convertible bonds	740
Finance costs	185,831
Deferred tax	155,888
Total distributable income	257,039

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
Acquired upon listing	22,670,000
Additions during the period	2,632
Increase in fair value during the period	827,368
As at 31 December 2006	23,500,000

On 31 December 2006, Savills Valuation and Professional Services Limited undertook an independent valuation. This firm is an independent qualified professional valuer not connected to the Group. The valuation, which conforms to International Valuation Standards, was arrived by using the basis of capitalisation of the net rental income and by reference to market prices of relevant period for similar properties.

The Group's property interests held under operating leases which are located in Hong Kong under medium-term leases are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the Group's properties have been pledged to secure banking facilities granted to the Group.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	HK$'000
Cash flow hedge – interest rate swaps	1,042,052

The Group uses interest rate swaps to minimise the exposure to movements in interest rates in relation to its floating rates term loan by swapping from floating rates to fixed rates. The interest rate swaps and the corresponding term loan have the same terms and the Manager considers that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
HK$7,000,000,000	24 May 2011	From 3 months Hong Kong Interbank Offered Rate ("HIBOR") plus 0.53% to step up rate of 0.25% in the first year, 0.5% in the second year, 1% in the third year, 1.5% in the fourth year and 2% in the fifth year

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the discounted cash flow model.

17. DEPOSIT FOR ACQUISITION OF INVESTMENT PROPERTIES

As at 31 December 2006, the Group paid HK$60,000,000 as deposit for the acquisition of investment properties to which it is committed. Details of the acquisition are set out in note 31.

18. TRADE AND OTHER RECEIVABLES

	HK$'000
Trade receivables	219
Deferred rent receivables	14,696
Deposits, prepayments and other receivables	15,242
	30,157

The Group maintains a defined credit policy. Rental receivable from tenants are payable on presentation of invoices. The aged analysis of trade receivables is as follows:

	HK$'000
0 - 3 months	219

The Manager considers that the carrying amount of trade and other receivables as at 31 December 2006 approximates to their fair values.

19. BANK BALANCES AND CASH

	HK$'000
Cash on hand	183
Cash at bank	42,836
Time deposits	1,198,841
	1,241,860

Time deposits with a maturity of less than three months carry interest at market rates which range from 3.50% to 4.00%.

20. TRADE AND OTHER PAYABLES

	HK$'000
Trade payables	12,535
Rental received in advance	12,114
Other payables	47,598
Accrued stamp duty	850,125
	922,372

The accrual for stamp duty is based on the current stamp duty rate of 3.75% and the stated consideration of HK$22,670,000,000 in the property sale and purchase agreements for the legal assignment of the investment properties.

The aged analysis of trade payables is as follows:

	HK$'000
0 - 3 months	12,535

The Manager considers that the carrying amount of trade and other payables as at 31 December 2006 approximates to their fair values.

21. SECURED TERM LOAN

	HK$'000
Secured term loan	7,000,000
Loan front-end fee	(31,413)
	6,968,587

Under the banking facility agreement, the Group has been granted a facility of HK$7,200,000,000 before origination fee, comprising a HK$7,000,000,000 term loan and a HK$200,000,000 revolving credit facility.

The HK$7,000,000,000 term loan drawn as at 31 December 2006 bears interest at floating interest rate of 3 months HIBOR plus 0.53% and is repayable in full on 24 May 2011. The effective interest rate of the five-year term loan is 5.8% per annum.

22. CONVERTIBLE BONDS

Treasure Source Limited (the "CB Issuer"), an entity indirectly wholly-owned and controlled by Champion REIT, issued the Bonds in the aggregate principal amount of HK$765,000,000 on 22 December 2006. The Bonds entitle the holders to convert them into units of Champion REIT at any time on and after 1 February 2007 up to and including 13 May 2011 at an initial conversion price of HK$4.6047 per unit unless the Bonds shall have been called for full redemption by the CB Issuer after 22 December 2009. If the holder has elected to convert the Bonds, the CB Issuer shall have an option to pay to the holders in whole or in part an amount of cash equal to the market values of the number of units deliverable. If the Bonds have not been converted, redeemed or purchased and cancelled, they will be redeemed on 23 May 2011 at 110.328%. Interest of 2% will be paid semi-annually in arrears on 23 May and 23 November in each year, commencing on 23 May 2007.

The Bonds contain two components with the liability component stated at amortised cost and derivative component stated at fair value. Issue costs of HK$6,422,000 are apportioned between the liability component and the derivative component based on their relative fair values at the date of issue. An issue cost of HK$6,100,000 relating to the liability component is added to the fair value of liability component at the date of issue. The effective interest rate of the liability component is 5.550%.

The movement of the liability and derivative components of the Bonds for the period is set out as below:

	HK$'000
Liability component	
Amount initially recognised	721,925
Imputed interest expense	656
Amortisation of bond issue cost	32
As at 31 December 2006	722,613
Derivative component	
Amount initially recognised	36,975
Change in fair value	740
As at 31 December 2006	37,715
Total convertible bonds	760,328

Conditional upon the completion of the acquisition of investment properties (as mentioned in note 31), the acquired properties will be mortgaged to the Bond Trustee to secure the obligations of the CB Issuer under the Bonds.

23. DEFERRED TAX LIABILITIES

The followings are the major components of deferred tax liabilities and assets recognised and the movements thereon during the period:

	Accelerated tax depreciation HK$'000	Investment properties HK$'000	Tax losses HK$'000	Total HK$'000
Charge to consolidated income statement for the period and at end of period	74,282	144,789	(63,183)	**155,888**

As at 31 December 2006, tax losses amounting to HK$2,766,000 were not recognised. Tax losses may be carried forward indefinitely.

24. NUMBER OF UNITS IN ISSUE

Upon listing on 24 May 2006 and as at 31 December 2006, Champion REIT issued 2,742,710,561 units at HK$5.10 per unit.

25. NET ASSET VALUE PER UNIT

The net asset value per unit is calculated by dividing the net assets attributable to unitholders as at 31 December 2006 of HK$16,562,844,000 by the number of units in issue of 2,742,710,561 as at 31 December 2006.

26. NET CURRENT LIABILITIES

At 31 December 2006, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK$154,405,000.

27. TOTAL ASSETS LESS CURRENT LIABILITIES

At 31 December 2006, the Group's total assets less current liabilities amounted to HK$24,447,647,000.

28. ACQUISITION OF PROPERTY INTERESTS

On 26 April 2006, the Trustee, on behalf of Champion REIT, entered into certain reorganisation agreements with the property holding companies of Great Eagle, in connection with the acquisition of the property interests in Citibank Plaza and its related assets and liabilities ("Property Interests") from Great Eagle and other minority shareholders of these property holding companies (collectively "Vendor Companies"). Details of the reorganisation are set out in the offering circular of Champion REIT dated 11 May 2006.

The above reorganisation was completed on 24 May 2006 and the transactions involved in the above reorganisation were accounted for as acquisition of assets and the related liabilities. Accordingly, the Group accounted for the net rental income of the Property Interests from 24 May 2006 to 31 December 2006 in these consolidated financial statements. The acquired Property Interests contributed rental income of HK$291,404,000 and profit for the period, before distribution to unitholders of HK$36,509,000 to the Group for the period from the Listing Date to 31 December 2006.

The consideration and the fair value of the Property Interests acquired amounting to HK$19,300,135,000 and HK$21,826,278,000 respectively, resulted in an excess of fair value of Property Interests acquired over the acquisition cost. The difference of HK$2,526,143,000 between the fair value of Property Interests acquired from the Vendor Companies over the acquisition cost has been included in the changes in net assets attributable to unitholders.

The net cash outflow arising from the Property Interests acquired is as follows:

	HK$'000	HK$'000
Investment properties		22,670,000
Trade and other receivables		19,114
Bank balances and cash		256,627
Trade and other payables		(17,544)
Deposits received		(75,320)
Tax liabilities		(176,474)
Accrued stamp duty		(850,125)
Net assets acquired		21,826,278
Total consideration satisfied by:		
– Cash paid	11,606,832	
– Fair value of units issued	7,693,303	19,300,135
Excess of fair value of Property Interests acquired over acquisition cost		(2,526,143)

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	(11,606,832)
Bank balances and cash acquired	256,627
	(11,350,205)

29. OPERATING LEASE COMMITMENTS

At 31 December 2006, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties which fall due as follows:

	HK$'000
Within one year	439,479
In the second to fifth year inclusive	716,916
Over five years	101,815
	1,258,210

The properties held had committed leases typically running for two to six years and rentals are predetermined at fixed amounts except for certain leases of which contingent rentals are charged based on the percentage of sales. Contingent rental income of HK$604,000 was received for the period.

Where leases are negotiated at a fixed rate for the first few years, but subject to renegotiation for the remaining contracted lease terms, the minimum lease payments are calculated based on the latest agreed rent.

30. CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with connected and related parties:

	Notes	HK$'000
Rental income		
China Mobile Peoples Telephone Company Limited	(a)	68
Strong Dynamic Limited	(b)	3,368
The Great Eagle Properties Management Company, Limited	(b)	629
The Great Eagle Company, Limited	(b)	148
Eagle Asset Management (CP) Limited	(b)	63
The Hongkong and Shanghai Banking Corporation Limited	(c)	9,506
Interest income		
HSBC Group*	(c)	13,107
Building management fee income		
Strong Dynamic Limited	(b)	1,950
The Great Eagle Properties Management Company, Limited	(b)	81
The Hongkong and Shanghai Banking Corporation Limited	(c)	1,749
Building management fee		
The Great Eagle Properties Management Company, Limited	(b)	48,945
Property and lease management service fee		
Eagle Property Management (CP) Limited	(b)	8,310
Rental commission and sundries		
Eagle Property Management (CP) Limited	(b)	6,974
Repairs and maintenance fee		
The Great Eagle Engineering Company Limited	(b)	446
Toptech Co. Limited	(b)	152
The Great Eagle Properties Management Company, Limited	(b)	1
Sun Fook Kong Housing Services Limited	(e)	1
Repairs and maintenance and renovations contracted to		
The Great Eagle Engineering Company Limited	(b)	685
Toptech Co. Limited	(b)	3,070
The Great Eagle Properties Management Company, Limited	(b)	4
Sun Fook Kong Housing Services Limited	(e)	1

	Notes	HK$'000
Insurance fee		
The Great Eagle Insurance Agency Limited	(b)	404
Trustee's fee		
HSBC Institutional Trust Services (Asia) Limited	(c)	2,671
Manager's fee		
Eagle Asset Management (CP) Limited	(f)	–
Interest expense		
Hang Seng Bank Limited^	(c)	207,764
Valuation fee		
Savills Valuation and Professional Services Limited	(d)	200
Payment for renovation works		
Toptech Co. Limited	(b)	2,632

Balances with related parties as are as follows:

	Notes	HK$'000
Amount due from		
Strong Dynamic Limited	(b)	83
Toptech Co. Limited	(b)	138
The Great Eagle Properties Management Company, Limited	(b)	13,954
Amount due to		
Eagle Property Management (CP) Limited	(b) & (g)	2,923
Toptech Co. Limited	(b) & (g)	614
The Great Eagle Engineering Company Limited	(b) & (g)	1,126
The Great Eagle Properties Management Company, Limited	(b) & (g)	6,888
Deposits placed with the Group for the lease of the Group's properties		
China Mobile Peoples Telephone Company Limited	(a)	34
The Great Eagle Properties Management Company, Limited	(b)	225
Strong Dynamic Limited	(b) & (h)	–
The Hongkong and Shanghai Banking Corporation Limited	(c)	3,541

30. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

Notes

(a) This company is an associate of Dr. Lo Ka Shui (the Chairman of both the Manager of Champion REIT and Great Eagle) by virtue of his being an independent non-executive director of the ultimate holding company of this company.

(b) These companies are subsidiaries of Great Eagle, a significant holder of Champion REIT.

(c) These companies are the Trustee or associates of the Trustee.

(d) This is the principal valuer of Champion REIT.

(e) This company is a subsidiary of Sun Fook Kong Holdings Limited ("SFK"), being a corporation controlled by certain family members of the late Mr. Lo Ying Shek, the former Chairman of Great Eagle, and their related trusts and companies.

(f) The Manager's Fee is calculated at 12% of the net property income provided that Champion REIT achieves net property income (before deduction therefrom of the Manager's Fee) of HK$270 million for the period from the Listing Date to 31 December 2006.

(g) The amounts due to related parties are unsecured, interest-free and have no fixed repayment terms.

(h) A bank guarantee of HK$2,078,000 had been received in lieu of deposit.

The deed of mutual covenant of Citibank Plaza ("DMC") binds the manager under the DMC and all the owners of Citibank Plaza and their successors-in-title. Under the DMC, Longworth Management Limited ("Longworth"), a subsidiary of Great Eagle, is appointed as the DMC Manager. Longworth had appointed The Great Eagle Properties Management Company, Limited as the DMC Sub-manager. The DMC technically constitutes a contract between the Group and Great Eagle. The DMC Sub-Manager entered into various contracts with members of Great Eagle and SFK in connection with the management of Citibank Plaza. These contracts also constitute connected transactions for Champion REIT. Pursuant to these contracts, HK$16,046,000 and an HK$2,504,000 were paid to Great Eagle and SFK respectively.

* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries.

^ Hang Seng Bank Limited is the facility agent under the term loan and revolving credit facility of HK$7,200 million, of which HK$7,000 million term loan was drawn down on 24 May 2006 and outstanding as at 31 December 2006.

31. SUBSEQUENT EVENTS

On 5 January 2007, the Group completed the acquisition of the whole of the 34th, 36th and 37th Floors of Citibank Tower and 3 carparking spaces on the second basement of Citibank Plaza from Kerry Properties Limited, a connected person within the meaning of the Code, for payment in cash of HK$675,112,000 and the issuance of 50,880,000 units.

32. ENTITIES CONTROLLED BY CHAMPION REIT

The following entities are wholly-owned and controlled by Champion REIT as at 31 December 2006.

Name	Issued and fully paid Ordinary share capital	Principal activities
Incorporated in the British Virgin Islands and directly owned and controlled by Champion REIT:		
CP Finance (BVI) Limited	1 share of US$1	Investment holding
Cojoin Properties Limited	1 share of US$1	Investment holding
East Power Limited	1 share of US$1	Investment holding
Fuscastus Limited	1,000,000 shares of HK$1 each	Investment holding
Harvest Star Limited	1 share of US$1	Investment holding
Kewage Investments Limited	1 share of US$1	Investment holding
Kingarley Investments Limited	1 share of US$1	Investment holding
Portion A (BVI) Limited	1 share of US$1	Investment holding
Portion B (BVI) Limited	1 share of US$1	Investment holding
Incorporated and operating in Hong Kong and indirectly owned and controlled by Champion REIT:		
CP (A1) Limited	1 share of HK$1	Property investment
CP (B1) Limited	1 share of HK$1	Property investment
CP (MC) Limited	1 share of HK$1	Property investment
CP (PH) Limited	1 share of HK$1	Property investment
CP (SH) Limited	1 share of HK$1	Property investment
CP (WC) Limited	1 share of HK$1	Property investment
CP Finance Limited	1 share of HK$1	Loan financing
CP (Portion A) Limited	2 shares of HK$1 each	Property investment
CP (Portion B) Limited	2 shares of HK$1 each	Property investment
Elegant Wealth Limited	1 share of HK$1	Inactive
Maple Court Limited	2 shares of HK$1 each	Property investment
Panhy Limited	2 shares of HK$1 each	Property investment
Shine Hill Development Limited	1,000,000 shares of HK$1 each	Property investment
Treasure Source Limited	1 share of HK$1	Debt securities issuer
Well Charm Development Limited	2 shares of HK$1 each	Property investment