



# CHAMPION REIT

ANNUAL REPORT 2010



**Champion REIT**  
冠君產業信託

Champion Real Estate Investment Trust (stock code 2778)  
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)



## GLOBAL BEST PRACTICES AND STANDARDS

Champion REIT is committed to attaining global best practices and standards. Champion REIT's interpretation of 'global best practices and standards' is based upon six key principles:

- Ensuring the Basis for an Efficient Corporate Governance Framework
- The Rights of Unitholders and Key Ownership Functions
- The Equitable Treatment of Unitholders
- The Role of Stakeholders in Corporate Governance
- Disclosure and Transparency
- The Responsibilities of the Board

The REIT Manager has adopted compliance procedures and applies them to ensure the sound management and operation of Champion REIT. The current corporate governance framework emphasizes accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, compliance with relevant regulations and sound operating and investing procedures.



## TRUST PROFILE

Champion Real Estate Investment Trust is a trust formed to own and invest in income-producing office and retail properties and is one of Asia's 10 largest REITs by market capitalization. The Trust's focus is on Grade-A commercial properties in prime locations. It currently offers investors direct exposure to 2.85 million sq. ft. of prime office and retail floor area by way of two landmark properties in Hong Kong, Citibank Plaza and Langham Place, one on each side of the Victoria Harbour.

## TRUST OBJECTIVES

Champion REIT's key objectives are to provide investors with stable and sustainable distributions and to achieve long-term capital growth. This aim of providing attractive total returns will be achieved by, among other things, proactive management of the properties in the Trust's portfolio and the selective acquisition of properties that enhance existing yields.

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## CORPORATE INFORMATION



# TIMELINE OF SIGNIFICANT EVENTS



**12 JAN 2010**

Announcement that Langham Place Manager's Fees will Be Paid in Cash for 2010

**22 FEB 2010**

Announcement of 2009 Final Results

**25 MAY 2010**

Payment of 2009 Final Distribution



**16 AUG 2010**

Announcement of 2010 Interim Results

**3 AUG 2010**

Launch of [www.CitibankPlaza.com](http://www.CitibankPlaza.com)

**4 OCT 2010**

Payment of 2010 Interim Distribution



**15 DEC 2010**

Connected Party Transaction Waiver Extended with New Annual Limits at EGM

**31 DEC 2010**  
Financial Year End

**4 JAN 2011**

Champion REIT's market capitalization exceeds US\$3 billion

**14 JAN 2011**

Announcement that 2011 Manager's Fees will be paid in the ratio of 60% Units: 40% Cash

**21 FEB 2011**

Announcement of 2010 Final Results



**21 MAR 2011**

Dispatch of 2010 Annual Report

**20-27 APR 2011**  
Book Closure

**27 APR 2011**  
Annual General Meeting

**16 MAY 2011**

Payment of 2010 Final Distribution

# FINANCIAL HIGHLIGHTS

For the year ended 31 December 2010

	FY2010	FY2009	% Change
<b>Key Financial Figures</b>	<b>HK\$'000</b>	HK\$'000	
Total Revenue	<b>1,875,911</b>	2,035,028	-7.8%
Property Operating Expenses	<b>(367,224)</b>	(325,806)	+12.7%
Net Property Income	<b>1,508,687</b>	1,709,222	-11.7%
Profit After Tax	<b>4,439,937</b>	3,744,553	+18.6%
Distributable Income	<b>1,084,264</b>	1,312,318	-17.4%
Distribution Amount	<b>1,066,870</b>	1,241,947	-14.1%
Gross Value of Portfolio	<b>50,222,600</b>	44,240,800	+13.5%

	FY2010	FY2009	% Change
<b>Ratios and Per Unit Figures</b>			
Distribution per Unit	<b>HK\$0.2164</b>	HK\$0.2609	-17.1%
Net Asset Value per Unit	<b>HK\$6.36</b>	HK\$5.67	+12.2%
Gearing Ratio	<b>28.4%</b>	32.2%	-3.8% <sup>1</sup>
Expense Ratio	<b>19.6%</b>	16.0%	+3.6% <sup>1</sup>
Payout Ratio <sup>2</sup>	<b>94.8%</b>	94.6%	+0.2% <sup>1</sup>

Notes:

1 Absolute change used for figures stated in percentages

2 Distribution Amount (disregarding any discretionary distribution) as a percentage of Distributable Income



# CHAIRMAN'S REPORT TO UNITHOLDERS

My fellow unitholders, on behalf of the Board I am pleased to present Champion REIT's annual report for the financial year ended 31 December 2010.

The 2010 financial results of Champion REIT largely reflect the lagged impact of the Global Financial Crisis of 2008/09. This is a feature of property portfolios such as Champion REIT's, where three year lease terms are typical. As there were negligible tenant defaults through the crisis, the momentum of high rents of leases signed before the crisis continued to support occupancy at Citibank Plaza as well as revenue for the Trust going into 2009. In fact revenue and net property income only peaked as recently as 2009, at the same time capital markets around the globe were hitting new lows. By the same token, the downsizing decisions made by tenants during the crisis led to significantly higher vacancies at Citibank Plaza in 2010, which marked the trough of the income cycle for the Trust, even as market occupancies and rental rates were recovering strongly.

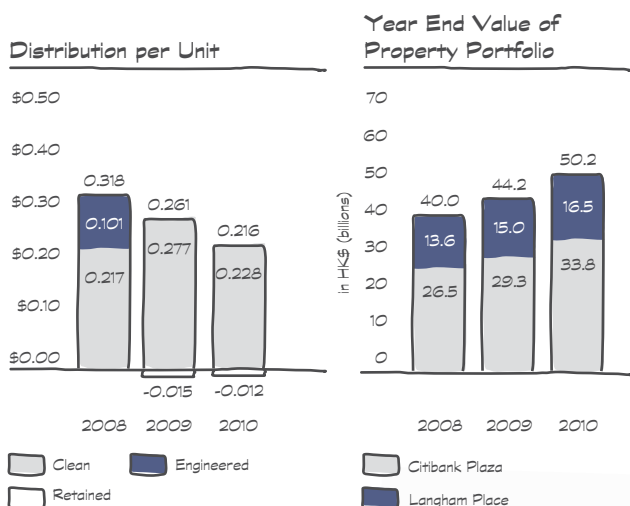
As there was a strong rise in transacted prices of commercial properties in the market in 2010, the value of the Trust's property assets now stand at HK\$50.2 billion, an increase of HK\$6.0 billion from a year ago. Net Asset Value increased correspondingly to HK\$6.36 per Unit, from HK\$5.67 a year ago. As a result of increases in the appraised value of the Trust's properties, the Gearing Ratio as of 31 December 2010 improved further to 28.4% from 32.2% a year ago.

Net accounting gains of HK\$4,055 million from the revaluation of assets and liabilities allowed the Net Profit After Tax to increase to HK\$4,440 million for 2010. Excluding these revaluation gains, which are non-cash in nature, Distributable Income for the year was HK\$1,084 million, down 17.4% from 2009. The Distribution Amount for the year, after retention of HK\$56.8 million for future use, was HK\$1,066.9 million, representing a pay-out ratio of 94.8%. This was a 14.1% decrease from the Distribution Amount for 2009. The Distribution per Unit (DPU) for 2010 will be HK\$0.2164, comprising HK\$0.1076 per Unit already paid out as an interim distribution, and HK\$0.1088 per Unit to be paid out as the final distribution.

Debt with a principal amount of HK\$7,765 million secured on the Citibank Plaza property, which had an appraised value of HK\$33,747 million, is due for refinancing in May 2011. We are in the process of evaluating refinancing proposals. Given the low loan-to-value ratio of 23%, and based on the responses from bankers, we do not expect any major problems with the refinancing. HK\$765 million of the HK\$7,765 million debt is in the form of convertible bonds, and if these are exercised before their maturity, the Trust has sufficient internal resources to completely settle the conversions in cash if desired.

Champion REIT's revenue for 2011 is likely to show an improvement over 2010. At the operational level, all evidence points to a recovery at Citibank Plaza and further gains at the Langham Place Mall. However, whether improvements at the property level translate into higher distributions will depend on a number of other factors, including the level of interest rate expenses upon debt refinancing. We will continue to prudently and pragmatically manage the Trust to maximize long-term return for our unitholders.

**LO Ka Shui**  
Chairman

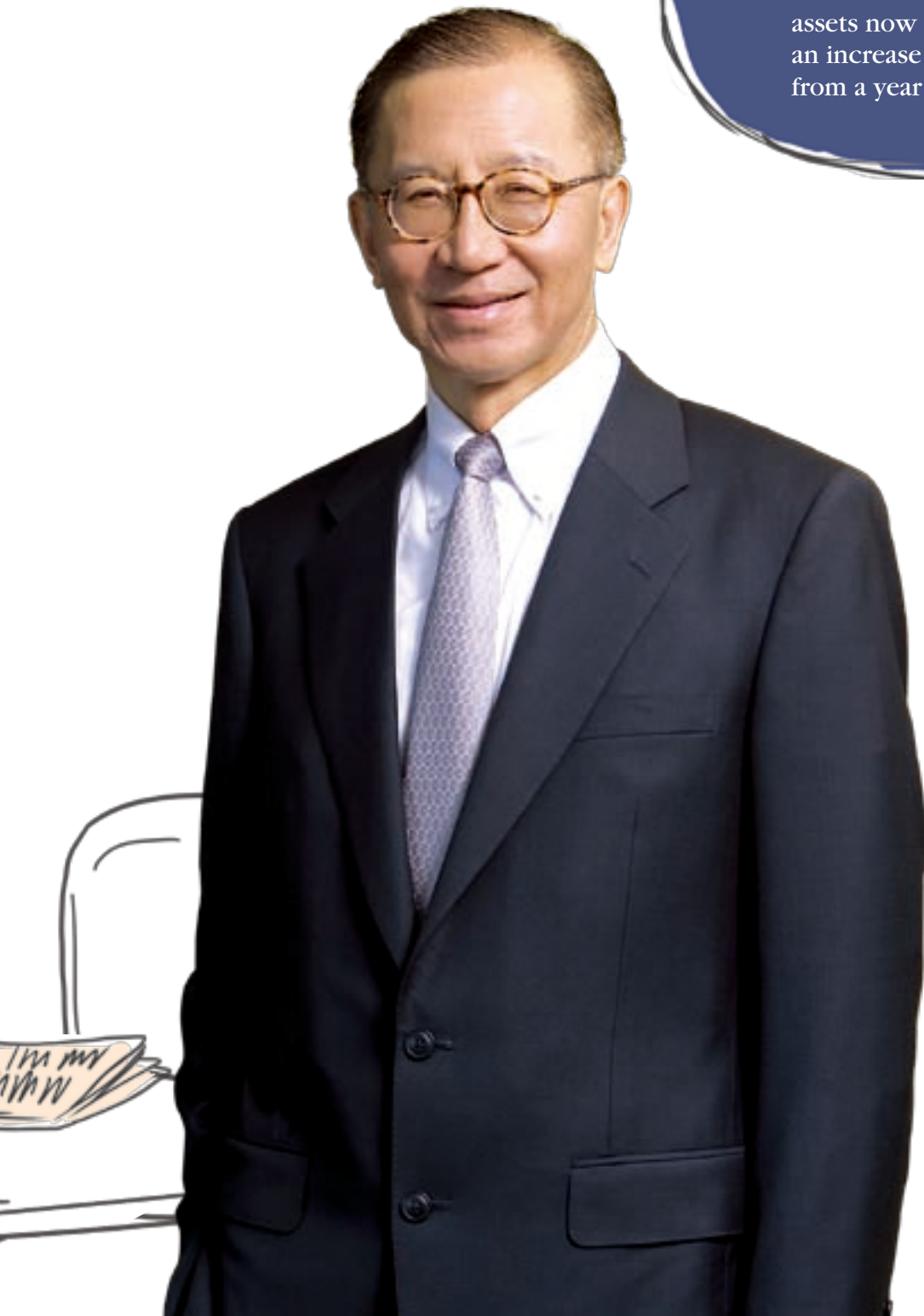





2010 marked the trough of the income cycle for the Trust.

Champion REIT's revenue for 2011 is likely to show an improvement over 2010.

As there was a strong rise in transacted prices of commercial properties in the market in 2010, the value of the Trust's property assets now stand at HK\$50.2 billion, an increase of HK\$6.0 billion from a year ago.



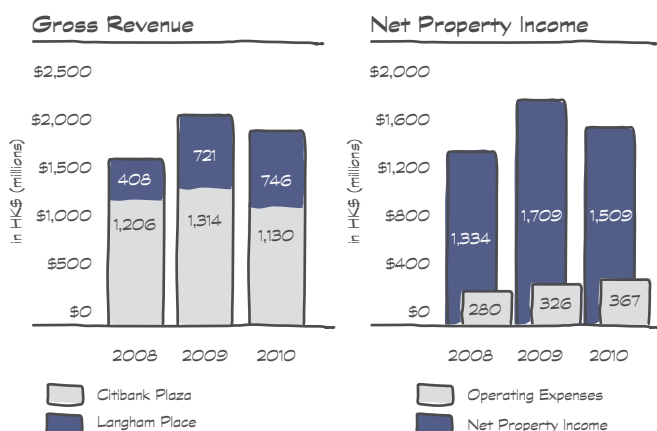


2010 marked the beginning of a new office cycle, with rental rates across the spectrum of Hong Kong office sub-markets once again starting to climb.... Spot rental rates achieved at Citibank Plaza improved from HK\$75 per sq. ft. at the beginning of 2010 to around HK\$100 per sq. ft. by the end of the Year.

Driven by a constantly improving mix of quality retailers and a robust retail market, the average sales per sq. ft. of the shops at the Langham Place Mall improved by 18% year on year.



# CEO'S REVIEW



Gross Revenue decreased 7.8% to HK\$1,876 million for the year of 2010 mainly due to higher vacancy rates and negative rental reversion at Citibank Plaza. Leases on 37% of the floor area expired in 2010. Leases on only 26% of the floor area were renewed as some tenants at Citibank Plaza vacated their premises, based on decisions made during the financial crisis. Over the course of 2010, the average occupancy decreased to 83.8%. Langham Place Office Tower, which was not directly impacted by the Global Financial Crisis, managed to keep its occupancy at a very high level during 2010 with only a minor decline in rental rates. Revenue at the Langham Place Mall continued to improve as 43% of the floor area was rolled over at higher rents towards the end of the Year. However, Langham Place was only able to partially make up for the fall in revenue at Citibank Plaza.

Net Property Income decreased by 11.7% to HK\$1,509 million. This percentage decline was more than the percentage decline in revenue because of a 12.7% increase in Property Operating Expenses. One of the key

reasons for an increase in expenses was the significantly larger floor area expiring and rolling over this Year at both properties. This resulted in a corresponding increase in rental commissions and leasing service fees.

## CITIBANK PLAZA

There was a recovery in the office leasing market in Central in 2010 as financial institutions gradually reversed their trend of downsizing. At the same time, there was virtually no new supply in the district for the entire year. The arrival of a significant number of fund management companies to capitalize on China investment opportunities, together with the supporting legal trade, generated substantial demand. Mainland Chinese listed companies also joined the fray as they sought to upgrade their office accommodation to better reflect their elevated corporate status. As a result the average occupancy for Grade-A offices in Central moved up from 95% at the beginning of the year to 98% at the end of 2010. The occupancy rate at Citibank Plaza however did not keep pace with the broad market trend. In fact occupancy decreased from 87.6% to 81.5%, because of earlier competition from other landlords who offered long-term fixed-rate leases at relatively low rents. We continued to believe that it would not be in the interest of the Trust to lock in low rents for an extended term at the bottom of the rental cycle, especially when there will be no material new supply in the market for the foreseeable future. Our conviction appeared to be paying off towards the latter part of 2010. As other buildings were gradually filled up, the market turned in the landlords' favour especially in the second half. Tenants began to accept deals that would not limit the long-term rental upside for the landlords. Under these conditions, we were able to sign up a number of new medium-sized tenancies in the second half of 2010 and early 2011. As of the end of January 2011, committed

Gross Revenue	FY 2010	FY 2009	% Change
	HK\$'000	HK\$'000	
<b>Citibank Plaza</b>			
Revenue	<b>1,129,498</b>	1,314,462	-14.1%
Operating Expenses	<b>187,304</b>	171,406	+9.3%
Net Property Income	<b>942,194</b>	1,143,056	-17.6%
<b>Langham Place Office</b>			
Revenue	<b>267,506</b>	269,550	-0.8%
Operating Expenses	<b>51,613</b>	45,072	+14.5%
Net Property Income	<b>215,893</b>	224,478	-3.8%
<b>Langham Place Mall</b>			
Revenue	<b>478,907</b>	451,016	+6.2%
Operating Expenses	<b>128,307</b>	109,328	+17.4%
Net Property Income	<b>350,600</b>	341,688	+2.6%

## Average Monthly Passing Rent

(\$HK per sq. ft)	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10
<b>Citibank Plaza Office</b>	90.07	89.64	89.04	88.30	88.22	88.01	84.81	84.81	84.69	84.67	84.62	84.54	84.67
<b>Langham Place Office</b>	26.82	26.77	26.80	27.06	27.01	27.04	26.98	26.98	26.83	26.23	26.24	26.25	26.40
<b>Langham Place Retail</b>	88.61	88.79	88.79	88.80	88.81	89.05	89.13	88.72	91.72	94.61	96.66	97.26	97.48

## Notes:

Citibank Plaza and Langham Retail rents are stated on lettable area while Langham Office is stated in gross floor area terms  
Retail rents exclude revenue sharing rent

new leases scheduled to commence in the first and second quarters of 2011 amounted to 8.2% and 2.6% of the total floor area.

Spot rental rates achieved at Citibank Plaza improved from HK\$75 per sq. ft. at the beginning of 2010 to around HK\$100 per sq. ft. by the end of the Year, with most of the increase occurring in the latter half of the Year. While spot rent rates have been strengthening, they generally remained below previously contracted rent rates up until mid year. Thus, passing rental rates (the average rental rate of existing contracted tenancies) at Citibank Plaza weakened in the first half of the Year but stabilized at the HK\$84-85 per sq. ft. level for the second half.

Net Property Income at Citibank Plaza fell by 17.6%. While revenue was lower, Net Property Income was also affected by a HK\$16 million increase in operating expenses. This increase was due to a number of factors, including higher vacancies, which led to the absorption of more expenses such as government rates by the landlord and the costs associated with the renewal of a major lease.

**LANGHAM PLACE OFFICE TOWER**

Leasing conditions for the offices at Langham Place have been stable. The Office Tower had a slightly higher occupancy rate of 99.4% as of 31 December 2010, as compared to 98.5% a year ago. This was notwithstanding the expiry of 35% of leases by floor area during the Year and the strong price competition from new supply in the peripheral districts in Kowloon East. Langham Place's MTR location and the outstanding quality of the building have been important factors in retaining tenants and maintaining a high occupancy. In the second half of the Year, we progressively raised the asking rents as competition from Kowloon East receded. At the end of 2010, the spot rents were between HK\$25-33 depending on the floor level and the users' location sensitivity, versus HK\$24-32 per sq. ft. a year earlier. For 2010, passing

rents were stable and continued to remain within a narrow range centered around HK\$26.50 per sq. ft.

Revenue was stable at HK\$268 million, compared to HK\$270 million for 2009. Net Property Income at the Office Tower fell by 3.8% from HK\$224 million in 2009 to HK\$216 million in 2010 due mainly to an increase in leasing commissions. In 2009 leases involving only 6% of floor area expired while in 2010 this figure was increased almost six-fold.

**LANGHAM PLACE MALL**

Despite the opening of a few new shopping malls in nearby Tsim Sha Tsui, the convenient location of the Langham Place Mall, its attractive shop offerings and its well conceived and executed marketing programmes ensured its status as one of the most popular shopping malls in Kowloon, among local shoppers and tourists alike. The Mall enjoyed very high levels of foot traffic and remained virtually fully let throughout 2010. Driven by a constantly improving mix of quality retailers and a robust retail market, the average sales per sq. ft. of the shops in the Mall improved by 18% year on year. The surge in spending by Mainland tourists, who now consider Langham Place one of their favourite destinations, on cosmetics and fashion has also been a major factor behind the growth. As a result, the vast majority of existing tenants willingly offered higher rents to retain their tenancies. Demand for retail space from new tenants has been strong, giving the landlord considerable pricing power. We have capitalized on this strong demand to bring in a number of quality specialty retailers with highly satisfactory results. The Average Passing Rent Rate increased from HK\$88.61 per sq. ft. at the beginning of 2010 to HK\$97.48 at year-end.

Revenue increased by a moderate 6.2% from HK\$451 million to HK\$479 million. There was a sharp jump in passing rents going into the fourth quarter of 2010,

caused by the coincident rollover of 43% of the Mall at substantially higher rents. As a large proportion of the lease renewals in 2010 only took effect towards the last quarter of the year, the full impact of the associated rental increases will only be seen in 2011. Net Property Income at the Mall only increased by 2.6% from HK\$342 million in 2009 to HK\$351 million in 2010, mainly because the immediate impact of the rollovers (In 2009 only 15% of the leases by floor area expired as compared to 44% in 2010) was offset by an increase in rental commissions, leasing fees and stamp duties associated with renewal of leases. These increased from HK\$4.9 million to HK\$14.2 million. The level of these expenses should go down in 2011 as again only 15% of the floor area will undergo lease renewal.

## OUTLOOK

2010 marked the beginning of a new office cycle, with rental rates across the spectrum of Hong Kong office sub-markets once again starting to climb. Financial institutions have reversed their downsizing trend as capital raising activities have returned with the rebound in the Hong Kong equities market. New companies are also arriving from both the Chinese mainland and overseas. These factors should continue to create substantial incremental demand for office space in 2011. Again, no large Grade-A office developments, especially buildings that offer large floor-plates suitable for occupancy by financial institutions, are scheduled for completion in Central in the coming few years. Therefore there is a strong likelihood that occupancy in the Central offices market will go up further during the course of 2011, leading to an upward squeeze in rent rates.

The market conditions are favourable to Champion REIT since Citibank Plaza, its biggest asset, is located in Central where the overall vacancy rate is about 3%. More than half of the existing vacant area in Citibank Plaza will see tenant occupation before mid 2011, based on contracts already signed. The rest of the available area has also been receiving a regular flow of enquiries and inspections, as Citibank Plaza is among the few buildings where some contiguous whole-floors floor spaces are still available at present. However, larger leasing transactions tend to have a longer lead time before actual lease commencement. There is also one tenancy, involving approximately 4% of total floor area, which will expire in the second quarter of 2011 and will not be renewed. Therefore there is a chance that the vacancy rate at the Property may temporarily stay above 10% at the end of the first half of 2011. These factors will limit the growth in the gross rental income for the first months. Occupancy should however accelerate in the second half. We have reached

an agreement with a major tenant, which accounts for approximate 15% of the total floor area, to renew its tenancy upon its expiry in the third quarter of 2011. With the removal of this potential overhang, we will be in a position of strength in handling other leasing negotiations. It is our plan to progressively move the asking rents upward as further occupancy is achieved in the coming months. There should therefore be a larger increase in the gross rental income of Citibank Plaza in the second half.

At Langham Place we expect continued high levels of occupancy for the Office Tower. The oversupply in the Kowloon East district has been largely absorbed, and rents in Kowloon as a whole have strengthened. With 37% of the floor area slated for expiry in 2011, there is some latitude for improvement in the building's passing rent. At the minimum, we can expect a stable rental income from the Office Tower. We will continue to leverage on the subway location of Langham Place to gradually bring in more tenants from location-sensitive users in the lifestyle and services trades who can generally afford to pay higher rents.

The Langham Place Mall should continue to benefit from a robust retail market in 2011. Local consumers have been increasing their consumption as wages are being lifted. The arrival of Mainland tourists and their heavy spending are also showing no signs of slowing down. With its excellent location, its ever-improving tenant mix and successful marketing campaigns, Langham Place has remained a location of choice for popular cosmetics brands and mix-priced fashion and accessories retailers. While the higher base rents locked in during 2010 will have a full year's contribution in 2011, they may lead to some erosion on turnover rents, as the thresholds for extra rent assessment have been lifted as a result of the increases in base rents. While we should have considerable leverage in negotiating rents, the upside may be modest for 2011 as only 15% of the floor areas will be subject to lease renewal.

Champion REIT's revenue for 2011 is likely to show an improvement over 2010. At Citibank Plaza all evidence points to a recovery at the operational level in the first half of 2011 and a recovery in income by the second half of 2011. At the same time, the performance of Langham Place Mall will see the benefits of the previous year's rental increases while a high level of occupancy and moderate gains in rents will be seen at Langham Place Office Tower.

**LEE Ching Ming, Adrian**  
*Chief Executive Officer*

## BOARD OF DIRECTORS

The Board is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals.



Dr. LO Ka Shui  
Non-executive Director  
and Chairman

### **Dr. LO Ka Shui**

*Non-executive Director and Chairman*

Dr. LO Ka Shui, aged 64, was appointed the Chairman and a Non-executive Director of the REIT Manager in 2006. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited. He is a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and an Independent Non-executive Directors of Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, China Mobile Limited and some other publicly listed companies in Hong Kong. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Centre for Economic Research, a board member of the Hong Kong Airport Authority and the Chairman of The Chamber of Hong Kong Listed Companies.

Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has more than thirty years' experience in property and hotel development and investment both in Hong Kong and overseas. He is an elder brother of Mr. Lo Kai Shui, a Non-executive Director of the Company.

### **Mr. CHENG Wai Chee, Christopher**

*Non-executive Director*

Mr. CHENG Wai Chee, Christopher, aged 63, was appointed a Non-executive Director of the REIT Manager in 2006. Mr. Cheng is the Chairman of Wing Tai Properties Limited (formerly known as USI Holdings Limited) and Winsor Properties Holdings Limited. He is also an Independent Non-executive Director of several listed and unlisted companies, including NWS Holdings Limited, New World China Land Limited, Kingboard

Chemical Holdings Limited, DBS Group Holdings Limited and Temasek Foundation CLG Limited. Mr. Cheng plays an active role in public service. He is a member of the Exchange Fund Advisory Committee of the Government of the HKSAR, the board of Overseers at Columbia Business School, member of President's Council on International Activities of the Yale University, a steward of The Hong Kong Jockey Club and former Chairman of the Hong Kong General Chamber of Commerce.



Mr. CHENG Wai Chee,  
Christopher  
Non-executive Director

Mr. Cheng graduated from the University of Notre Dame, Indiana with a Bachelor's Degree in Business Administration, and from Columbia University, New York with a Master's Degree in Business Administration.

### **Mr. HO Shut Kan**

*Non-executive Director*

Mr. HO Shut Kan, aged 62, was appointed a Non-executive Director of the REIT Manager in 2007. He has over thirty years of experience in the property sector. He is currently serving as an executive director of Kerry Properties Limited, a listed company in Hong Kong.

Mr. HO Shut Kan  
*Non-executive Director*



Mr. Ho holds a master of Business Administration Degree from the University of East Asia.

**Mr. LO Kai Shui**  
*Non-executive Director*

Mr. LO Kai Shui, aged 51, was appointed a Non-executive Director of the REIT Manager in 2006. Mr. Lo is the deputy managing director of Great Eagle Holdings Limited, a company whose shares are listed on the Hong Kong Stock Exchange and the founder of Sun Fook Kong Group Limited. He has more than twenty-eight years of property development and investment, and building construction experience and has been involved in numerous construction projects both in public and private sectors.



Mr. LO Kai Shui  
*Non-executive Director*

Mr. Lo graduated from Columbia University with a Bachelor's Degree in Engineering. He is a younger brother of the Chairman, Dr. Lo Ka Shui.

**Mr. LEE Ching Ming, Adrian**  
*Executive Director and Chief Executive Officer*

Mr. LEE Ching Ming, Adrian, aged 59, was appointed Chief Executive Officer, an Executive Director and a Responsible Officer of the REIT Manager in 2008. Mr. Lee has acquired extensive property and banking industry experience over a career spanning over thirty-seven years. Prior to joining the REIT Manager,

Mr. Lee has held senior management positions for more than fourteen years in the Great Eagle Group of companies, a major listed real estate company in Hong Kong, where his responsibilities included the management of marketing, leasing and sales activities, banking relationships, corporate communications and investor relations. He was also a Director and the General Manager of Eagle Property Management (CP) Limited, the Property Manager of Champion REIT. Mr. Lee also had over two decades of corporate real estate lending and advisory experience with a multinational banking institution. Mr. Lee is at present a non-executive director of Recruit Holdings Limited.

Mr. LEE Ching Ming,  
Adrian  
*Executive Director  
and Chief Executive Officer*



Mr. Lee graduated from the University of Hong Kong with a Bachelor of Social Sciences degree.

**Mr. CHA Mou Sing, Payson**  
*Independent Non-executive Director*

Mr. CHA Mou Sing, Payson, aged 68, was appointed an Independent Non-executive Director of the REIT Manager in 2006. Mr. Cha is the Chairman of the Board of Directors of HKR International Limited and Hanison Construction Holdings Limited and an Independent Non-executive Director of New World Development Company Limited, all of which are listed on the Hong Kong Stock Exchange. He is also an Independent Non-executive Director of Hongkong International Theme Parks Limited and the Chairman of Mingly Corporation and a Director of Asia Television Limited. Mr. CHA is also a committee member of the National Committee of the Eleventh Chinese People's Political Consultative Conference of the People's Republic of China. He is also a Director of LBJ Regents Limited and CCM Trust (Cayman) Limited, all of which are substantial shareholders of HKR International Limited.

## BOARD OF DIRECTORS



Mr. CHA Mou Sing,  
Payson  
*Independent  
Non-executive Director*

Mr. Cha holds an honorary doctorate degree of Social Science from City University of Hong Kong. He has over forty-five years' experience in property development.

### **Mr. ELDON, David Gordon** *Independent Non-executive Director*

Mr. ELDON, David Gordon, aged 65, was appointed an Independent Non-executive Director of the REIT Manager in 2006. He commenced a career in banking in 1964 and joined the HSBC Group in 1968 assuming a variety of roles in the Middle East and Asia. He became chairman of Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation

Mr. ELDON David Gordon  
*Independent  
Non-executive Director*



Limited in 1996 and 1999 respectively. He was also appointed as a director of HSBC Holdings plc in 1999. After thirty-seven years of service, he retired from the HSBC Group in 2005. He is now Senior Adviser of PricewaterhouseCoopers, Hong Kong. He is also Chairman of the Dubai International Financial Centre Authority, senior independent non-executive director of Noble Group Limited, an independent non-executive director of Shui On Construction and Materials Limited, former Chairman of the Hong Kong General Chamber of Commerce, an Honorary Steward of the Hong Kong Jockey Club, Special Adviser to the Korea National Competitiveness Council - Office of the President, Founding Member and past Chairman of the Seoul International Business Advisory Council, an Adviser to Kuwait China Investment Company and to Southern

Capital, in addition to a number of Government and community appointments in Hong Kong.

Mr. ELDON became an Associate of the Chartered Institute of Bankers (ACIB) in 1972 and a Fellow of the Institute (FCIB) in 1986. He was conferred an Honorary Doctor of Business Administration by the City University of Hong Kong in 2003.

### **Mr. SHEK Lai Him, Abraham** *Independent Non-executive Director*

Mr. SHEK Lai Him, Abraham, aged 65, was appointed an Independent Non-executive Director of the REIT Manager in 2006. Mr. Shek is a member of the Legislative Council for the HKSAR representing real estate and construction functional constituency since 2000. He is also a Director of The Hong Kong Mortgage Corporation Limited and a Vice Chairman of Independent Police



Mr. SHEK Lai Him,  
Abraham  
*Independent  
Non-executive Director*

Complaints Council. Mr. Shek is the Chairman and an Independent Non-executive Director of Chuang's China Investments Limited, the Vice Chairman and an Independent Non-executive Director of ITC Properties Group Limited and also an Independent Non-executive Director of MTR Corporation Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, NWS Holdings Limited, Chuang's Consortium International Limited, Titan Petrochemicals Group Limited, ITC Corporation Limited, Hop Hing Group Holdings Limited, Hsin Chong Construction Group Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, Kosmopolito Hotels International Limited and China Resources Cement Holdings Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited. He is also an Independent Non-executive Director of Regal Portfolio Management Limited (Manager of the publicly listed Regal REIT).

Mr. Shek graduated from the University of Sydney with a Bachelor of Arts degree.

## MANAGEMENT PHILOSOPHY

The REIT Manager remains committed to providing Unitholders with attractive total returns in the form of stable and sustainable Distributions per Unit and long-term growth in Net Asset Value per Unit. It will achieve this through proactive asset management and the selective acquisition of properties.

### ASSET MANAGEMENT STRATEGY

The REIT management team, working closely with the property management team, will proactively manage its properties, and achieve the following:

#### Maximize Rental Income

by optimizing rental income from each tenancy and where possible augmenting rental income through additional floor area, asset enhancements or turnover rent.

#### High Occupancy Levels

by maintaining high quality service and technical standards, and by capitalizing on the requirements of targeted tenant niches and actively managing tenancy expiries.

#### High Tenancy Renewal Rates

through proactively tenant relationship management and anticipation of future tenant needs. This will minimize rental losses due to downtime and lower expenses and agency fees incurred for new tenancies.

#### A Quality Tenant Base

built upon high covenant multi-national office occupiers and well recognized retail tenants, to maintain a premium image for our properties and to minimize default rates.

### ACQUISITION STRATEGY

The REIT Manager intends to actively pursue yield enhancing opportunities through the addition of new income-producing commercial properties. The following investment criteria will be used in the evaluation of acquisition opportunities:

#### Yield Accretion

properties to be acquired should have strong existing or potentially higher rental income.

#### Potential For Net Asset Growth

macro economic factors and the potential for future changes in asset value will be assessed.

#### Tenant Characteristics

rent and occupancy trends will be assessed with emphasis on good tenant retention/default rates.

#### Location And Accessibility

properties for convenient access to the public transportation network, major roads and pedestrian thoroughfares will be favoured.

#### Value-adding Opportunities

through renovation, other enhancements and proactive property management will also be assessed.

#### Building Specifications

should be best of class. Other aspects such as building condition, compliance with regulations will also be examined.



# SENIOR MANAGEMENT

**Mr. LEE Ching Ming, Adrian**  
*Chief Executive Officer*



**Mr. Patrick CHOO**  
*Chief Investment Officer*



**Mr. KWONG Chi Kwong**  
*Chief Operating Officer*



**Ms. SUNG Kar Wai, Rosana**  
*Finance and Office  
Administration Manager*



**Mr. LAW, David**  
*Compliance Manager*



**Mr. LEE Pak Shing, John**  
*Internal Auditor*



The REIT Manager, Eagle Asset Management (CP) Limited, is charged with the responsibility of managing the assets of Champion REIT for the benefit of Unitholders. As part of its duties, it will set the strategic direction and risk management policies of Champion REIT, appoint and supervise service providers, and initiate the acquisition, divestment or enhancement of assets. Communication with investors and other stakeholders is another role of the REIT Manager and it is responsible for ensuring compliance with the applicable provisions of the REIT Code, the Securities and Futures Ordinance and other relevant legislation.



## PROFILES OF EXECUTIVE OFFICERS

### **Mr. LEE Ching Ming, Adrian**

#### *Chief Executive Officer*

Mr. Lee, as Chief Executive Officer, is responsible for planning the strategic development of Champion REIT and ensuring that Champion REIT is operated in accordance with stated investment strategy, policies and regulations. Additionally, he is responsible for the day-to-day operations. Mr. Lee is a Responsible Officer as defined under the Securities and Futures Ordinance.

Biographical information on Mr. Lee can be found on the page highlighting the board of directors, of which he is a member.

### **Mr. Patrick CHOO**

#### *Chief Investment Officer*

Mr. Choo is responsible for identifying and evaluating potential acquisitions or investments and for investor relations. He is also responsible for the capital structuring of Champion REIT, including the planning and overseeing of capital raising activities from the market. Mr. Choo has over 22 years of asset management experience in Hong Kong and Singapore as a licensed fund manager and is well acquainted with the operational and regulatory environment involving multi-investor trust structures registered in Hong Kong. In previous jobs, he has led investment teams at various well established asset management companies, managing private assets, public authorized unit trusts and Mandatory Provident Fund master trust funds.

Mr. Choo graduated magna cum laude from the University of Pennsylvania with a Bachelor of Science in Engineering degree.

### **Mr. KWONG Chi Kwong**

#### *Chief Operating Officer*

Mr. Kwong is responsible for formulating the business plans of Champion REIT's properties and supervising the property management team with a view to maximizing rental income via active asset management. Mr. Kwong has more than 25 years' experience in the industry and has held a variety of management and supervisory roles in areas of leasing and sales of properties, formulation and implementation of market plans, market research, site acquisitions, feasibility studies, liaison with government authorities and external professionals and administration.

Mr. Kwong holds a Bachelor of Arts degree from the University of Hong Kong.

### **Ms. SUNG Kar Wai, Rosana**

#### *Finance and Office Administration Manager*

Ms. Sung is primarily responsible for the financial reporting and general office administration of Champion REIT. Her duties include reviewing management accounts, maintaining profit and cashflow forecasts and the reporting of financial returns to regulators. With more than 14 years of accounting and audit experience, Ms. Sung had previously worked as a senior accountant at a listed company and earlier in her career was employed by a reputable certified public accountants firm to perform audit duties.

Ms. Sung holds a Master of Professional Accounting degree from the Hong Kong Polytechnic University and a Bachelor of Business Administration degree with major in Accountancy from the Chinese University of Hong Kong. She is also an associate member of Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants.

### **Mr. LAW, David**

#### *Compliance Manager*

Mr. Law is responsible for formulating internal control procedures and ensuring the management and operational compliance of Champion REIT with statutory requirements and regulations. Prior to joining the REIT Manager, Mr. Law worked in various legal firms, an estate developer and an international insurance company, performing paralegal services and compliance duties.

Mr. Law holds a Bachelor of Laws from the University of London and a High Diploma in Legal Executive Studies from the Hong Kong Polytechnic University.

### **Mr. LEE Pak Shing, John**

#### *Internal Auditor*

Mr. Lee is responsible for reviewing the accuracy and completeness of records of all operations and transactions of Champion REIT. As part of his duties, he ensures internal control systems function properly and provides regular reports to the audit committee of the board of directors. Prior to joining the REIT Manager, Mr. Lee worked as a senior internal auditor at a well-recognized listed retailer and has over 16 years of experience in the field of internal audit. Earlier in his career, he performed external audit duties while working at two reputable certified public accountants firms.

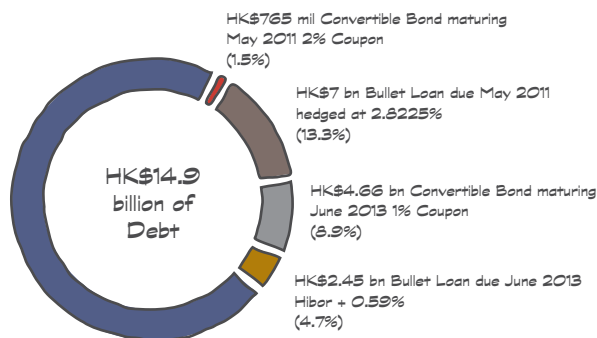
Mr. Lee holds a Bachelor of Commerce degree in Accounting and Finance from Dalhousie University and a Master of Science degree in Operational Research from the London School of Economics and Political Science.

# FINANCIAL REVIEW

OF 2010



# FINANCIAL REVIEW



Gross Assets Net of Borrowings HK\$37.6 bn (71.6%)

The maturity profile of the Trust's borrowings is as follows:

31 December 2010		
Due in the ...	HK\$ million	% of total
first year	7,765	52.2
second year	-	-
third year	7,114	47.8
<b>Total</b>	<b>14,879</b>	<b>100</b>

## DISTRIBUTIONS

### Distribution Amount

Total Distribution Amount for the Year was HK\$1,066,870,000 (2009: HK\$1,241,947,000). Such Distribution Amount was calculated based on 90% (2009: 90%) of Champion REIT's total available distributable income for each of the first and second halves of the Year, plus additional amounts of HK\$39,390,000 (2009: nil) at the discretion of REIT Manager. Because of the compulsory inclusion of retained distributions from the first half of the Year into the distributable income of the second half (as required under the Trust Deed), the effective payout ratio for the full year was 94.8% (2009: 94.6%).

### Distribution per Unit

The distribution per unit for the six months ended 31 December 2010 was HK\$0.1088. Such distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 January 2011 and the record date. Further announcement will be made to inform unitholders of the final distribution per unit for the six months ended 31 December 2010.

With an interim distribution per unit of HK\$0.1076 and a final distribution per unit of HK\$0.1088, total distribution per unit for the Year amounted to HK\$0.2164 (2009: HK\$0.2609). The distribution per unit of HK\$0.2164 represents a distribution yield of 4.71% based on the closing price of HK\$4.59 as at 31 December 2010.

## Closure of Register of Unitholders

The register of Unitholders will be closed from Wednesday, 20 April 2011 to Wednesday, 27 April 2011 ("Record Date"), both days inclusive, during which period no transfer of Units will be effected. The 2010 Final Distribution will be payable on 16 May 2011 to Unitholders whose names appear on the Register of Unitholders on the Record Date.

In order to qualify for the 2010 Final Distribution and be entitled to attend and vote at the 2011 Annual General Meeting, all properly completed transfer forms (accompanied by the relevant Unit certificates) must be lodged with Champion REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 19 April 2011.

## DEBT PROFILE

As at 31 December 2010, total outstanding borrowings of the Trust amounted to HK\$14,879 million. The total borrowings comprised of:

- HK\$7,000 million term loan which is repayable in full in May 2011
- HK\$765 million of convertible bonds in principal amount which will mature in May 2011
- HK\$2,454 million term loan which is repayable in full in June 2013
- HK\$4,660 million convertible bonds in principal amount which will mature in June 2013

## FINANCIAL REVIEW



The term loan and convertible bonds that are falling due in 2011 are secured by properties with a conservative loan to value ratio of 23%. Refinancing arrangements are now in progress.

During the year, Champion REIT has interest rate swaps (“IRS”) with a total notional amount of HK\$7,000 million in order to swap the Trust’s floating rate interest payments under the HK\$7,000 million term loan into fixed rate interest payments. The fixed rate for these IRS is 2.8225% per annum and both the loan and IRS will mature in May 2011. The HK\$2,454 million term loan has an interest rate of HIBOR plus 0.59% per annum. As at 31 December 2010, 84% of the Trust’s debt (including the convertible bonds) had fixed interest rates.

As at 31 December 2010, total gross assets of the REIT were HK\$52,436 million. Therefore, the gearing ratio, or total borrowings as a percentage of gross assets was 28.4%. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 40.2%.

### NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

As at 31 December 2010, net assets attributable to unitholders was HK\$31,377.3 million or HK\$6.36 per unit, a 38.6% premium to the closing unit price of HK\$4.59 as at 31 December 2010.

### CASH POSITION

As at 31 December 2010, Champion REIT had total undrawn bank loan facilities of HK\$700 million and a cash balance of HK\$2,038.1 million. HK\$1,081 million of the cash balance is not subject to future distribution requirements. Taking into consideration the financial resources available to the REIT, Champion has sufficient liquid assets to satisfy its working capital and operating requirements.

### PLEDGE ASSETS

As at 31 December 2010, properties of Champion REIT with a fair value of HK\$50,222.6 million, together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the properties, were mortgaged to the bond trustees to secure the obligations of the issuer of the convertible bonds or pledged to secure the banking facilities granted to the REIT.

### COMMITMENTS

As at 31 December 2010, the Trust did not have any significant commitments.

### RENTAL STABILISATION ARRANGEMENT

Pursuant to a sale and purchase agreement dated 11 December 2006 (“Agreement”) for the acquisition of 3 floors and certain carparking spaces in Citibank Plaza, the actual New Property Income (as defined in the Agreement) for the two six-month periods ended 30 June 2010 and 31 December 2010 were equivalent to HK\$17,053,000 and HK\$5,541,000 respectively. When compared to the stabilisation amount of each six-month period of HK\$30,992,000 under the rental stabilisation arrangement pursuant to the Agreement, variances of HK\$13,939,000 and HK\$25,451,000 respectively had arisen for the two six-month periods ended 30 June 2010 and 31 December 2010 respectively. Accordingly, sums of approximately HK\$13,939,000 and HK\$25,451,000 were paid to the Trust on 30 June 2010 and 31 December 2010 respectively.

In the opinion of the independent non-executive directors of the REIT Manager, the Vendor or the Guarantor, being Fair Page Limited and Kerry Properties Limited respectively, has fulfilled their obligations under the Arrangement for the financial year ended 31 December 2010.



As at 31 December 2010, the two outstanding convertible bonds issued by two controlled entities of the Trust have the following features:

Convertible Bond Features	Issued in 2006	Issued in 2008
Principal amount	HK\$765 million	HK\$4,660 million
Yield to maturity	4.15%	5.25%
Coupon rate	2% per annum	1% per annum
Maturity date	23 May 2011	3 June 2013
Redemption price	110.328%	123.94%
Latest adjusted conversion price	HK\$4.26	HK\$3.69

The top five real estate agents and contractors and their respective value of service are given below:

Real Estate Agents and Contractors	Nature of Service	Value of Contract	Relevant Cost
		HK\$	%
The Great Eagle Properties Management Company, Limited	Building management	154,577,000	52.3
Eagle Property Management (CP) Limited	Leasing and marketing	80,923,000	27.4
Longworth Management Limited	Building management	30,621,000	10.4
R Two (HK) Ltd	Promotion expenses	4,383,000	1.5
Mayer Brown JSM	Legal services	2,814,000	1.0
<b>Total</b>		<b>273,318,000</b>	<b>92.6</b>



# CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is a trait of world class business concerns and a cornerstone of Champion REIT's management philosophy. To this end, issues such as health, safety, the environment, and community development are given serious consideration at the strategic level as well as in the day-to-day operations of the Trust's properties.





Our properties are classified as ‘Excellent’ under the government sponsored IAQ Certification Scheme for Offices and Public Places. In 2011, Citibank Plaza and Langham Place are scheduled to implement both ISO 14001 and OHSAS 18001. Both properties recently installed Electric Vehicle Recharging Stations to support the introduction of electric vehicles to Hong Kong.

### HEALTH AND SAFETY

Champion REIT’s properties contain many of the environmental and safety features expected of modern premium grade properties, including computerized automatic fire detection alarm systems and emergency power to common areas and essential facilities when there is a power failure event. Regular fire drills are also conducted. A safe working environment and in particular air quality is a very important factor for office tenants and high standards for indoor air quality and circulation are maintained. Our properties are classified as ‘Excellent’ under the government sponsored IAQ Certification Scheme for Offices and Public Places. In 2011, both Citibank Plaza and Langham Place are scheduled to implement OHSAS 18001 to further improve their health and safety procedures. As Langham Place was more recently built, it conforms to even stricter health and safety standards than Citibank Plaza. It was awarded Silver Certificates in 2010 under the Quality Water Recognition Scheme by the Water Supplies Department for both the office and retail portions of the property.



The relaxation and cardiovascular needs of the tenants are an integral part of the Champion REIT success formula. Citibank Plaza is home to a health club featuring a health spa, gymnasium and a heated swimming pool among other exercise facilities, is available. The health facility is sizable, occupying almost four floors of one tower. Langham Place contains a 70,000 square foot fitness and well-being centre, purportedly housing the world’s largest yoga studio, as well as many smaller spas.



\* IDEAL Charity Mooncake Sale



\* Sowers Action Charity Marathon



## ENVIRONMENTAL PROTECTION

Energy efficiency is an important means of reducing pollution and conserving the world's limited resources. Pursuing energy efficiency also has the parallel benefit of reducing operating costs, even while global warming is ameliorated. Accordingly, there is an ongoing initiative to reduce the energy footprint of Champion REIT's properties. An energy saving feature common to both of Champion REIT's properties is the use of large multi-story glass curtain walls to provide atrium and lobby areas with natural lighting. At Langham Place, this feature is particularly noticeable and anyone can look through the 9 storey mall atrium and see the neighbourhood buildings on the other side. Reflective coatings along the curtain glass walls provide additional energy savings by reflecting heat while allowing light to enter the interior. Both of our properties also boast a comprehensive ventilation and air conditioning system complete with a floor-by-floor climate sensors and control system. To minimize redundant cooling, air-conditioning can be controlled in incremental areas and turned off for unused areas. One novel energy-saving feature at Langham Place is the optimization of lift loading for the office tower, where passengers choose which floor they are going to before entering the lift. The computerized system then directs to the same lift all passengers headed for the same floor.

Progress continued to be made in 2010 on the environmental protection front. Both properties recently installed Electric Vehicle Recharging Stations to support the introduction of electric vehicles to Hong Kong. Recycling programs have been introduced to administer and facilitate the collection of waste paper and other office waste for recycling. In 2011, both Citibank Plaza and Langham Place are scheduled to implement ISO 14001 to further strengthen their environmental protection policies. The Langham Place Office Tower received a Bronze Green Office Management Award from the Green Council and participated in the WWF organized Earth Hour 2010 organized by turning off its lights for an hour at a specified time. Langham Place Mall participated in Power Smart 2010 and received an Energy Conservation Award for reducing power consumption by over 2% over a 90 day period.

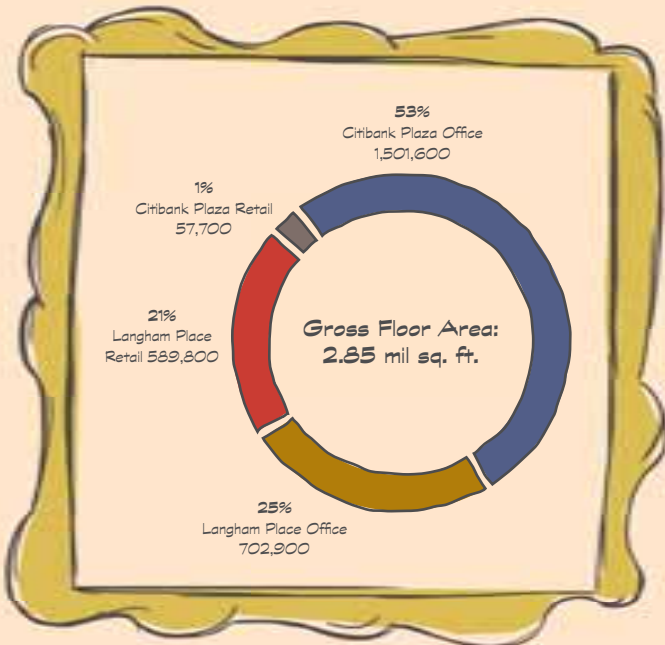
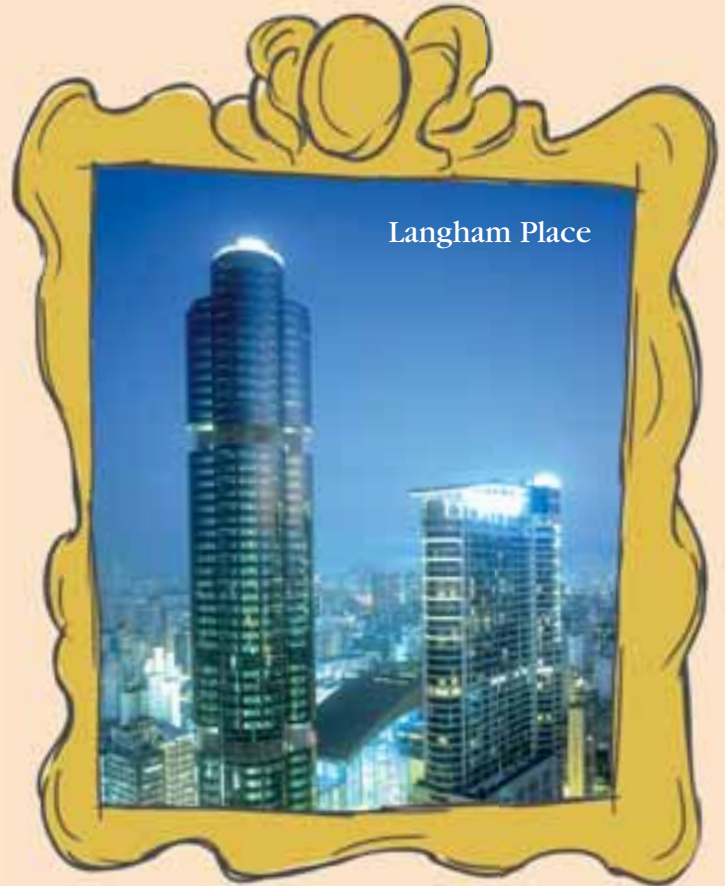


## SOCIAL RESPONSIBILITY

Blood donation events and free exhibition space for cultural or educational activities are the typical avenues our office properties use to execute their social responsibility. Portions of both properties are also dedicated to public usage. In service to the community, Citibank Plaza provides more than 60,000 sq. ft. of floor space as a public thoroughfare. It also maintains two pedestrian bridges abutting the public thoroughfare, providing sheltered elevated access between Hong Kong Park and Central. Langham Place provides a pedestrian system consisting of bridge and underground tunnel that allows easy and safe access from the MTR Station to the community centre and minibus depot on Shanghai Street.

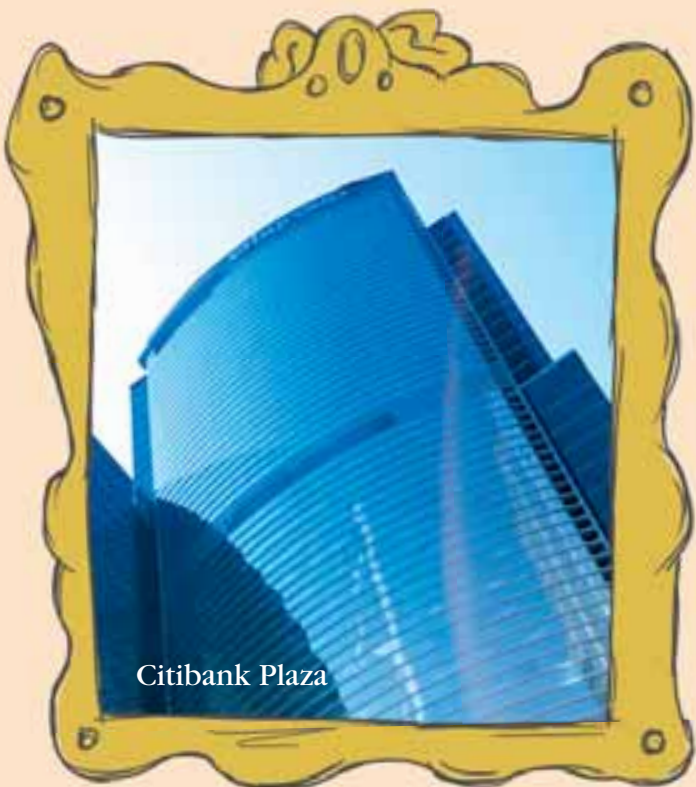
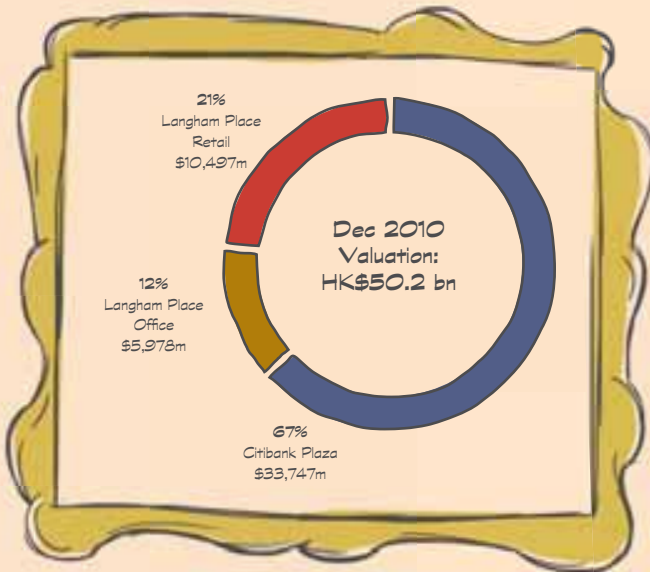
Being a retail property, the Langham Place Mall has a greater flexibility to organize events and campaigns to raise funds or awareness for charitable concerns. The most successful of these is the ongoing Spiral Stars Gallery project, where over HK\$200,000 of donations were accumulated for the Make-A-Wish Foundation in 2010 through donation boxes built into the 12 zodiac sculptures of the gallery. In addition, over HK\$20,000 was raised for World Vision in support of relief efforts at the Qinghai earthquake, and HK\$7,400 was raised from a charity sale on Valentine's Day. Langham Place also continued its participation in the IDEAL charity moon cake sale in 2010. This year, Langham Place was again selected as a Caring Company by the Hong Kong Council of Social Service.

# PROPERTY PORTFOLIO AT-A-GLANCE



- Some Major Tenants of Champion REIT (in alphabetical order):**
- Bank of America Merrill Lynch
  - Citibank N.A.
  - Hennis and Mauritz (H&M)
  - HSBC
  - Industrial and Commercial Bank of China
  - Neo Derm
  - Pure Yoga
  - Sears
  - Seibu
  - UA Cinemas

**Langham Place Mall** is a 15-level, 600,000 gross sq. ft. 'vertical' mall focusing on midpriced fashion, beauty products and food & beverage. It anchors the Langham Place development and offers a unique shopping experience through its distinct architectural features and its innovative promotion events. The Mall has built its reputation as a trendy social and retail destination for young and fashion-conscious shoppers, and is popular among tourists.



#### Value of Champion REIT's properties by usage

	Citibank Plaza	Langham Place	Sub-total
Dec 2010 Valuation	HK\$mil	HK\$mil	HK\$mil
Office	32,829.0	5,978.2	38,807.2
Retail	353.0	10,225.3	10,578.3
Car Park	265.8	187.5	453.3
Miscellaneous	299.3	84.5	383.8
<b>Total</b>	<b>33,747.1</b>	<b>16,475.5</b>	<b>50,222.6</b>

For additional details, please refer to the valuation report section

**The Langham Place Office Tower** is a 700,000 gross sq. ft. 59-storey office tower located within the Langham Place mixed-use development. It is a Grade-A office property in Mongkok, a major transport hub in Kowloon and a busy shopping district. The building focuses on tenants involved in the services and lifestyle industries.

**Citibank Plaza** is one of the largest Grade-A commercial complexes in Hong Kong's Central district with a lettable floor area of over 1.2 million sq. ft. It consists of two office towers, which are intelligent buildings that are capable of meeting the demanding technical specifications of global financial institutions, and a retail podium.



ASSESSED VALUE  
HK\$33.75  
BILLION



HEIGHT  
205M,  
47 STOREYS



TOTAL FLOOR AREA  
1,559,000 sq. ft.

A PREMIUM CHOICE



GRADE A  
OFFICE





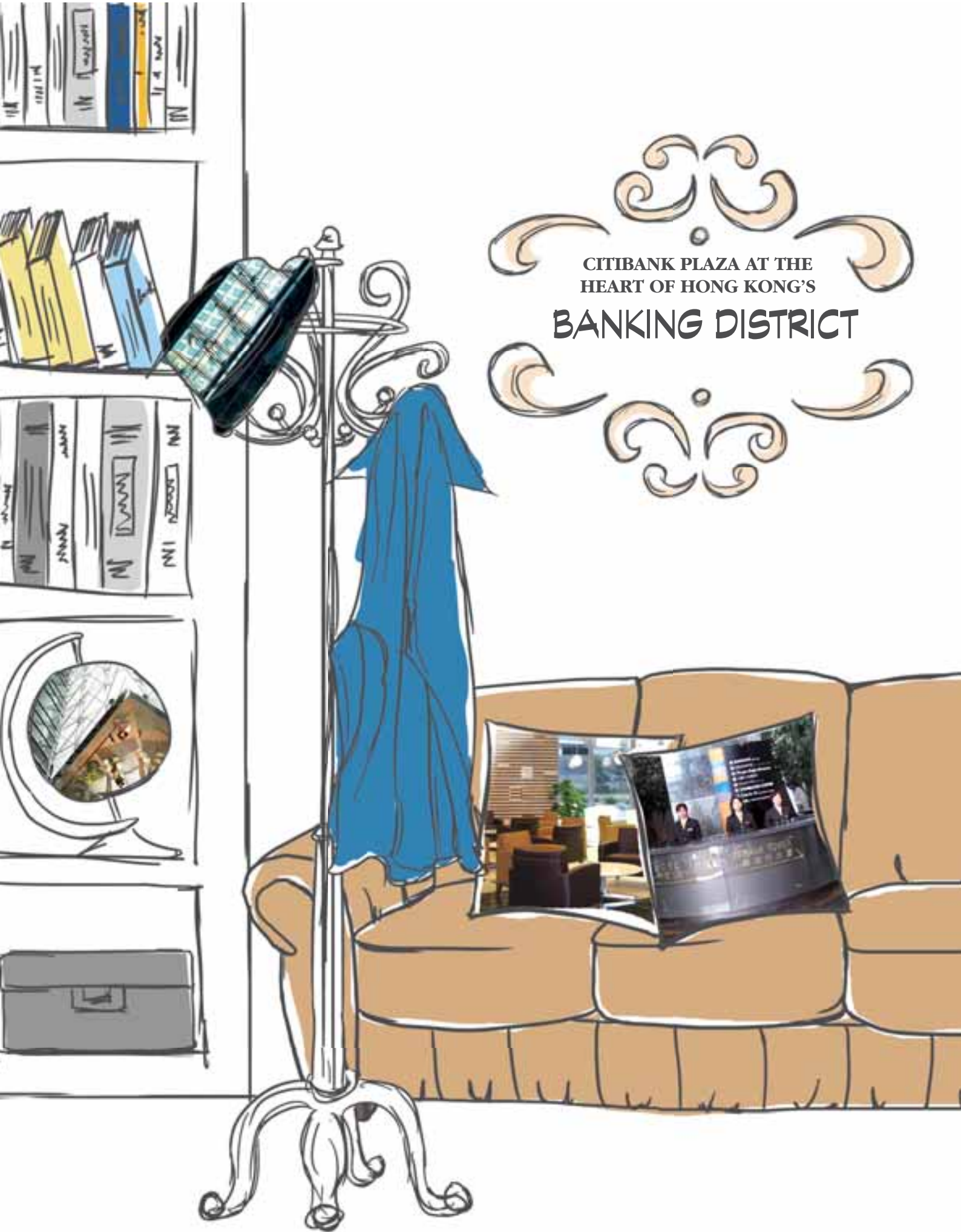
## CITIBANK PLAZA

Key among Citibank Plaza's attributes is its ability to conform to the formidable specifications required by multi-national financial institutions. With a gross floor area of almost 1.6 million sq. ft., Citibank Plaza is one of the biggest office complexes in Hong Kong.

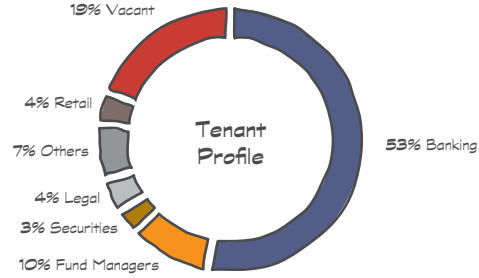
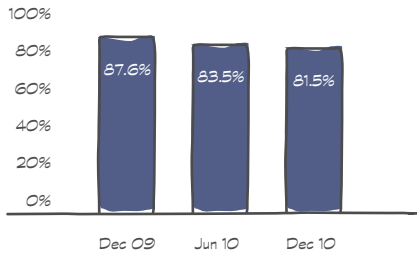




CITIBANK PLAZA AT THE  
HEART OF HONG KONG'S  
BANKING DISTRICT



Occupancy At Citibank Plaza



**PRIME ASSET**

Citibank Plaza is a modern glass and steel office complex that comprises Citibank Tower, ICBC Tower, a 3 level basement garage capable of accommodating 558 vehicles, as well as a retail podium. The complex is located in the Central District of Hong Kong and is well connected by elevated walkway to the rest of Central. Its address at No. 3 Garden Road is nestled within the traditional banking hub of Hong Kong which also contains the headquarter buildings of all three of Hong Kong’s currency issuing banks. Champion REIT owns all floors of ICBC Tower, all but 4 floors of Citibank Tower, all the retail space and parking space of Citibank Plaza. In percentage terms, this is equivalent to approximately 96% of the lettable area.

**ARCHITECTURAL EXCELLENCE**

With a gross floor area of almost 1.6 million sq. ft., Citibank Plaza is one of the biggest office complexes in Hong Kong, capable of serving a working population of over 10,000. The premium office complex is considered by many to be one of the Central District’s iconic structures. Besides its two characteristic curved reflective facades, the complex contains many distinct architectural features, such as the flexibility to join 26 floors of both towers to provide an enlarged floor plate of up to 34,000 sq. ft. In recognition of excellence in the area of architectural design, Citibank Plaza was awarded the Hong Kong Institute of Architects’ highest award when it was built.

**PREMIUM GRADE ‘A’ SPECIFICATIONS**

Citibank Plaza is the archetypal modern premium grade ‘A’ office complex, replete with fiber-optic backbone wiring to facilitate inter-floor communications, raised flooring to facilitate cabling and flexibility in office configurations, a central computerized control center and a master satellite signal distribution system. Key among Citibank Plaza’s attributes is its ability to conform to the formidable specifications required by multi-national financial institutions, the building’s primary target tenants. These include security lift facilities for treasury items, high redundant power supply to floor space ratios, timely emergency power supply and more importantly emergency chilled water facilities to data centres during power outages. It also operates an intelligent heat detection system which can prevent the unintentional activation of sprinklers.



WWW.CITIBANKPLAZA.COM  
WAS LAUNCHED IN AUGUST 2010

**ASSET ENHANCEMENT**

Some phases of Citibank Plaza’s asset enhancement program have already been completed. The upper ground floor and lower ground floor lobbies were recently renovated. The infrastructure of the upper ground lobby was refurbished to introduce security turnstiles for each individual lift zone, with access controlled by proximity card sensors. A new information and registration desk and new LCD directories were also added. With the enhanced security system, tenants may now access the office floors directly from the basement car park. The lower ground lobby was refurbished from an underused space into a trendy lounge area to provide tenants with a casual meeting place outside the office. Food and beverages outlets are conveniently located at the perimeter of the lounge. To cater to the growing need for ever higher requirements for emergency power and back-up chilled water supply for server rooms and trading areas, Citibank Plaza’s emergency power capacity and back-up chilled water capacity were upgraded in 2009. Citibank Plaza is now better positioned than ever to compete for top tier banking and financial tenants.

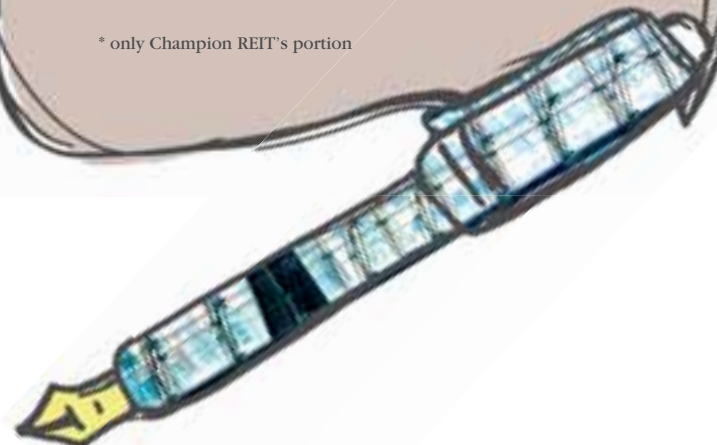
For the present, asset enhancement work will be focused on the basement car park. An electronic payment system was retrofitted in 2010 allowing users to pay via Octopus stored valued cards or by Visa credit cards. Two electric vehicle recharging stations were also added. Further improvement works in the car park are scheduled. In a separate project, a website for the property, CitibankPlaza.com was launched. This website has two functions. Firstly, it serves as an additional interaction interface between tenants and the building management team. In addition, it is also a reliable source of technical specifications, floor layouts and media to prospective tenants and leasing agents.

## CITIBANK PLAZA

### BUILDING STATISTICS

<p><b>ASSESSED VALUE*</b> <b>HK\$33.75</b> <b>billion</b></p>	<p><b>HEIGHT</b> <b>205M</b></p>
<p><b>HIGHEST FLOOR</b> <b>50</b></p>	<p><b>YEAR OF COMPLETION</b> <b>1992</b></p>
<p><b>TOTAL FLOOR AREA*</b> <b>1,559,000 sq. ft.</b></p>	<p><b>LETTABLE OFFICE AREA*</b> <b>1,170,000 sq. ft.</b></p>
<p><b>LETTABLE RETAIL AREA</b> <b>43,000 sq. ft.</b></p>	<p><b>MAXIMUM GROSS FLOORPLATE</b> <b>34,000 sq. ft.</b></p>
<p><b>CAR PARK SPACES</b> <b>558</b></p>	<p><b>NO. OF TENANTS*</b> <b>66</b></p>

\* only Champion REIT’s portion





# CITIBANK PLAZA

## LEASING AND PROPERTY MANAGEMENT TEAM



**MS. LAM Yuk Lin, Violin**  
*General Manager, Leasing*

As General Manager, Ms. Lam is responsible for formulating and implementing Citibank Plaza's business and leasing strategies. She has been involved in leasing and marketing activities of Citibank Plaza since 1999 and entered the property industry in 1994.

Ms. Lam holds a Bachelor's degree in Communications from the University of Hawaii.



**MR. Lobo FUNG**  
*Assistant General Manager, Building Management*

Mr. Fung is responsible for planning and overseeing of building management activities. He has been working in property management industry under various listed property conglomerates for over 22 years, and has overseen properties in Hong Kong, Mainland China and Macau.

Mr. Fung holds a Laws Degree from University of Wolverhampton, a Bachelor of Arts in Housing Studies from City University of

Hong Kong and a Master Degree in Business Administration from University of Ballarat. He is also a Registered Professional Housing Manager under the HK Housing Managers Registration Board and a professional Property Manager under the Ministry of Human Resources and Social Security, PRC. Further, he is also a Fellow of the Institute of Legal Executives, United Kingdom and the Hong Kong Institute of Real Estate Administrators.



**MS. MOK Lai Shim, Billian**  
*Chief Estate Manager*

Ms. Mok is Citibank Plaza's full-time DMC on-site manager and is primarily responsible for building management, repair and upkeep of common areas, facilities, structures and equipment, the operation and maintenance of the building services and safety systems. She has been involved in managing Citibank Plaza since 1993.

Ms. Mok holds a certificate from the Ontario Mortgage Brokers Association and a certificate in Housing Management. She is also a member of the Chartered Institute of Housing (United Kingdom).



**Ms. CHOY Mei Sze, Carrie**  
*Senior Manager, Leasing*

Ms. Choy is responsible for the leasing and marketing of Citibank Plaza and has 9 years of working experience in the real estate industry. She has worked in well-established property companies in the United Kingdom and Hong Kong, also in the areas of leasing and marketing.

Ms. Choy holds a Bachelor of Science degree in Surveying from The University of Hong Kong and an MBA from The University of Bath, UK. She is a member of the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors.



**Ms. LO Siu Yan, Edith**  
*Assistant Manager, Leasing*

Ms. Lo has joined the Property Manager in 2008, and is responsible for the leasing and marketing of Citibank Plaza and analysis reports in relation to tenancies. She has 11 years of experience in the real estate industry.

Ms. Lo holds a Bachelor of Science (Honours) degree in Real Estate from The Hong Kong Polytechnic University. She is also a member of the Hong Kong Institute of Surveyors (General Practice Division).





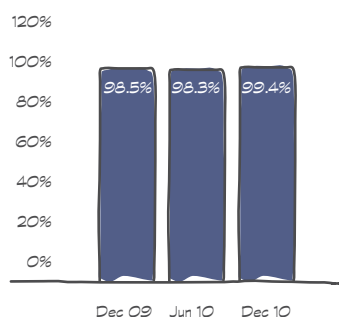
## LANGHAM PLACE

Completed in 2004, Langham Place immediately became a defining landmark of Mongkok, a prime retail and commercial district of Kowloon.

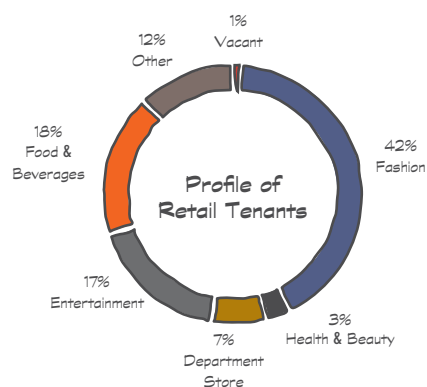
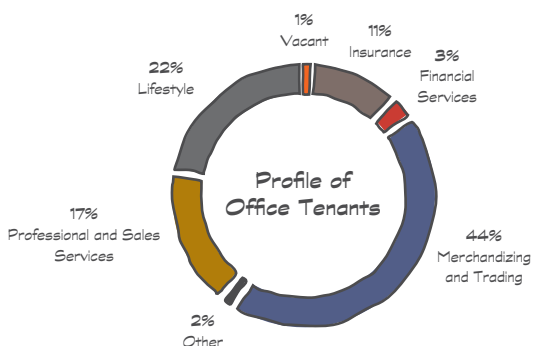
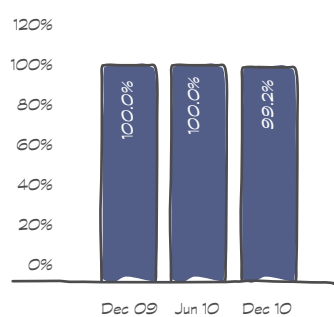
Among its internal features are a Grand Atrium enclosed by 9-storey tall glass curtains showcasing the surrounding street-level activity, the world's longest indoor escalators and a 'Digital Sky' projected onto the mall's ceiling.

## LANGHAM PLACE

Occupancy at Langham Place Office



Occupancy at Langham Place Mall



### PREMIUM ASSET, PRIME LOCATION

Langham Place is an integrated commercial development which comprises a 59-storey Grade A office tower, a 15-storey shopping mall, a 250-space private carpark and a 42-storey 5-star hotel. The project occupies two entire city blocks defined by Argyle Street, Portland Street, Shantung Street and Reclamation Street and is the largest urban renewal project in Hong Kong with a Total Floor Area of almost 2 million sq. ft. Completed in 2004, Langham Place immediately became a defining landmark of Mongkok, a prime retail and commercial district of Kowloon and an important hub for Hong Kong's major public transportation networks. Langham Place is directly linked via a pedestrian tunnel to the Mongkok Interchange of the Mass Transit Railway. The portion of Langham Place that Champion REIT owns is the entire Langham Place Mall and carpark and all but 4 floors of the Langham Place Office Tower. In percentage terms, this is equivalent to approximately 93.6% of the lettable area of the non-hotel portion of Langham Place.

### FASHION MALL REDEFINING MONGKOK

The Langham Place Mall has several unique modern architectural and design features. From the surrounding shopping district, its distinctive multi-faceted façade of Fissured Brazilian Granite is immediately recognizable. Among its internal features are a Grand Atrium enclosed by 9-storey tall glass curtains showcasing the surrounding street-level activity, the world's longest indoor escalators and a 'Digital Sky' projected onto the mall's ceiling. In upper section of the Mall, there is unique Spiral Stars Gallery featuring 12 large horoscope sculptures created by Hideki Kawabata, a renowned aluminium sculptor and illustrator. For its innovative design, the Langham Place Mall has received several awards from parties such as the International Council of Shopping Centers and the Institution of Structural Engineers Awards.

Langham Place Mall is a lifestyle urban mall, and its design matches the tastes of its target audience - young shoppers who are interested in the latest fashion trends. Each day, 200,000 to 300,000 shoppers visit the mall to

look for the latest in hip and trendy apparel, accessories and cosmetics. The mall also houses over 30 food and beverage outlets, a games arcade and a cineplex to compliment the shopping experience. Because of its immense popularity among teens and young adults, Langham Place Mall has been the venue of choice for fan and media events by local and foreign celebrities alike. The mall is also well known for its wide selection of cosmetics and has become increasingly popular with mainland tourists in recent times. Two television series, OL Supreme (女王辦公室) and Under The Canopy of Love (天幕下的戀人) have been filmed in the mall. In 2010, the mall won the Hong Kong Proud Brand Award (Shopping Mall category) jointly organized by Ming Pao Daily and The Chinese University of Hong Kong.

### MONGKOK'S PREFERRED OFFICE ADDRESS

The Langham Place Office Tower is a modern 59 storey Grade 'A' building that is the preferred corporate address in Mongkok. It is covered in distinctive reflective blue glass and topped off with a large colour-changing dome visible from as far as Hong Kong island at night. As the building is conveniently located in a decentralized office district it attracts tenants from merchandizing and wholesale sectors. The office tower is also home to many retail and service-oriented enterprises because of its location within a busy shopping district and its synergistic connection to the Langham Place Mall.

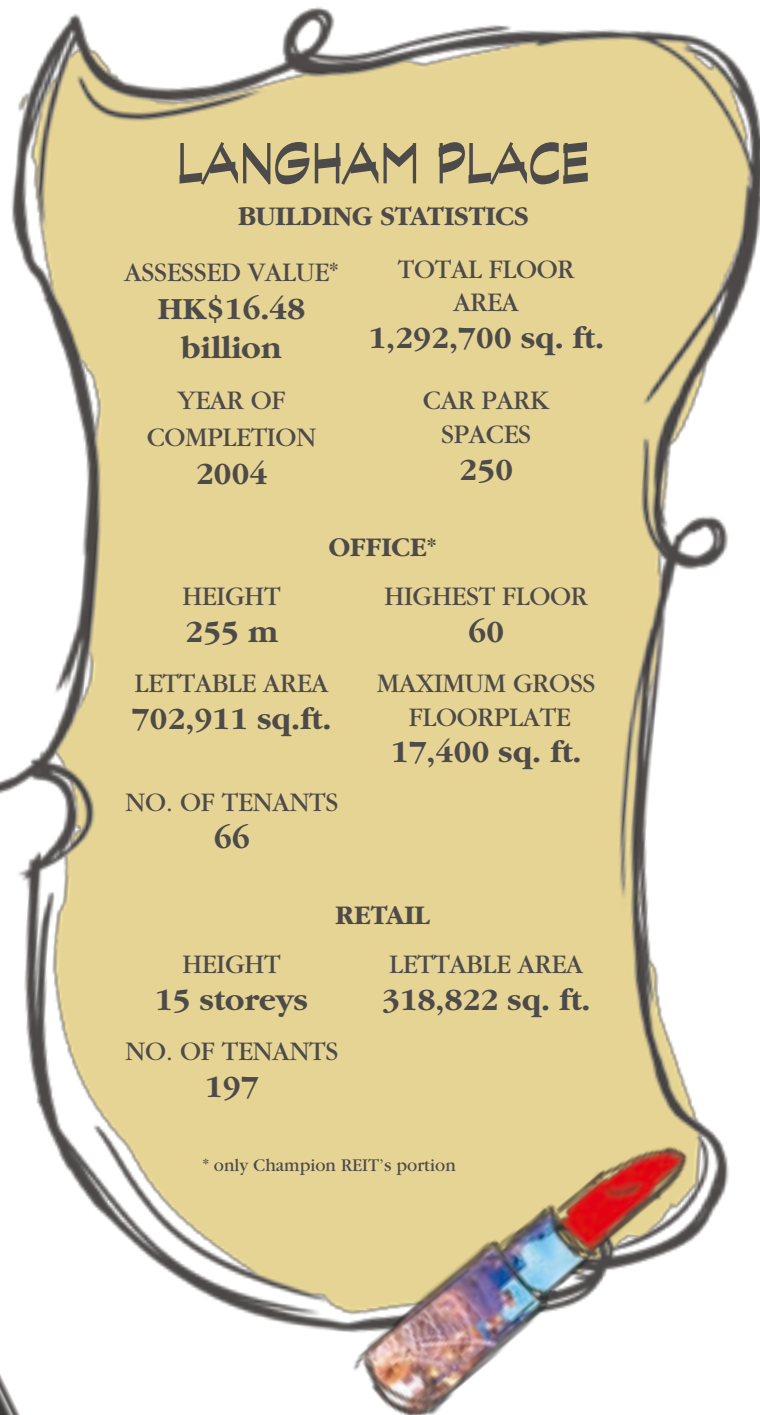
At 255 meters, it was the tallest office building on the Kowloon Peninsula when it was launched in 2004 and offers an unobstructed panoramic view of the surrounding area. Tenants are provided with the latest in Grade 'A' specifications, including fiber optic wiring, raised flooring, emergency power supply and master satellite signal distribution. Being a relatively new building, there is central computerized control of the climate, fire alarm, lift and lighting systems.

## LANGHAM PLACE

### BUILDING STATISTICS

<p>ASSESSED VALUE* <b>HK\$16.48 billion</b></p> <p>YEAR OF COMPLETION <b>2004</b></p> <p>HEIGHT <b>255 m</b></p> <p>LETTABLE AREA <b>702,911 sq.ft.</b></p> <p>NO. OF TENANTS <b>66</b></p>	<p>TOTAL FLOOR AREA <b>1,292,700 sq. ft.</b></p> <p>CAR PARK SPACES <b>250</b></p> <p>OFFICE*</p> <p>HIGHEST FLOOR <b>60</b></p> <p>MAXIMUM GROSS FLOORPLATE <b>17,400 sq. ft.</b></p> <p>RETAIL</p> <p>LETTABLE AREA <b>318,822 sq. ft.</b></p> <p>NO. OF TENANTS <b>197</b></p>
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\* only Champion REIT's portion





THE LANGHAM PLACE  
I-PHONE APP  
LAUNCHED  
IN AUGUST 2010



# LANGHAM PLACE

## LEASING AND PROPERTY MANAGEMENT TEAM



**Ms. LEUNG Wai Mun, Vivian**  
*General Manager,  
Leasing and Marketing*

Ms. Leung is the team leader for the leasing, promotion, marketing and public relation activities of Langham Place. Ms Leung has over 19 years' experience in the advertising and marketing industry. Prior to joining the Property Manager, she worked for various advertising agencies and held senior marketing and business development positions with a number of publishing and marketing companies.

Ms. Leung holds a Bachelor of Arts Degree from York University of Canada.



**Mr. David CHIU**  
*Assistant General Manager,  
Building Management*

Mr. Chiu is responsible for the overall property management of Langham Place. He has more than more than 21 years experience in managing quality retail and commercial properties. Prior to joining the Langham Place team

in 2004, he worked for various leading listed property companies in Hong Kong.

Mr. Chiu holds a Diploma in Housing Management from the University of Hong Kong, and a Bachelor of Arts Degree from the Concordia University, Montreal Canada. He is also a member of the Institute of Housing, United Kingdom and a member of the Chartered Institute of Housing, Hong Kong.



**Ms. CHAN Fung Kam, Jean**  
*Assistant General Manager,  
Leasing*

Ms. Chan is responsible for the leasing and tenancy management of Langham Place and has over fifteen years' experience in the property leasing field. Prior to her present job, she worked for various property developers in Hong Kong.

Ms. Chan holds a Master of Science degree in Real Estate majoring in Surveying from The University of Hong Kong and a Bachelor degree of Business Studies from The City University of Hong Kong.



**Ms. AU-YEUNG Hon Yuk, Makey**  
*Assistant General Manager,  
Marketing*

Ms. Au-Yeung is responsible for marketing, promotion and public relations activities of Langham Place. She has over 18 years' experience working for various marketing and public relations firms and had held the position of editorial consultant for a number of well established publishing houses.

Ms. Au-Yeung holds a Higher Diploma in Chinese Translation and Interpretation from the Hong Kong Polytechnic University.



**Mr. CHAN Chor Kiu, Desmond**  
*Chief Estate Manager*

Mr. Chan is responsible for building management of the shopping mall, office tower and car park at Langham Place. Prior to joining the management team of Langham Place in 2006, he worked for several of Hong Kong's leading listed property companies and has over 16 years' experience in the property management industry.

Mr. Chan holds a Bachelor's degree in Housing Management from the University of Hong Kong and a Diploma in Surveying from the College of Estate Management. He is also a member of the Hong Kong Institute of Housing, the Chartered Institute of Housing (U.K.) and a registered professional housing manager of the Housing Managers Registration Board.

# VALUATION REPORTS



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+852 2840 0600 fax  
www.knightfrank.com

8 February 2011

Eagle Asset Management (CP) Limited  
Suite 3008, 30/F, Great Eagle Centre  
23 Harbour Road  
Wanchai, Hong Kong  
(the Manager for Champion Real Estate Investment Trust "Champion REIT")

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong  
(the Trustee for Champion REIT)

Dear Sirs

## **VARIOUS PORTIONS OF CITIBANK PLAZA, 3 GARDEN ROAD, CENTRAL, HONG KONG ("THE PROPERTY")**

In accordance with the recent instructions of the Manager on behalf of Champion REIT to value the Property, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2010 (referred to as the "Valuation Date") for annual reporting purposes.

### **BASIS OF VALUATION**

Our valuation is our opinion of the market value of the Property which we would define as intended to mean 'the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts published by Securities and Futures Commission and The HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.



## VALUATION METHODOLOGIES

We have valued the Property on the basis of capitalization of the net income shown on schedules handed to us and, where appropriate, by reference to sales evidence as available on the market. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

In undertaking our valuation of the Property, Income Capitalization and Direct Comparison approaches are adopted. Income Capitalization approach is considered to be the most appropriate method to assess market value of leased property, particularly taking into consideration of the Property's type of use, building age and condition. In the course of our valuation, we have assumed that no significant capital expenditure by the owner of the Property will be required in the foreseeable future. Apart from Income Capitalization approach, Direct Comparison approach is adopted for cross-referencing purpose.

### Income capitalization

The existing net rental income, i.e. rent exclusive of rates, management fees, air-conditioning charges and other tenants' outgoings, of all lettable space of a property, is capitalized in respect of the unexpired term of each contractual tenancy. Upon reversion, i.e. the expiry of the existing tenancy, each of the leased areas is assumed to be let at the market rent as at the Valuation Date this in turn is capitalized at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government lease upon its expiry. Any vacant units are assumed to be let at their respective market rents at the Valuation Date. The market value of a property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred. The capitalization rate adopted is made by reference to the yield achieved in analysed market sales of retail space/office spaces and our knowledge of the market. This expected rate of return reflects implicitly the quality of the investment, the expectation of future rental growth and capital appreciation, risk factor and the like. Our adopted capitalization rate for the retail and office accommodation is 4.5% and 4.0% respectively.

### Direct comparison

As a cross-reference, sales evidences of similar types of properties are collected and analyzed in terms of a price per square footage. The analyzed result of each comparable sale is adjusted to take account of the discrepancies between the Property and the comparable sale and also the market movement over time between the date of sale and the Valuation Date. Adjustment factors therefore may include time, location, accessibility, age, building quality and condition, facilities and the like.

As there were limited en-bloc/bulk transactions for comparison in our valuation, we have also made reference to transactions of strata-titled properties in the vicinity. Such sales evidences are collected, analyzed and adjusted to provide a check for the valuation arrived from Income Capitalization Approach.

## LIMITING CONDITIONS

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, incomes, site and floor areas and all other relevant matters. We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Property but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in this valuation letter are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have carried out land search to the Property valued. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

No allowance has been made in our report for any charge, mortgage or amount owing on the Property. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions, title defects and outgoings of an onerous nature which could affect its value.

## VALUATION REPORTS

We have inspected the exterior and, where available, the interior of Property. However, no structural survey has been made but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the Property is free from rot, infestation or any other structural defect. No tests were carried out to any of the services.

We have relied upon the property data supplied by the Manager which we assume to be true and accurate. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the Property, as required under the Code on Real Estate Investment Trusts. No responsibility is accepted to any other party for the whole or any part of its contents.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Property and are not a related corporation of nor do we have a relationship with the Manager and the Trustee or other party/parties who Champion REIT is contracting with.

We hereby confirm that our valuers undertaking this valuation are authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

We enclose herewith our valuation and market overview.

Yours faithfully  
For and on behalf of  
Knight Frank Petty Limited

Alex SL Ng  
MRICS MHKIS RPS(GP)  
*Executive Director*

\* Mr Alex S L Ng Siu Lam, MRICS, MHKIS, RPS(GP), has been a qualified valuer since 1995 and has about 24 years' experience in the valuation of properties in Hong Kong.

Enc

## VALUATION

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield														
Various Portions in Citibank Plaza, 3 Garden Road, Central, Hong Kong (See Note 1)	Citibank Plaza is an office/commercial/carparking development situated in Central district. It comprises one 47-storey office block, known as Citibank Tower, and one 37-storey office block, known as ICBC Tower surmounting a 6-level podium (including 4 basement levels) with retail accommodation on the lower ground floor and carparking spaces in the basements. The development was completed in 1992.	The retail portion of the Property was let under seven tenancies for various terms with the latest expiry date in June 2016, yielding a total monthly rental income of approximately HK\$1.29 million exclusive of rates, management and air-conditioning charges. Except for one shop unit, the tenancies were subject to turnover rent. No turnover rent was receivable during the period from January 2010 to December 2010.	HK\$33,747,100,000	2.91%														
1,389,185/1,650,000th undivided parts or shares of and in Inland Lot No 8888.	The Property comprises the whole of the retail accommodation and the majority of the offices of the development. The total floor area and the gross rentable area of the retail and office portions of the Property are as follows:-	The office portion of the Property was let under various tenancies for various terms with the latest expiry date in June 2016, yielding a total monthly rental income of approximately HK\$78.99 million exclusive of rates, management and air-conditioning charges. A number of tenancies contain rent review clauses and/or options to renew for further terms at the then prevailing market rents.																
	<table border="1"> <thead> <tr> <th rowspan="2">Use</th> <th colspan="2">Total Floor Area</th> </tr> <tr> <th>sq m</th> <th>sq ft</th> </tr> </thead> <tbody> <tr> <td>Retail</td> <td>5,362.41</td> <td>57,721</td> </tr> <tr> <td>Office</td> <td>139,498.05</td> <td>1,501,557</td> </tr> <tr> <td>Total</td> <td>144,860.46</td> <td>1,559,278</td> </tr> </tbody> </table>	Use	Total Floor Area		sq m	sq ft	Retail	5,362.41	57,721	Office	139,498.05	1,501,557	Total	144,860.46	1,559,278			
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Use	Gross Rentable Area																	
	sq m	sq ft																
Retail	3,956.99	42,593																
Office	108,722.50	1,170,289																
Total	112,679.49	1,212,882																
	The Property also includes 58 private car parking spaces and a fee paying public carpark comprising 500 car parking spaces and 50 motorcycle parking spaces in the basements.																	

## VALUATION REPORTS

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
	<p>Inland Lot No 8888 is held from the Government for the residue of the terms of years commencing from 3 August 1989 and expiring on 30 June 2047 under a Government lease deemed to have been issued under and by virtue of Section 14(3) of the Coveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) upon compliance with the conditions precedent contained in the Conditions of Sale No 12063 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.</p>	<p>A total of 500 carparks and 50 motorcycle parking spaces were being operated as a fee-paying public carpark and the remaining 58 carparks were occupied as private carparks and let under various licences. The total average monthly gross income receivable during the period from December 2009 to November 2010 was approximately HK\$878,000 inclusive of rates and management fees.</p> <p>Various spaces for cellular phone systems were let under five licences for various terms with the latest expiry date in December 2012, yielding a total monthly licence fee of approximately HK\$67,000 exclusive of rates and management fees.</p> <p>A satellite phone antenna, various advertising spaces and the naming rights of Citibank Tower and ICBC Tower were let under various licences with the latest expiry date in June 2016, yielding a total monthly licence fee of approximately HK\$1,305,000 exclusive of rates and management.</p>		

Notes:

(1) The Property comprises the following portions:-

Office & Health Club (ICBC Tower)	Whole of ICBC Tower including 2nd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 40th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st and 19th Floors are mechanical floors).
Office (Citibank Tower)	Various portions of Citibank Tower including portion on 3rd Floor, 7th to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors, 25th to 30th Floors, Portions A and B on 31st Floor, 32nd to 34th Floors, 36th to 39th Floors, Portions A and B on 40th Floor and 41st to 50th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st, 2nd, 19th and 35th Floors are mechanical floors).
Retail Shop	Restaurant and Shops 1 to 5 on Lower Ground Floor of the development.
Car Parking Space	Private car parking space nos. 5 to 33, 39 to 51, 118 to 131 and 166 to 167 on Basement 2 and public carpark comprising 500 car parking spaces and 50 motor cycle parking spaces within the development.

(2) The registered owners of the respective portions of the Property are set out below:-

Registered Owner	Portion of the Property
Shine Hill Development Limited	<p>Whole of ICBC Tower</p> <p>Whole of ICBC Tower including 2nd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 40th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st and 19th Floors are mechanical floors).</p> <p>Various portions of Citibank Tower, including portion on 3rd Floor, 7th to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 28th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st, 2nd, 19th and 35th Floors are mechanical floors).</p> <p>Restaurant and Shops 1 to 4 on Lower Ground Floor of the development.</p> <p>Private car parking space nos. 5 to 20, 26 to 33, 45 to 51, 121 to 122 and 166 and 167 on Basement 2 and public carpark comprising 500 private car parking spaces and 50 motor cycle parking spaces within the development.</p> <p>All those Reserved Areas as defined in the Deed of Mutual Covenant and Management Agreement in respect of Citibank Plaza registered in the Land Registry by Memorial No. UB5511011 (being those parts of the buildings (not specifically assigned for the exclusive use of any Owner and not being part of the common areas) reserved for the exclusive use and occupation of Shine Hill (including without limitation to the generality of the foregoing, the Main Roofs, the flat roof, the External Walls, the loading/unloading areas on the First Basement and three (3) flag poles at or above Level +14.668 facing the transverse road).</p>
Maple Court Limited	<p>29th to 30th Floors and Portion B on 31st Floor of Citibank Tower</p> <p>Private car parking space nos. 21 to 22 on Basement 2 of the development.</p>
Panhy Limited	<p>Portion A on 31st Floor and 32nd to 33rd Floors of Citibank Tower.</p> <p>Private car parking space nos. 42 to 44 on Basement 2 of the development.</p>
Well Charm Development Limited	38th Floor of Citibank Tower.
CP (Portion A) Limited	<p>Portion A on 40th Floor, 41st to 50th Floors of Citibank Tower.</p> <p>Shop 5 on Lower Ground Floor of the development.</p> <p>Private car parking space nos. 118 to 120 and 123 to 131 on Basement 2 of the development.</p>
CP (Portion B) Limited	<p>39th Floor and Portion B on 40th Floor of Citibank Tower.</p> <p>Private parking space nos. 23 to 25 on Basement 2 of the development.</p>
Elegant Wealth Limited	<p>34th, 36th and 37th Floors of Citibank Tower.</p> <p>Private parking space nos. 39 to 41 on Basement 2 of the development.</p>

## VALUATION REPORTS

- (3) The portion of the Property held by Shine Hill Development Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (SH) Limited at a consideration of HK\$16,117,000,000 dated 26 April 2006.
- (4) The portion of the Property held by Maple Court Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (MC) Limited at a consideration of HK\$860,000,000 dated 26 April 2006.
- (5) The portion of the Property held by Panhy Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (PH) Limited at a consideration of HK\$885,000,000 dated 26 April 2006.
- (6) The portion of the Property held by Well Charm Development Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (WC) Limited at a consideration of HK\$363,000,000 dated 26 April 2006.
- (7) The portion of the Property held by CP (Portion A) Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (A1) Limited at a consideration of HK\$3,841,000,000 dated 26 April 2006.
- (8) The portion of the Property held by CP (Portion B) Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (B1) Limited at a consideration of HK\$604,000,000 dated 26 April 2006.
- (9) Except for the portion of the Property held by Elegant Wealth Limited, the Property is subject to a legal charge and debenture in favour of Hang Seng Bank Limited.
- (10) The portion of the Property held by Elegant Wealth Limited is subject to a mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited.
- (11) The Property lies within an area zoned "Commercial" under Central District Outline Zoning Plan.
- (12) The rentals reported herein are the total of the face rentals without taking into account any rent free periods or the turnover rents received, if any.
- (13) The notional breakdown of our valuation in respect of different portions of the property is set out below:-

Use	Market Value as at 31 December 2010
Retail	HK\$353,000,000
Office	HK\$32,829,000,000
Carpark	HK\$265,800,000
Miscellaneous	HK\$299,300,000
<b>Total:</b>	<b>HK\$33,747,100,000</b>

- (14) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy/licence profile as at 31 December 2010 (excluding car parking spaces and miscellaneous areas) is set out below:-

### Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	988,070	81.5
Vacant	224,812	18.5
<b>Total</b>	<b>1,212,882</b>	<b>100</b>

### Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2004	105,436	10.6	7,854,982	9.8	2	2.3
2005	18,317	1.8	2,173,213	2.7	2	2.3
2006	41,072	4.2	3,678,562	4.6	3	3.4
2007	41,281	4.2	3,636,881	4.5	6	6.8
2008	263,581	26.7	26,548,645	33.1	17	19.3
2009	61,051	6.2	5,575,449	6.9	12	13.6
2010	457,332	46.3	30,816,603	38.4	46	52.3
<b>Total</b>	<b>988,070</b>	<b>100</b>	<b>80,284,335</b>	<b>100</b>	<b>88</b>	<b>100</b>

#### Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2010	3,302	0.3	337,155	0.4	2	2.3
2011	365,423	37.0	35,670,466	44.4	27	30.7
2012	97,601	9.9	8,667,466	10.8	22	25.0
2013	138,534	14.0	8,850,958	11.0	25	28.4
2014	138,876	14.1	9,513,674	11.9	7	7.9
2016	244,334	24.7	17,244,616	21.5	5	5.7
<b>Total</b>	<b>988,070</b>	<b>100</b>	<b>80,284,335</b>	<b>100</b>	<b>88</b>	<b>100</b>

#### Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
1	11,626	1.2	962,439	1.2	2	2.3
2	69,423	7.0	5,774,855	7.2	18	20.4
3	444,368	45.0	37,516,722	46.7	47	53.4
4	17,890	1.8	1,532,444	1.9	3	3.4
5	46,901	4.7	4,322,993	5.4	5	5.7
6	290,101	29.4	22,146,688	27.6	10	11.4
9	2,325	0.2	173,213	0.2	1	1.1
10	105,436	10.7	7,854,982	9.8	2	2.3
<b>Total</b>	<b>988,070</b>	<b>100</b>	<b>80,284,335</b>	<b>100</b>	<b>88</b>	<b>100</b>

Note: The above tenancy profile excluding four pre-committed new lettings for terms of six years commencing in between 1 March 2011 and 1 June 2011 and one renewal tenancy for term of three years commencing on 15 January 2011.

## VALUATION REPORTS

### OFFICE MARKET OVERVIEW

#### Stock

According to the Rating and Valuation Department, there was around 17,164,000 sq ft of Grade-A office space in Central in 2009-year end that accounted for approximately 24.3% of the total Grade-A office stock in the territory.

#### Supply

No new Grade-A office supply was recorded in Central district in 2010. Whilst in 2011, the redevelopments of Dragon Seed Building, Luk Hoi Tong Building, Ritz Carlton Hotel and Crocodile House together will provide a total space of approximately 525,000 sq ft.

#### Vacancy

Vacancy rate of Central Grade-A office hovered at an extremely low level of around 1% in the last quarter of 2007 till August 2008 where the global economic downturn took impact. In the following ten months, corporate downsizing and relocations out of Central had gradually pushed the rate up to 3.9%. It then started to edge down in July 2009 following a recovery in office leasing, returned to a vacancy level of about 2.3% by December 2010.

#### Rental Trends

Grade-A office rentals in Central had experienced a five-year up-trend since recovering from the 2003 SARS outbreak. It however began to decline in 3rd quarter 2008 as a result of the global financial tsunami. It had dropped for 13 months in a row between the Septembers of 2008 and 2009, losing around 30% compared with the peak in 2008. Yet, it began to rebound in 4th quarter 2009. According to the Monthly Supplement January 2011 of the rental index for Grade-A office in core districts in November 2010 from the Hong Kong Property Review published by the Rating and Valuation Department (RVD), the rental level of Grade-A office in Sheung Wan/Central increased by approximately 17.5% since January 2010. Yet, it is still about 15% lower than its peak in August 2008.

#### Price Trends

Prices of Central Grade-A strata-titled offices had reached its peak in 2008, which then began to drop for ten months following shrinkage in transaction volumes as a result of the global financial crisis. It plunged around 42% and reached the bottom in April 2009. With improved buying sentiment, prices had surged. According to the Monthly Supplement January 2011 of Hong Kong Property Review published by RVD, the price level of Grade-A office in Core Districts in November 2010 had rebounded to 7.2% above the Peak in mid-2008.

#### Outlook

Office demand remains strong and some landlords revise upwards their asking rents aggressively thus leading to a surge in office rents. Despite rapidly rising rents, commercial agents witnessed keen interests from both expanding foreign and indigenous corporations. In addition to the office demand from a number of newly established hedge funds, some commercial banks increased headcounts in their treasury operations in a bid to capitalize the expanding offshore RMB business in Hong Kong. In the sales market, the average price of Grade-A office continued to edge up albeit at a slower rate than rental growth. A remarkable deal in December 2010 involved a high floor unit in Bank of America in Central, transacted at about \$24,500 per sq ft, the highest unit rate recorded in the building. It appears that the Government's latest tightening measures including lowering the loan-to-value ratio for all commercial and industrial properties have no significant impact on the office market. About 430 office sales transactions were registered in November 2010 representing a surge of over 60% from October 2010 and the highest level since January 2008. As the Special Stamp Duty targets only residential properties, some investors shifted their focus to the office/retail market. Office rents are expected to continue to inch higher in 2011, due to tight supply and robust demand. The new completions in Central are expected to be swiftly absorbed by the expanding corporate sector. 2011 is forecast to be another banner year for Hong Kong's IPO market. The city is likely to remain the world's top IPO market in 2011 and expected to raise HK\$400 billion, according to an international accountancy firm. A thriving financial market coupled with a steady stream of incoming companies will create solid demand for office space in the CBD.



# VALUATION REPORTS



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8 February 2011

Eagle Asset Management (CP) Limited  
Suite 3008, 30/F, Great Eagle Centre  
23 Harbour Road  
Wanchai, Hong Kong  
(the Manager for Champion Real Estate Investment Trust "Champion REIT")

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong  
(the Trustee for Champion REIT)

Dear Sirs

**(1) High Block (except HB CAF (as defined in the Sub-Deed of Mutual Covenant affecting the High Block dated 8 July 2005) and Suites Nos 01, 02, 03, 05, 06, 07, 08, 09, 10, 11, 12 and 15 on Levels 35, 36, 37 and 55), 8 Argyle Street, (2) Retail Block, Langham Place, 8 Argyle Street, (3) Carpark, 8 Argyle Street and 555 and 557 Shanghai Street, and (4) Reserved Area, 8 Argyle Street and 555 and 557 Shanghai Street, Mong Kok, Kowloon ("the Property")**

In accordance with the recent instructions of the Manager on behalf of Champion REIT to value the Property, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2010 (referred to as the "Valuation Date") for annual reporting purposes.

## BASIS OF VALUATION

Our valuation is our opinion of the market value of the Property which we would define as intended to mean 'the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts and The HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

## VALUATION REPORTS

### VALUATION METHODOLOGIES

We have valued the Property on the basis of capitalization of the net income shown on schedules handed to us and, where appropriate, by reference to sales evidence as available on the market. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

In undertaking our valuation of the Property, Income Capitalization and Direct Comparison approaches are adopted. Income Capitalization approach is considered to be the most appropriate method to assess market value of leased property, particularly taking into consideration of the Property's type of use, building age and condition. In the course of our valuation, we have assumed that no significant capital expenditure by the owner of the Property will be required in the foreseeable future. Apart from Income Capitalization approach, Direct Comparison approach is adopted for cross-referencing purpose.

#### Income capitalization

The existing net rental income, i.e. rent exclusive of rates, management fees, air-conditioning charges and other tenants' outgoings, of all lettable space of a property, is capitalized in respect of the unexpired term of each contractual tenancy. Upon reversion, i.e. the expiry of the existing tenancy, each of the leased areas is assumed to be let at the market rent as at the Valuation Date this in turn is capitalized at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government lease upon its expiry. Any vacant units are assumed to be let at their respective market rents at the Valuation Date. The market value of a property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred. The capitalization rate adopted is made by reference to the yield achieved in analysed market sales of retail space/office spaces and our knowledge of the market. This expected rate of return reflects implicitly the quality of the investment, the expectation of future rental growth and capital appreciation, risk factor and the like. Our adopted capitalization rate for the retail and office accommodation is 4.1% and 4.2% respectively.

#### Direct comparison

As a cross-reference, sales evidences of similar types of properties are collected and analyzed in terms of a price per square footage. The analyzed result of each comparable sale is adjusted to take account of the discrepancies between the Property and the comparable sale and also the market movement over time between the date of sale and the Valuation Date. Adjustment factors therefore may include time, location, accessibility, age, building quality and condition, facilities and the like.

As there were limited en-bloc/bulk transactions for comparison in our valuation, we have also made reference to transactions of strata-titled properties in the vicinity. Such sales evidences are collected, analyzed and adjusted to provide a check for the valuation arrived from Income Capitalization Approach.

### LIMITING CONDITIONS

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, incomes, site and floor areas and all other relevant matters. We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Property but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in this valuation letter are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have carried out land search to the Property valued. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

No allowance has been made in our report for any charge, mortgage or amount owing on the Property. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions, title defects and outgoings of an onerous nature which could affect its value.

We have inspected the exterior and, where available, the interior of Property. However, no structural survey has been made but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the Property is free from rot, infestation or any other structural defect. No tests were carried out to any of the services.

We have relied upon the property data supplied by the Manager which we assume to be true and accurate. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the Property, as required under the Code on Real Estate Investment Trusts. No responsibility is accepted to any other party for the whole or any part of its contents.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the Property and are not a related corporation of nor do we have a relationship with the Manager and the Trustee or other party/parties who Champion REIT is contracting with.

We hereby confirm that our valuers undertaking this valuation are authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

We enclose herewith our valuation and market overview.

Yours faithfully  
For and on behalf of  
Knight Frank Petty Limited

Alex SL Ng  
MRICS MHKIS RPS(GP)  
*Executive Director*

\* Mr Alex S L Ng Siu Lam, MRICS, MHKIS, RPS(GP), has been a qualified valuer since 1995 and has about 24 years' experience in the valuation of properties in Hong Kong.

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## VALUATION REPORTS

### VALUATION

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
(1) High Block (except HB CAF (as defined in the Sub-Deed of Mutual Covenant affecting the High Block dated 8 July 2005) and Suites Nos 01, 02, 03, 05, 06, 07, 08, 09, 10, 11, 12 and 15 on Levels 35, 36, 37 and 55), 8 Argyle Street, (2) Retail Block, Langham Place, 8 Argyle Street, (3) Carpark, 8 Argyle Street and 555 and 557 Shanghai Street, and (4) Reserved Area, 8 Argyle Street and 555 and 557 Shanghai Street, Mong Kok, Kowloon	<p>Langham Place is a retail/office/hotel/carpark complex erected on two rectangular sites, separated by Shanghai Street, having a registered total site area of 11,976 sq m (128,910 sq ft). The development was completed in 2004.</p> <p>Currently standing on the eastern site is a 59-level tower (comprising 46 levels of office, four levels of shop, five mechanical floors, two refuge floors and two roof floors) and a 15-storey retail building (including two basement levels) erected over three levels of basement carpark.</p> <p>Currently standing on the western site is a hotel built over two levels of basement carpark. In addition, government, institution and community facilities as well as public open space are provided on the site.</p> <p>Two covered footbridges and an underground vehicle tunnel across Shanghai Street are constructed to inter-connect the development between the two separate sites.</p> <p>The Property comprises the office floors from Level 6 to Level 60 (Levels 13, 14, 24, 34, 44 and 58 are omitted from floor numbering) of the High Block, 8 Argyle Street except HB CAF (as defined in the Sub-Deed of Mutual Covenant affecting the High Block dated 8 July 2005) and Suites Nos 01, 02, 03, 05, 06, 07, 08, 09, 10, 11, 12 and 15 on Levels 35, 36, 37 and 55 with a Gross Rentable Area of approximately 65,302.03 sq m (702,911 sq ft).</p>	<p>The office portion of the Property was let under various tenancies mostly for terms of three years with the latest expiry date in March 2016 yielding a total monthly rental of approximately HK\$19.79 million exclusive of rates, management fees and air-conditioning charges. A number of tenancies contain options to renew for further terms at the then prevailing market rents.</p> <p>The retail portion of the Property was let under various tenancies mostly for terms of three years with the latest expiry date in October 2015 yielding a total monthly basic rent of approximately HK\$31.27 million exclusive of rates, management fees and air-conditioning charge. Most of the tenancies are subject to turnover rent. The average monthly turnover rent receivable during the period from January 2010 to October 2010 was about HK\$3,036,000.</p> <p>The occupancy rates of the office and retail portions were approximately 99.4% and 99.2% respectively.</p>	HK\$16,475,500,000	4.24%
1,075,082/1,963,066th undivided parts or shares of and in Kowloon Inland Lot No 11099.				

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
	<p>The Property also comprises the Retail Block, Langham Place, 8 Argyle Street from Basement 2 to Level 13 with a Total Floor Area of approximately 54,797.84 sq m (589,844 sq ft) and a Gross Rentable Area of approximately 29,619.29 sq m (318,822 sq ft).</p> <p>The Property also comprises a carpark at the basement levels, 8 Argyle Street, and 555 and 557 Shanghai Street accommodating a total of 250 car parking spaces.</p> <p>Kowloon Inland Lot No 11099 is held from the Government under Conditions of Exchange No UB12557 for a term from 18 February 2000 to 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.</p>	<p>The carpark was operated as a fee-paying public carpark let on a monthly and hourly basis. The average monthly gross income receivable during the period from November 2009 to October 2010 was approximately HK\$1,371,000.</p> <p>Naming right of the Property was licensed to The Great Eagle Company Limited for a term of 3 years which expired on 31 December 2010 at a monthly licence fee of HK\$2,166,667.</p> <p>Miscellaneous comprises lightboxes, signage spaces, loading areas and other miscellaneous income were let under various licences with the latest expiry in August 2013 yielding a total monthly licence fee of approximately HK\$564,000.</p>		

Notes:

- (1) The registered owner of the Property is Benington Limited.
- (2) The Property also comprises the Reserved Area defined in the Deed of Mutual Covenant and Management Agreement dated 27 June 2005 as those parts of the Development not specifically included in the Government Accommodation or any Component, the Development CAF or HB/Retail CAF (all terms as defined in the said Deed of Mutual Covenant and Management Agreement) and reserved for the exclusive use and enjoyment of Benington Limited.
- (3) The Property, inter alia, is subject to the following encumbrances as registered in the Land Registry:-
  - (i) Legal Charge in favour of Hang Seng Bank Limited; and
  - (ii) Legal Charge in favour of Citibank, N.A.
- (4) For the office portion of the Property, the Gross Rentable Area is equal to the Total Floor Area.
- (5) The Property lies within an area zoned "Commercial (2)" under Mong Kok Outline Zoning Plan.
- (6) The notional breakdown of our valuation in respect of different portion of the property is set out below:

Use	Market Value as at 31 December 2010
Retail	HK\$10,225,300,000
Office	HK\$5,978,200,000
Carpark	HK\$187,500,000
Miscellaneous	HK\$84,500,000
<b>Total</b>	<b>HK\$16,475,500,000</b>

## VALUATION REPORTS

- (7) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy profile for the office portion of the Property as at 31 December 2010 is set out below:-

### Office Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	698,628	99.4
Vacant	4,283	0.6
<b>Total</b>	<b>702,911</b>	<b>100</b>

### Office Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2006	17,398	2.5	556,736	2.8	1	1.5
2007	14,921	2.1	438,466	2.2	4	6.0
2008	275,357	39.4	7,350,173	37.1	28	41.8
2009	4,112	0.6	114,958	0.6	2	3.0
2010	386,840	55.4	11,334,481	57.3	32	47.7
<b>Total</b>	<b>698,628</b>	<b>100</b>	<b>19,794,814</b>	<b>100</b>	<b>67</b>	<b>100</b>

### Office Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2010	18,224	2.6	409,581	2.1	2	3.0
2011	245,364	35.1	6,416,113	32.4	26	38.8
2012	47,714	6.8	1,301,317	6.5	10	14.9
2013	310,591	44.5	9,539,733	48.2	26	38.8
2016	76,735	11.0	2,128,070	10.8	3	4.5
<b>Total</b>	<b>698,628</b>	<b>100</b>	<b>19,794,814</b>	<b>100</b>	<b>67</b>	<b>100</b>

### Office Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
1	1,375	0.2	41,250	0.2	1	1.5
2	32,854	4.7	859,812	4.3	6	9.0
3	522,020	74.7	14,574,822	73.6	49	73.1
5	64,088	9.2	2,151,960	10.9	7	10.4
6	78,291	11.2	2,166,970	11.0	4	6.0
<b>Total</b>	<b>698,628</b>	<b>100</b>	<b>19,794,814</b>	<b>100</b>	<b>67</b>	<b>100</b>

Note: The above tenancy profile of office portion excluding four pre-committed new lettings for terms of two to three years commencing in between 1 January 2011 and 1 February 2011 and seven renewal tenancies for terms of three years commencing in between 1 March 2011 and 1 July 2011.

- (8) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy profile for the retail portion of the Property (excluding the licensed miscellaneous premises) as at 31 December 2010 is set out below:-

#### Retail Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	316,194	99.2
Vacant	2,628	0.8
<b>Total</b>	<b>318,822</b>	<b>100</b>

#### Retail Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2004	44,740	14.1	684,000	2.2	1	0.5
2007	37,140	11.8	2,574,884	8.2	6	2.9
2008	42,339	13.4	4,234,149	13.6	34	16.7
2009	51,943	16.4	5,282,464	16.9	52	25.5
2010	140,032	44.3	18,498,358	59.1	111	54.4
<b>Total</b>	<b>316,194</b>	<b>100</b>	<b>31,273,855</b>	<b>100</b>	<b>204</b>	<b>100</b>

#### Retail Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2010	340	0.1	45,000	0.1	1	0.5
2011	54,870	17.3	5,685,850	18.2	55	27.0
2012	72,618	23.0	7,379,596	23.6	69	33.8
2013	91,705	29.0	13,121,900	42.0	68	33.3
2014	76,117	24.1	3,385,383	10.8	7	3.4
2015	20,544	6.5	1,656,126	5.3	4	2.0
<b>Total</b>	<b>316,194</b>	<b>100</b>	<b>31,273,855</b>	<b>100</b>	<b>204</b>	<b>100</b>

#### Retail Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
1	6,125	1.9	497,930	1.6	4	2.0
2	25,171	8.0	3,350,720	10.7	58	28.4
3	138,862	43.9	19,071,744	61.0	117	57.3
4	42,539	13.5	3,262,584	10.4	14	6.9
5	45,041	14.2	3,607,941	11.5	7	3.4
6	13,716	4.3	798,936	2.6	3	1.5
10	44,740	14.2	684,000	2.2	1	0.5
<b>Total</b>	<b>316,194</b>	<b>100</b>	<b>31,273,855</b>	<b>100</b>	<b>204</b>	<b>100</b>

Note: The above tenancy profile of retail portion excluding nine pre-committed new lettings for terms of two to three years commencing in between 1 January 2011 and 15 May 2011.

## VALUATION REPORTS

### OFFICE MARKET OVERVIEW

#### Stock

According to the Rating and Valuation Department (RVD), there was around 25,034,000 sq ft of Grade-A office stock in Kowloon in 2009, accounting for 35.4% of the total stock in the territory. Some 48.4% of that space i.e. 12,100,000 sq ft was located in Yau Tsim Mong.

Mongkok is a traditional mass residential and commercial area. Most of the buildings are relatively old. The area had no Grade-A office building until 1997 when the 353,000 sq ft Grand Century Place was completed. And by 2004, another Grade-A office block, the 497,000 sq-ft Langham Place Office Tower, was also in completion.

#### Supply

As the land supply of Grade-A office on Hong Kong Island is limited, developers simply turn to Kowloon for such development. In 2009, as per RVD's record, about 1,386,000 sq ft Grade-A office spaces were completed in Kowloon, which comprised of 823,000 sq ft in Kwun Tong and 563,000 sq ft in Yau Tsim Mong.

There was around 865,000 sq ft of new Grade-A offices completed in Kowloon by the end of November 2010. However in 2011, only around 591,000 sq ft located in Kwun Tong/Kowloon Bay will be in completion. Another around 674,000 sq ft will be completed in 2012, of which 76,000 sq ft in Cheung Shan Wan and 598,000 sq ft in Kwun Tong.

There is no planned Grade-A office project in Mongkok in the foreseeable future, an absence of new supply since 2005.

#### Vacancy

Vacancy rate of Grade-A offices in Tsim Sha Tsui reached the historical low at around 2% in July 2008, immediately before the global economic downturn taken place in August of that year. Vacancies kept on rising in the following months, gradually touching 6% by November 2009 as a result of the substantial company relocations to Kowloon East, attracted by the low rentals and new completions there. Yet by April 2010, vacancy rate was down to 4.7% but then began rising in May to 5.9% and fell back gradually to 4.9% in December 2010.

#### Rental Trends

Rentals of Grade-A offices had increased sharply in the first three quarters of 2008 and began to decline gradually in the last quarter after the outbreak of the global financial tsunami. Many landlords cut rents aggressively to retain tenants in the early of 2009.

Yet, rentals made a come back in August 2009 since then. According to the January 2011 Supplement of the Hong Kong Property Review compiled by RVD, the rental level of Grade-A office in all districts declined by about 12.8% and 8.8% in June 2010 and November 2010 respectively comparing with the peak in 2008. The decrease in magnitude showed signs of rental rebound.

#### Price Trends

Prices of Grade A offices had risen sharply in 1Q2008 but dropped considerably in the second half of the same year, intensified by the collapse of Lehman Brothers in September 2008. Demand for office space shrunk due to adverse financial and business sentiments and weak in confidence.

Yet, the market recorded a gradual price rebound since April 2010. According to the January 2011 Supplement of the Hong Kong Property Review compiled by RVD, the price index for Grade-A office in all districts in June 2010 and November 2010 rebounded by 1.5% and 8.1% respectively comparing with the peak in May 2008. Office sales have further heated up with growing confidence following the strong recovery in global stock market buoyed by the low interest rate environment.

#### Outlook

As the global economy is gradually recovering, business activities in the region is gathering pace. As a number of new Grade-A office buildings are scheduled for completion and some industrial areas are undergoing transformation into business areas, vacancy rates in Kowloon are set to increase whilst rental growth to curb. Districts with abundant new office buildings might lure tenants away from other business areas with attractive rental package. However, Tsim Sha Tsui, as a well-established business district in Kowloon, would be more resilient with occupancy and rents are still likely to edge up despite abundant supply in other areas.



Mongkok is a unique business district where office tenants requiring a convenient location, such as customer service centres, medical centres and back offices of retailers. Demand for Mongkok Grade-A offices is comparatively stable with small fluctuations even during market ups and downs. However, in the absence of new supply but a steady demand, occupancy levels and rentals in Mongkok are expecting a slight increment in the coming year.

## **RETAIL MARKET OVERVIEW**

### **Stock**

Yau Tsim Mong is renowned for retails and entertainments, attracting many locals and tourists. A variety of large shopping centres are located within this area including Harbour City, Langham Place, the newly opened iSquare, The One and K11 Art Mall, etc. According to RVD, the total private commercial stock over the territory amounted to approximately 114,785,000 sq ft in 2009, of which 41%, 29% and 30% were located in Kowloon, Hong Kong Island and the New Territories respectively.

Mongkok is a local retail hub characterized by a vast mix of local trades and retailers. It is popular amongst the youths of Hong Kong as well as tourists. There are up-scaled shopping malls in Mongkok that include Langham Place and Grand Century Place.

### **Supply**

There were approximately 900,000 sq ft new completions in 2009 in the territory, about 70% more than 2008. Around 79% of them were situated in Kowloon in which Yau Tsim Mong collectively represented 61%. Completions in 2010 (upto the end of November) amount to around 679,000 sq ft, 25% less than in 2009. Forecasted supply in 2011 is even lower at around 603,000 sq ft only.

### **Take-Up and Vacancy**

According to the RVD's statistic, the overall vacancy rate of retail premises in the territory and Yau Tsim Mong were about 8.7% and 10.9% respectively in 2009.

### **Rental Trend**

The number of visitor arrivals to Hong Kong increased 17.1% year on year in November 2010. Visitors from the Mainland remained dominant, comprising 61.5% of the arrivals. The number of visitors from the other parts of the world had also increased 10.6%. The private retail rental index however marked an increase of about 16.9% from June 2009 to November 2010 according to the January 2011 Supplement of the Hong Kong Property Review compiled by RDV.

### **Price Trend**

The influx of Mainland visitors has changed the landscape of the retail market in Hong Kong. Retail prices increased in response to retail rents reflecting the optimistic outlook of investors given the implications of a robust business growth. Private retail prices in accordance with the RVD had continually increased from June 2009 to November 2010. The price index for November 2010 was about 50.3% higher than June 2009.

### **Outlook**

A number of international retailers had entered Hong Kong in the recent years, taking advantage of the territory's strategic position as a stepping-stone to the vast China market. The market sentiment remains strong given the robust retail demand from both the locals and tourists and supply in the core areas remains limited.

The retail market in 2011 is to be supported by the solid economic recovery and fast growth in Mainland visitor arrivals. Previous restrictions in Shenzhen on non-Guangdong migrant workers travelling to Hong Kong had been relaxed since 15 December 2010. Over four million of such workers are now eligible to apply for a single-entry visa under the Individual Visit Scheme. Shop rents are however expected to rise faster than the business volume of many retailers as landlords have already started to raise rents.

# TRUSTEE'S REPORT

## TO THE UNITHOLDERS OF CHAMPION REAL ESTATE INVESTMENT TRUST

(a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We hereby confirm that, in our opinion, the Manager of Champion Real Estate Investment Trust has, in all material respects, managed Champion Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 26 April 2006, as amended by the first supplemental deed dated 5 December 2006, the second supplemental deed dated 4 February 2008, the third supplemental deed dated 9 March 2009 and the fourth supplemental deed dated 23 July 2010 for the financial year ended 31 December 2010.

### **HSBC Institutional Trust Services (Asia) Limited**

*in its capacity as the trustee of Champion Real Estate Investment Trust*

Hong Kong, 21 February 2011

# CORPORATE GOVERNANCE REPORT

Champion REIT is committed to attaining global best practices and standards for all activities and transactions conducted in relation to the Trust and any matters arising out of its listing or trading on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The current corporate governance framework adopted by the REIT Manager emphasizes accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, compliance with relevant regulations and sound operating and investing procedures.

The REIT Manager has in place a comprehensive set of compliance procedures and guidelines which set out the key processes, systems and measures used to implement this corporate governance framework.

In June 2010, the Securities and Futures Commission (“SFC”) released the consultation conclusions on the proposals to extend the Codes on Takeovers and Mergers and Share Repurchases to Real Estate Investment Trusts and to apply the market misconduct and disclosure of interests provisions in the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (“SFO”) to listed collective investment schemes effective on 25 June 2010. In view of the above, the REIT Manager has during the year reviewed and revised the Trust Deed and Compliance Manual to reflect the revised Code on Real Estate Investment Trusts (“REIT Code”). In accordance with paragraph 9.6 of the REIT Code, no specific approval from unitholders is required to make these amendments to the Trust Deed.

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 throughout the year ended 31 December 2010.

## AUTHORISATION STRUCTURE AND GOVERNANCE STRUCTURE

Champion REIT is a collective investment scheme constituted as a unit trust and authorised by the SFC under section 104 of the SFO and regulated by the SFC pursuant to the provisions of the SFO and the REIT Code and the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

The REIT Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Lee Ching Ming, Adrian, 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. The Responsible Officers have completed the Continuous Professional Training as required by the Securities and Futures Ordinance for each calendar year.

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the laws of Hong Kong) and 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. The Trustee is responsible for the safe custody of the assets of Champion REIT on behalf of Unitholders, whereas the REIT Manager is responsible to manage Champion REIT in accordance with the Trust Deed (as defined below) and to ensure that the financial and economic aspects of Champion REIT’s assets are professionally managed in the sole interests of Unitholders.

The relationship between the Trustee, the REIT Manager and the Unitholders is set out in the Deed of Trust constituting Champion REIT (“Trust Deed”) entered into between the REIT Manager and the Trustee on 26 April 2006 as amended by a First Supplemental Deed dated 5 December 2006, a Second Supplemental Deed dated 4 February 2008, a Third Supplemental Deed dated 9 March 2009 and a Fourth Supplemental Deed dated 23 July 2010.

The Fourth Supplemental Deed dated 23 July 2010 was entered into between the REIT Manager and the Trustee to amend the Trust Deed. The sole purpose of the amendments was to comply with the revisions to the REIT Code effective on 25 June 2010 made by the SFC in order to, among other things, bring the requirements regarding the appointment and removal of trust manager in line with those applicable to directors of listed companies and extend the application of the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC to SFC-authorized real estate investment trusts. The Compliance Manual of the REIT Manager was updated and adopted by its Board accordingly.

### FUNCTIONS OF THE BOARD OF DIRECTORS OF THE REIT MANAGER AND DELEGATION

The Board of the REIT Manager 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 will also review major financial decisions and the performance of the REIT Manager.

#### 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. The Board currently comprises 8 members, with 1 Executive Director and 7 Non-executive Directors (including 3 Independent Non-executive Directors).

The composition of the Board is determined using the following principles and will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience:

- 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 Independent Non-executive Directors.

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. Lee Ching Ming, Adrian who is an Executive Director.

Full Board meetings will be held at least quarterly, and more often if necessary. The Company Secretary of the REIT Manager will give written notice to each of the Directors at least 14 days in advance of the meeting.

#### Independence of Independent Non-executive Directors

Pursuant to the REIT Manager's corporate governance policy, Independent Non-executive Directors must be individuals who fulfill the independence criteria set out in the Compliance Manual that are no less exacting than those set out in the Listing Rules for assessing the independence of a non-executive director. Each of the Independent Non-executive Directors of the REIT Manager has provided a written annual confirmation of independence to the REIT Manager.

#### Delegation

The Board of the REIT Manager may establish board committees with clear terms of reference to review specific issues or items. The two standing Board Committees established are the Audit Committee and the Disclosures Committee.

#### *Audit Committee*

The REIT Manager established an Audit Committee on 28 March 2006. 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 principal responsibilities are as follows:

- (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 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 re-appointment as Directors to, and persons for removal as Directors from, the full Board.

The Audit Committee comprises 2 Independent Non-executive Directors (namely, Mr. Eldon David Gordon and Mr. Shek Lai Him, Abraham) and a Non-executive Director (namely, Dr. Lo Ka Shui). Mr. Eldon David Gordon is the Chairman of the Audit Committee. The members of the Audit Committee are appointed by the Board of Directors from among the Non-executive Directors of the REIT Manager and a majority of the members of the Audit Committee are required to be Independent Non-executive Directors.

Pursuant to the waiver from strict compliance with the requirement under Clause 9.13 of the REIT Code granted by the SFC, the Audit Committee of the REIT Manager confirmed that the roadshow and public relations-related expenses (“PR Expenses”) were incurred in accordance with the internal control procedures of the REIT Manager and the nature of these PR Expenses was solely for the purposes as set out in Clause 2.4.13 of the Trust Deed.

During the financial year ended 31 December 2010, 2 physical meetings of the Audit Committee were held. The following is a summary of the major work done of the Audit Committee at these meetings:

- reviewed the Report of the Internal Auditor;
- reviewed the audited financial statements for the year ended 31 December 2009 and the unaudited financial statements for the six months ended 30 June 2010;
- reviewed the Report from the External Auditor;
- reviewed the legal and regulatory compliance matters for the year ended 31 December 2009 and for the six months ended 30 June 2010, which include, among others, the Report on Connected Party Transactions;
- reviewed and approved the 2010 Interim Report and 2010 Interim Results Announcement for the six-month period ended 30 June 2010 and 2009 Annual Report and Final Results Announcement for the year ended 31 December 2009;
- reviewed and approved the annual budget/forecasts and annual business plan prepared by the REIT Manager for Champion REIT; and
- review and approved the publication of announcements in relation to (i) amendments to the Trust Deed (ii) extension of 2008 connected party transaction waiver and proposed new annual limits for certain connected party transaction; (iii) payment received under rental stabilisation arrangement; and (iv) unusual trading volume of Units of Champion REIT.

### ***Disclosures Committee***

The REIT Manager established a Disclosures Committee on 28 March 2006. The role of the Disclosures Committee is to review matters relating to the disclosure of information to Unitholders and public announcements.

The Disclosures Committee is appointed by the Board of Directors from among the Directors. It comprises a Non-executive Director (namely, Dr. Lo Ka Shui), an independent Non-executive Director (namely, Mr. Shek Lai Him, Abraham) and an Executive Director (namely, Mr. Lee Ching Ming, Adrian). Mr. Lee is the Chairman of the Disclosures Committee.

The Disclosures Committee works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete. The Disclosures Committee’s responsibilities also 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;

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- (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.

During the financial year ended 31 December 2010, 2 physical meetings of the Disclosures Committee were held. The following is a summary of the major work done of the Disclosures Committee at these meetings:

- reviewed and approved the 2010 Interim Report of Champion REIT for the six-month period ended 30 June 2010 and announcements in relation to the 2010 interim results, the payment of Manager's fee in cash and units and the interim distribution; and
- reviewed and approved the 2009 Annual Report and announcement in relation to the final results for the year ended 31 December 2009, the payment of Manager's fee and the final distribution;

The attendance of individual Directors and committee members in 2010 is set out in the table below:

Member	No. of meetings attended/ No. of meetings held		
	Board Meeting	Audit Committee Meeting	Disclosures Committee Meeting
No. of Meetings held in the year	4	2	2
<b><i>Non-executive Directors</i></b>			
Lo Ka Shui (Chairman)	4/4	2/2	2/2
Cheng Wai Chee, Christopher	3/4	-	-
Ho Shut Kan	4/4	-	-
Lo Kai Shui	4/4	-	-
<b><i>Executive Director</i></b>			
Lee Ching Ming, Adrian (Chief Executive Officer)	4/4	-	2/2
<b><i>Independent Non-executive Directors</i></b>			
Cha Mou Sing, Payson	4/4	-	-
Eldon David Gordon	4/4	2/2	-
Shek Lai Him, Abraham	4/4	2/2	2/2
<b>Attendance Rate</b>	<b>97%</b>	<b>100%</b>	<b>100%</b>

## MANAGERS AND EMPLOYEES

Champion REIT is managed by the REIT Manager and does not directly employ any staff itself. The properties of the Trust are managed by various operating entities, including the REIT Manager, the Property Manager, and the DMC/Estate Managers etc.

Pursuant to the Property Management Agreement, Eagle Property Management (CP) Limited (the “Property Manager”) will provide property management services, lease management services and marketing services for the properties of Champion REIT located in Hong Kong on an exclusive basis subject to the overall management and supervision of the REIT Manager. The Property Manager has a team of well-experienced operational staff exclusively dedicated to providing property management services to Champion REIT.

The following table summarizes the personnel establishment of the respective operating entities in connection with the operations of the properties of the Trust as of 31 December 2010:

Area of Operation	Locations		
	Citibank Plaza	Langham Place	Others
General management	-	-	13
Leasing	4	11	-
Marketing and promotion	-	9	-
Property management	54	139	-
Contractors/technical staff	132	281	-
<b>Total</b>	<b>190</b>	<b>440</b>	<b>13</b>

## MANAGEMENT OF BUSINESS RISK

The Board of the REIT Manager 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 recommendations from the auditors of 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.

The REIT Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the REIT Manager and Champion REIT. The management team comprises the Chief Executive Officer, the Chief Investment Officer, the Chief Operating Officer, the Finance and Office Administration Manager, the Compliance Manager and the Internal Auditor. Apart from the day-to-day interactions, the management team, chaired by the Chief Executive Officer, meets regularly for operation updates and sharing between the team members. In 2010, 17 meetings were held by the management team.

## CONFLICTS OF INTEREST AND BUSINESS COMPETITION WITH GREAT EAGLE HOLDINGS LIMITED

The REIT Manager, the Property Manager, Longworth Management Limited (“Longworth”) and The Great Eagle Properties Management Company, Limited (“GEPM”) take up the role of manager and property manager of Champion REIT, DMC manager and DMC Sub-manager of Citibank Plaza, DMC Manager and CAF manager of Langham Place, Sub-DMC manager of Langham Place Office Tower and Estate manager of the Langham Place Mall (as the case may be). Each of the above companies is a wholly-owned subsidiary of Great Eagle Holdings Limited (“Great Eagle”). Moreover, two members of the Board are directors of Great Eagle and/or its affiliated companies. 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 and Langham Place or other properties.

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Great Eagle, headquartered in Hong Kong, is engaged principally in the development, management and investment in the office, retail, residential and hotel properties in Hong Kong. It also invests in office properties in the United States, and invests in and manages hotels in North America, Europe, Australia, New Zealand and Mainland China. 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.

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 is not related to Great Eagle and the Independent Non-executive Directors 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 and Operations Manual which set 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 requirements 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 Longworth and GEPM in the estate management of Citibank Plaza and Langham Place, the REIT Manager considers that it is in the interest of Champion REIT for the existing estate management arrangements to continue. Currently, Longworth and GEPM together have employed more than 190 full time staff exclusively dedicated to carrying out property management services in respect of Citibank Plaza and Langham Place 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 and Langham Place 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.

On 15 December 2010, the SFC granted to Champion REIT the waiver extension in respect of the connected party transactions between Champion REIT and Great Eagle Connected Persons Group and between Champion REIT and SFK Connected Persons Group, subject to, among other things, due approval by Unitholders of Champion REIT by an ordinary resolution. At an extraordinary general meeting of Champion REIT held on the same day, the waiver extension and the new annual caps of certain connected party transactions were approved by Unitholders by an ordinary resolution. Details of the waiver extension and the connected party transactions were described in a circular to Unitholders dated 30 November 2010.



## 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. While it is a requirement under the REIT Code that the annual report and accounts for Champion REIT shall be published and sent to Unitholders no later than four months following each financial year-end and the interim report no later than two months following each financial half-year, in accordance with the Listing Rules, full-year financial results shall be released by the Trust not later than three months after the end of the financial 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.

Champion REIT appoints Deloitte Touche Tohmatsu as its external auditor. The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor's Report. During the year, the fees payable to the auditor of Champion REIT amounted to HK\$2,600,000 for audit and audit related services, and HK\$840,000 for non-audit services.

## 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. While it is a requirement under the Trust Deed that at least 14 days' notice of the meeting shall be given to Unitholders where an ordinary resolution is proposed for consideration at such meeting, and at least 21 days' notice shall be given to Unitholders where a special resolution is proposed for consideration at such meeting, the REIT Manager has adopted the requirement under the Code on Corporate Governance Practices of the Listing Rules that notice of annual general meeting should be sent at least 20 clear business days before the meeting and notice of all other general meetings should be sent at least 10 clear business days before the meetings.

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 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) authorise any person to act as its representative at any meeting of Unitholders. A person so authorised shall have the same rights and powers as if he were an individual Unitholder.

### 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 REIT Code, the Trust shall distribute to Unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. As set out in the Offering Circular, the REIT Manager's distribution policy was to distribute to Unitholders an amount equal to 100% of Champion REIT's Annual Distributable Income (as defined in the Trust Deed) for each financial year. This distribution policy was adopted at the time of the initial public offering of Champion REIT (the "IPO") and was modified in 2009 for reasons as stated in the following paragraphs.

The methodology for determining the Annual Distributable Income under the Trust Deed does not take into account the possibility of certain types of non-recurring expenditures which may be required or desirable from time to time, such as capital expenditures and asset enhancements ("Non-recurring Items"). As such, such distribution policy does not allow Champion REIT any fiscal flexibility to deal with such Non-recurring Items. At the time of the IPO, the REIT Manager did not expect the short term requirements of Champion REIT for Non-recurring Items to be significant. Since then, the requirements of Champion REIT for Non-recurring Items have increased in scope and complexity, particularly with the acquisition of the retail, carpark and certain office portions of Langham Place in 2008.

Because of this increased complexity, Champion REIT requires greater financial flexibility to respond to volatile and challenging market conditions. The REIT Manager also requires the added flexibility to properly manage the current and anticipated financial requirements of Champion REIT for the benefit of Unitholders. In order to allow the REIT Manager greater flexibility in managing Champion REIT's financial affairs, the REIT Manager has sought Unitholders' approval to modify the current distribution policy on 9 March 2009 such that it will distribute to Unitholders an amount not less than 90% of Champion REIT's Annual Distributable Income for each financial year.

Such a modification will not affect Champion REIT's ability to distribute to Unitholders amounts in excess of 90% of the Annual Distributable Income for any financial year, if so determined appropriate by the REIT Manager after taking into account the fiscal requirements of Champion REIT. The modified distribution policy is also consistent with the distribution requirements under the REIT Code and the Trust Deed.

By allowing the REIT Manager the flexibility to distribute 90% to 100% of Champion REIT's Annual Distributable Income as it thinks fit, the REIT Manager will be able to utilize up to 10% of Champion REIT's Annual Distributable Income when required for the purpose of paying up Non-recurring Items or for any other purpose as the REIT Manager may deem fit, thus greatly reducing the need to obtain any additional financing and incurring further finance costs.

The modification to the distribution policy applies to the financial year commencing from 1 January 2009 and to all subsequent financial years until further notice.

### 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, among other things:

- (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.

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.

## **ISSUE 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 under 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 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;
  - (4) any new Units issued or issuable (whether directly or pursuant to any Convertible Instruments) in that Financial Year pursuant to any pro rata offer made in that Financial Year in accordance with Clause 7.1.5 under the Trust Deed;
  - (5) 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 hereunder and under applicable laws and regulations (including the Code) has been obtained; and/or
  - (6) any new Units issued or issuable in that Financial Year pursuant to any reinvestment of distributions made in that Financial Year in accordance with Clause 20.9 under the Trust Deed;

### **PLUS**

- (b) (1) the maximum number of new Units issuable at the Initial Issue Price (as defined in Clause 7.2.2 under 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 subdivision or re-designation of Units),

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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.

Any issue, grant or offer of Units or Convertible Instruments to a Connected Person of Champion REIT will 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, unless such issue, grant or offer is made under the following circumstances (where, for the avoidance of doubt, no Unitholders' approval will be required):

- (a) the Connected Person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder; or
- (b) Units are issued to a Connected Person under Clause 11.1.1 of the Trust Deed in or towards the satisfaction of the REIT Manager's fees; or
- (c) Units and/or Convertible Instruments are issued to a connected person within 14 days after such connected person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is/are not its associate(s) (other than any Excluded Associate (as defined in the Trust Deed)), provided always that (i) the new Units and/or Convertible instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of the placing); and (ii) the number of Units and/or Convertible Instruments issued to the Connected Person must not exceed the number of Units and/or Convertible Instruments placed by it; or
- (d) the Connected Person is acting as underwriter or sub-underwriter of an issue or offer of Units or other securities by or on behalf of the Trust or any Special Purpose Vehicle, provided that:
  - (i) the issue or offer is made under and in accordance with Clause 7.1.5 under the Trust Deed; and
  - (ii) the issue or offer is in compliance with any applicable provisions of the Listing Rules, which provisions shall have effect, making all necessary amendments; or
- (e) the excess application and the taking up of pro rata entitlements by the Connected Person in respect of a pro rata issue of Units and/or Convertible Instruments under Clause 7.1.5 of the Trust Deed or an open offer by the Trust; or
- (f) Units are issued to a Connected Person pursuant to a reinvestment of distribution in accordance with Clause 20.9 under the Trust Deed.

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.

## INTERNAL CONTROLS

The REIT Manager has a general power of management over the assets of Champion REIT. The Board is entrusted with the overall responsibility for maintaining sound and effective internal control systems to safeguard the assets of the Trust and ensure the smooth running of the business operations. The systems are designed to provide reasonable assurance against material misstatement or loss, and to mitigate risk of failure to meet the business objectives. The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems. During the year, the Internal Auditor has conducted a risk-based review of the policies and procedures described in the Compliance Manual to ensure they have been operated as expected.

The Board is responsible for reviewing the effectiveness of the system of internal control on an annual basis through the Audit Committee. The Audit Committee reports to the Board on any material issues and makes recommendations to the Board. Through the Audit Committee and the Internal Auditor, the Board has conducted an annual review on the effectiveness of the internal control systems for the year ended 31 December 2010. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

The 2-years audit plans are approved by the Audit Committee. Results of the audit reviews in the form of audit reports are submitted to the members of the Audit Committee and discussed at the Audit Committee meetings. The internal audit reports are also followed up by the Internal Auditor to ensure that findings previously identified have been properly resolved.

Based on the results of the internal audit reviews for the year ended 31 December 2010 and the assessment of the Audit Committee thereon, the Board considers that the internal control system is effective and adequate. No significant irregularity or deficiency in internal controls that may affect Unitholders' investment and the Trust's assets were identified.

## **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 (the "Governing Code") governing dealings in the securities of Champion REIT by the Directors of the REIT Manager on terms no less exacting than the required standard set out in the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies contained in the Listing Rules. Pursuant to this Governing Code, any Directors 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 unauthorised 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 Directors are in possession of any unpublished price-sensitive information, they must refrain from dealing in the Units as soon as they become aware of, or privy to, such information until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules.

The REIT Manager has adopted the blackout period requirement as its governance practice and the Governing Code has been extended to senior executives and officers of the REIT Manager. Specific enquiry has been made with the Directors, its senior executives and officers and they have confirmed that they complied with the required standard set out in the Governing Code throughout the year ended 31 December 2010.

The REIT Manager has also adopted procedures for the monitoring of disclosure of interests by Directors, the Chief Executive Officer of the REIT Manager, and the REIT Manager. The provisions of Part XV of the SFO shall 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 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 and the REIT Manager of their holdings in Champion REIT. The REIT Manager keeps a register for these purposes and it records 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.

## CORPORATE GOVERNANCE REPORT

### NEW UNITS ISSUED

As at 31 December 2010, the total number of issued Units of Champion REIT was 4,930,584,756. As compared with the position of 31 December 2009, a total of 107,049,967 new Units were issued during the year in the following manner:

- On 31 August 2010, 15,485,825 new Units were issued to the REIT Manager at the price of HK\$3.83 per Unit (being the Market Price ascribed in the trust deed constituting Champion REIT) as payment in full of the manager's fee in respect of Citibank Plaza of approximately HK\$59,311,000 payable by Champion REIT for the six months ended 30 June 2010.
- On 25 May 2010, 63,733,460 new Units were issued at the price of HK\$3.4884 per Unit pursuant to the distribution reinvestment arrangement (the "Arrangement") in respect of the 2009 Final Distribution. Details of the Arrangement were set out in the announcement published by Champion REIT on 26 April 2010 and the circular to Unitholders dated 29 April 2010.
- On 9 March 2010, 27,830,682 new Units were issued to the REIT Manager at the price of HK\$3.59 per Unit (being the Market Price ascribed in the trust deed constituting Champion REIT) as payment in full of the manager's fee of approximately HK\$99,912,000 payable by Champion REIT for the six months ended 31 December 2009.

### REPURCHASE, SALE OR REDEMPTION OF CHAMPION REIT'S UNITS

A general mandate for repurchase of Units in the open market was given by Unitholders at the annual general meeting held on 26 April 2010. During the year ended 31 December 2010, neither the Manager nor any of Champion REIT's special purpose vehicles had purchased, sold or redeemed any Units.

### REAL ESTATE SALE AND PURCHASE

Champion REIT did not enter into any real estate sales and purchases transactions during the year ended 31 December 2010.

### COMPLIANCE WITH COMPLIANCE MANUAL

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

### PUBLIC FLOAT

As far as the REIT Manager is aware, as at the date of this report, the Trust has maintained a sufficient public float with more than 25% of the issued and outstanding Units of Champion REIT being held by the public.

### REVIEW OF ANNUAL REPORT

The annual report of Champion REIT for the year ended 31 December 2010 have been reviewed by the Audit Committee and Disclosures Committee of the REIT Manager and approved by the Board of the REIT Manager.

The Directors of the REIT Manager acknowledge their responsibility for the preparation of the accounts of Champion REIT for the year ended 31 December 2010. The consolidated financial statements of Champion REIT and its controlled entities for the year ended 31 December 2010 have been audited by the Independent Auditor, Messrs. Deloitte Touche Tohmatsu. The statement about their responsibilities on the financial statements of the Champion REIT for the year ended 31 December 2010 is set out in the Independent Auditor's Report.

# CONNECTED PARTY TRANSACTION REPORT

Set out below is the information in respect of the connected party transactions involving Champion REIT and its connected persons as defined in paragraph 8.1 of the Code on Real Estate Investment Trusts (“REIT Code”):-

## CONNECTED PARTY TRANSACTIONS WITH THE GREAT EAGLE CONNECTED PERSONS GROUP AND/OR THE SFK CONNECTED PERSONS GROUP

The following tables set forth information on the connected party transactions between Champion REIT and the Great Eagle Connected Persons Group and/or the SFK Connected Persons for the year ended 31 December 2010 (“Year”).

The Great Eagle Connected Persons Group means any person who is a connected person of Champion REIT by virtue of its relationship with Top Domain International Limited and Keen Flow Investments Limited (each being a significant holder of Champion REIT) and Eagle Asset Management (CP) Limited (the REIT Manager), all of which are wholly owned subsidiaries of Great Eagle Holdings Limited (“Great Eagle”).

The SFK Connected Persons Group means any person who is a connected person of Champion REIT by virtue of its relationship with SFK Construction Holdings Limited (“SFK”), which is an associate of Mr. Lo Kai Shui, a director of the REIT Manager, who is entitled to exercise control of 33% or more of the voting power at the general meeting of SFK.

The following connected party transactions are subject to annual limits of the waiver from strict compliance with the requirements under Chapter 8 of the REIT Code:-

### Connected Party Transactions – Rental Income (Revenue)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income for the Year HK\$
Eagle Asset Management (CP) Limited	Subsidiary of Great Eagle	Car parking fee	394,000
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Leasing transaction <sup>1</sup>	2,752,000
Langham Hotels International Limited	Subsidiary of Great Eagle	Leasing transaction <sup>2</sup>	9,626,000 <sup>3</sup>
Langham Place Hotel (HK) Limited	Subsidiary of Great Eagle	Leasing transaction <sup>4</sup>	3,579,000 <sup>5</sup>
Main St. Cafe Hong Kong Company Limited	Subsidiary of Great Eagle	Leasing transaction <sup>6</sup>	702,000 <sup>7</sup>
Strong Dynamic Limited	Subsidiary of Great Eagle	Leasing transaction <sup>8</sup>	6,600,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Leasing transaction <sup>9</sup> and car parking fee	3,636,000 <sup>10</sup>
Toptech Co. Limited	Subsidiary of Great Eagle	Leasing transaction <sup>11</sup>	1,895,000 <sup>12</sup>
China Mobile Hong Kong Company Limited	Associate of a Director <sup>13</sup>	Licence fee <sup>14</sup>	223,000
<b>Total</b>			<b>29,407,000</b>

## CONNECTED PARTY TRANSACTION REPORT

### Connected Party Transactions – Building Management Fee Income (Revenue)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Incomes for the Year HK\$
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Building management fee income <sup>1</sup>	326,000
Langham Hotels International Limited	Subsidiary of Great Eagle	Building management fee income <sup>2</sup>	1,398,000 <sup>15</sup>
Langham Place Hotel (HK) Limited	Subsidiary of Great Eagle	Building management fee income <sup>4</sup>	542,000 <sup>16</sup>
Main St. Cafe Hong Kong Company Limited	Subsidiary of Great Eagle	Building management fee income <sup>6</sup>	82,000 <sup>17</sup>
Strong Dynamic Limited	Subsidiary of Great Eagle	Building management fee income <sup>8</sup>	3,045,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Building management fee income <sup>9</sup>	434,000 <sup>18</sup>
Toptech Co. Limited	Subsidiary of Great Eagle	Building management fee income <sup>11</sup>	335,000 <sup>19</sup>
<b>Total</b>			<b>6,162,000</b>

### Connected Party Transactions – Estate Management Transactions (Expenditures)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Expenses for the Year HK\$
Keysen Engineering Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	346,000
Toptech Co. Limited	Subsidiary of Great Eagle	Repair and maintenance services	331,000
The Great Eagle Engineering Company Limited	Subsidiary of Great Eagle	Repair and maintenance services	1,628,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Building management fee expense	64,134,000 <sup>20</sup>
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	4,000
Langham Place Hotel (HK) Limited	Subsidiary of Great Eagle	Marketing expense	46,000
Grow On Development Limited (trade as Eaton Hotel Hong Kong)	Subsidiary of Great Eagle	Marketing expense	25,000
Sun Fook Kong Housing Services Limited	Subsidiary of SFK	Cleaning services	5,000
<b>Total</b>			<b>66,519,000</b>



## Connected Party Transactions – Insurance Agency Arrangement (Expenditures)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Expenses For the Year HK\$
The Great Eagle Insurance Agency Limited	Subsidiary of Great Eagle	Insurance agency arrangement	794,000
<b>Total</b>			<b>794,000</b>

### Notes:

- 1 A security deposit by way of a bank guarantee of approximately HK\$837,000 and a damage deposit of HK\$10,000 provided by Eagle Property Management (CP) Limited were held by the Trust as at the Year end date.
- 2 Security deposits by way of bank guarantees in an aggregate amount of approximately HK\$2,864,000 provided by Langham Hotels International Limited were held by the Trust as at the Year end date.
- 3 These rental incomes were derived from Pre-Existing Agreements with Langham Hotels International Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 4 A security deposit by way of a bank guarantee of approximately HK\$1,154,000 and a damage deposit of HK\$15,000 provided by Langham Place Hotel (HK) Limited were held by the Trust as at the Year end date.
- 5 Out of this HK\$3,579,000, an amount of approximately HK\$1,665,000 was rental income derived from a Pre-Existing Agreement with Langham Place Hotel (HK) Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 6 A security deposit by way of a bank guarantee of approximately HK\$511,000 provided by Main St. Cafe Hong Kong Company Limited was held by the Trust until the termination of tenancy on 23 May 2010.
- 7 These rental incomes were derived from a Pre-Existing Agreement with Main St. Cafe Hong Kong Company Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 8 A security deposit by way of a bank guarantee of approximately HK\$2,585,000 provided by Strong Dynamic Limited was held by the Trust as at the Year end date.
- 9 Security deposits in an aggregate amount of approximately HK\$915,000 provided by The Great Eagle Properties Management Company, Limited were held by the Trust as at the Year end date.
- 10 Out of this HK\$3,636,000, an amount of approximately HK\$1,646,000 was rental income derived from a Pre-Existing Agreement with The Great Eagle Properties Management Company, Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 11 A security deposit of approximately HK\$869,000 provided by Toptech Co. Limited was held by the Trust until the termination of tenancy on 31 August 2010.
- 12 These rental incomes were derived from a Pre-Existing Agreement with Toptech Co. Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 13 China Mobile Hong Kong Company Limited is an associate of Dr. Lo Ka Shui (directors of Great Eagle and the REIT Manager) by virtue of his being an independent non-executive director of China Mobile Limited, the holding company of China Mobile Hong Kong Company Limited.
- 14 A security deposit of approximately HK\$37,000 provided by China Mobile Hong Kong Company Limited was held by the Trust as at the Year end date.
- 15 These building management fee incomes were derived from a Pre-Existing Agreement with Langham Hotels International Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 16 Out of this HK\$542,000, an amount of approximately HK\$226,000 was building management fee derived from Pre-Existing Agreement with Langham Place Hotel (HK) Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 17 These building management fee incomes were derived from a Pre-Existing Agreement with Main St. Cafe Hong Kong Company Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 18 Out of this HK\$434,000, an amount of approximately HK\$291,000 was building management fee derived from a Pre-Existing Agreement with The Great Eagle Properties Management Company, Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 19 These building management fee incomes were derived from a Pre-Existing Agreement with Toptech Co. Limited as more particularly described in the section headed "PRE-EXISTING AGREEMENTS" below.
- 20 Out of this HK\$64,134,000, approximately HK\$62,482,000 represented the amount of reimbursement paid under the Langham Place Mall Estate Management Agreement and remaining amount of approximately HK\$1,652,000 represented the amount of reimbursement paid under the CAF Management Agreement (in relation to the common areas/facilities of Langham Place). Both Langham Place Mall Estate Management Agreement and CAF Management Agreement are Pre-Existing Agreements with The Great Eagle Properties Management Company, Limited. Pursuant to the Langham Place Mall Estate Management Agreement, the Mall Estate Manager was entitled to retain at all times an amount equal to one-sixth of the annual expenditure under the approved budget for the year 31 December 2010; so as to enable the Mall Estate Manager to make payment of mall management expenses.

## CONNECTED PARTY TRANSACTION REPORT

### PRE-EXISTING AGREEMENTS

Following the acquisition of the retail, carpark and certain office portions of Langham Place, certain agreements (previously entered into with the Great Eagle Connected Persons Group and/or the SFK Connected Persons Group) in relation to the Langham Place continue to subsist.

#### Pre-Existing Agreements subject to Waiver

The following Pre-Existing Agreements are among the connected parties transactions with the Great Eagle Connected Persons Group and/or the SFK Connected Persons as disclosed above and they are dealt with as if they were connected party transactions which are subject to annual limits of the waiver from strict compliance with the requirements under Chapter 8 of the REIT Code:-

Name/Description of Agreement	Name of Party	Relationship with Champion REIT	Nature of Transaction	Incomes/Expenses for the Year HK\$
Tenancy Agreements	Langham Hotels International Limited	Subsidiary of Great Eagle	Leasing transaction and building management fee income	11,024,000
Tenancy Agreement	Langham Place Hotel (HK) Limited	Subsidiary of Great Eagle	Leasing transaction and building management fee income	1,891,000
Tenancy Agreement	Main St. Cafe Hong Kong Company Limited	Subsidiary of Great Eagle	Leasing transaction and building management fee income	785,000
Tenancy Agreement	The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Leasing transaction and building management fee income	1,937,000
Tenancy Agreement	Toptech Co. Limited	Subsidiary of Great Eagle	Leasing transaction and building management fee income	2,230,000
Langham Place Mall Estate Management Agreement	The Great Eagle Properties Management Company, Limited (as the Langham Place Mall Estate Manager)	Subsidiary of Great Eagle	Reimbursement of estate management expense	62,482,000
CAF Management Agreement (in relation to the common areas/ facilities of Langham Place)	The Great Eagle Properties Management Company, Limited (as the CAF Estate Manager of Langham Place)	Subsidiary of Great Eagle	Reimbursement of estate management expense	1,652,000

**Other Pre-Existing Agreements and other transactions subject to Reporting Requirements under paragraph 8.14 of the REIT Code**

Name/Description of Agreement	Name of Party	Relationship with Champion REIT	Nature of Transaction	Incomes/Expenses for the Year HK\$
DMC (deed of mutual covenant) for Langham Place	The Great Eagle Properties Management Company, Limited (as DMC Manager of Langham Place)	Subsidiary of Great Eagle	Building management fee expense <sup>1</sup>	1,670,000
Office Sub-DMC (sub-deed of mutual covenant) for the Langham Place Office Tower	Longworth Management Limited (as Office Sub-DMC Manager of the Langham Place Office Tower)	Subsidiary of Great Eagle	Building management fee expense <sup>2</sup>	30,621,000
Deed of Delegation	The Great Eagle Properties Management Company, Limited (as DMC Manager of Langham Place)	Subsidiary of Great Eagle	Delegation of management functions of common areas/ facilities	Nil
Naming Right Licence Agreement in relation to the use of Langham Place	The Great Eagle Company, Limited	Subsidiary of Great Eagle	Licence fee income	26,000,000
Property Management Agreement	Eagle Property Management (CP) Limited (as Property Manager of Champion REIT)	Subsidiary of Great Eagle	Leasing and marketing services	80,923,000
DMC (deed of mutual covenant) for Citibank Plaza	The Great Eagle Properties Management Company, Limited (as DMC Sub-manager appointed by the DMC Manager of Citibank Plaza)	Subsidiary of Great Eagle	Building management fee expense <sup>3</sup>	88,769,000

Notes:

- 1 A management fee deposit and sinking fund of approximately HK\$716,000 was paid to The Great Eagle Properties Management Company, Limited in its capacity as DMC Manager of Langham Place as at the Year end date.
- 2 A management fee deposit and sinking fund of approximately HK\$12,759,000 was paid to Longworth Management Limited in its capacity as Office Sub-DMC Manager of Langham Place Office Tower as at the Year end date.
- 3 A management fee deposit of approximately HK\$15,566,000 was paid to The Great Eagle Properties Management Company, Limited in its capacity as DMC Sub-manager of Citibank Plaza as at the Year end date.

## CONNECTED PARTY TRANSACTION REPORT

### OTHER CONNECTED PARTY TRANSACTIONS WITH THE GREAT EAGLE CONNECTED PERSONS GROUP

#### REIT Manager's fee

Eagle Asset Management (CP) Limited, a wholly owned subsidiary of Great Eagle, was appointed as the REIT Manager of Champion REIT. The REIT Manager's fee approximately HK\$181,042,000 being the 12% of the net property income of the Champion REIT for such services rendered during the year ended 31 December 2010 are to be settled partly by the issuance of new Units and partly in the form of cash pursuant to the Notice of Election of Payment Method of Manager's Fee for the financial year 2010 given by the REIT Manager to the Trustee on 12 January 2010 in accordance with the Trust Deed. According to the said election notice, the REIT Manager's fee arising from Langham Place Properties in the aggregate amount of HK\$67,979,000 shall be paid in the form of cash and the portion of REIT Manager's fee arising from Citibank Plaza in the aggregate amount of approximately HK\$113,063,000 shall be paid in form of Units for the year 2010. Further details of the REIT Manager's fee are set out in note 10 to the consolidated financial statement on page 108 in this Report.

### CONNECTED PARTY TRANSACTIONS WITH THE TRUSTEE AND/OR THE TRUSTEE CONNECTED PERSONS GROUP

The following tables set forth information on the connected party transactions between Champion REIT and the Trustee and/or the Trustee Connected Persons during the Year.

Trustee Connected Persons mean the Trustee and companies within the same group or otherwise "associated" with the Trustee within the meaning given in the REIT Code. The Trustee Connected Persons include a director, a senior executive or an officer of any of the Trustee, and a controlling entity, holding company, subsidiary or associated company of the Trustee.

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 (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Champion REIT).

#### Connected Party Transactions – Ordinary Banking and Financial Services

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income/Expense for the Year HK\$
HSBC Group	Trustee Connected Persons	Interest income from ordinary banking services	594,000
HSBC Group	Trustee Connected Persons	Bank charge	69,000
Hang Seng Bank Limited <sup>1</sup>	Trustee Connected Persons	Loan interest/expense	69,269,000

## Connected Party Transactions – Leasing / Licensing Transactions

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income for the Year HK\$
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Leasing transaction <sup>2</sup>	45,548,000
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Building management fee income <sup>2</sup>	4,028,000
Hang Seng Bank Limited	Trustee Connected Persons	Leasing transaction <sup>2</sup>	312,000
Hang Seng Bank Limited	Trustee Connected Persons	Building management fee income <sup>2</sup>	44,000
<b>Total</b>			<b>49,932,000</b>

### Notes:

- 1 Hang Seng Bank Limited is a subsidiary of The Hongkong and Shanghai Banking Corporation Limited. It acts as the facility agent for each of the term loan and revolving credit facilities in the aggregate amount of (i) HK\$7,200 million (of which HK\$7,000 million term loan was outstanding as at 31 December 2010); and (ii) HK\$2,954 million (of which HK\$2,454 million term loan was outstanding as at 31 December 2010). Syndicates of lenders of both facilities include Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited.
- 2 Security deposits in an aggregate amount of approximately HK\$9,078,000 provided by the HSBC Group were held by the Trust as at the Year end date.

## CONNECTED PARTY TRANSACTION REPORT

### Connected Party Transactions – Leasing/Licensing Transactions with any member of HSBC Group under which the Annual Rent exceeds HK\$1 million

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Material Terms	Annual Rent HK\$
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Lease for the whole of 20th and 21st Floors of Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.	Term of 5 years and expiring in the first quarter of 2010  A supplemental agreement was entered into whereby both parties have agreed to extend the term to the first quarter of 2013 at open market rent	32,617,000
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Lease for Suites 2001-5 on 20th Floor of ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.	Term of 5 years and expiring in the first quarter of 2010  A supplemental agreement was entered into whereby (i) both parties have agreed to extend the term to the first quarter of 2013 at open market rent; and (ii) the tenant is entitled to terminate the lease by 6 months' notice on or after 1/3/2010	5,640,000
The Hongkong and Shanghai Banking Corporation Limited	Trustee Connected Persons	Lease for the whole of Level 18 and Suites Nos. 07 & 08 on Level 11, Office Tower, Langham Place, 8 Argyle Street and 555 Shanghai Street, Mongkok, Kowloon.	Term of 3 years and expiry in the first quarter of 2011  Subject to an option to renew for 3 years at open market rent	7,291,000

### Connected Party Transactions – Corporate Finance Transaction with HSBC Group

Both the REIT Manager and the Trustee confirm that there was no corporate finance transaction with the HSBC Group during the Year.

### Connected Party Transactions – Others

During the Year, the trustee fee of approximately HK\$8,292,000 had been incurred for services rendered by HSBC Institutional Trust Services (Asia) Limited in its capacity as the trustee of Champion REIT.

## **CONNECTED PARTY TRANSACTIONS WITH OTHER CONNECTED PERSONS**

During the Year, an amount of HK\$350,000 was paid to Knight Frank Petty Limited, for the valuation fees, in its capacity as the principal valuer of Champion REIT.

## **CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE REIT MANAGER**

The Independent Non-executive Directors of the REIT Manager confirm that they have reviewed all relevant connected party transactions (including those connected party transactions with the Great Eagle Connected Persons Group, the SFK Connected Persons Group, the Trustee Connected Persons and the HSBC Group) during the Year as disclosed above and they are satisfied that these transactions have been entered into:-

- (i) in the ordinary and usual course of business of Champion REIT;
- (ii) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to Champion REIT than terms available to or from (as appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements and the REIT Manager's internal procedures governing them, if any, on terms that are fair and reasonable and in the interests of the Unitholders of Champion REIT as a whole.

## **REPORT FROM AUDITOR OF CHAMPION REIT**

Messrs. Deloitte Touche Tohmatsu, auditor of Champion REIT was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on rental income, building management fee income, estate management transactions, insurance agency arrangement and ordinary banking and financial services in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the Real Estate Investment Trust Code granted by the Securities and Futures Commission of Hong Kong. A copy of auditor's letter has been provided by the REIT Manager to the Securities and Futures Commission of Hong Kong.

Note: All figures presented in this "CONNECTED PARTY TRANSACTION REPORT" have been rounded to the nearest thousand.

# DISCLOSURE OF INTERESTS

## HOLDINGS OF CONNECTED PERSONS

As at 31 December 2010, so far as the REIT Manager is aware, the following persons, being connected persons (as defined under the REIT Code) of Champion REIT, held Units and/or underlying Units of Champion REIT:-

Name	Number of Units Held	Number of Underlying Units Held	Percentage of Issued Units <sup>8</sup>
Top Domain International Limited	1,420,416,628 <sup>1</sup>	-	28.80
Keen Flow Investments Limited	913,580,933 <sup>1</sup>	-	18.52
Bright Form Investments Limited	-	634,146,341 <sup>1,6</sup>	12.86
Eagle Asset Management (CP) Limited	186,308,798 <sup>1,2</sup>	-	3.77
Fine Noble Limited	14,578,503 <sup>1</sup>	-	0.29
Great Eagle Nichemusic Limited	1,129,743 <sup>1</sup>	-	0.02
Lee Ching Ming, Adrian	73,250 <sup>3</sup>	-	0.001
Fortune Mega Investments Limited	163,936,151 <sup>4</sup>	-	3.32
Wing Tai Corporation Limited	75,680,434 <sup>5</sup>	-	1.53
HSBC Group	1,169,578 <sup>7</sup>	-	0.02

Notes:

- These companies are ultimately wholly-owned by Great Eagle Holdings Limited ("Great Eagle"). Jolly Trend Limited, Alfida Limited, The Great Eagle Company, Limited, Eagle Asset Management Holdings Limited, Sharp Bloom Limited and Great Eagle Net Limited are their intermediate holding companies. All of them are connected persons of Champion REIT under the REIT Code.  
Save for the number of Units held by Eagle Asset Management (CP) Limited increased by 15,485,825 Units as compared with the position as at 30 June 2010, the unitholdings of these companies remained unchanged as compared with the position as at 30 June 2010.  
HSBC International Trustee Limited ("HITL") as the trustee of a discretionary trust held 33.04% interest in Great Eagle as at 31 December 2010. Certain directors of Great Eagle including Dr. Lo Ka Shui and Mr. Lo Kai Shui (who are also directors of the REIT Manager), Madam Lo To Lee Kwan, Mr. Lo Hong Sui, Antony, Madam Law Wai Duen, Mr. Lo Hong Sui, Vincent and Dr. Lo Ying Sui, Archie are among the beneficiaries of the discretionary trust. In addition, Dr. Lo Ka Shui in his own capacity and as the founder of another discretionary trust held 16.71% voting rights in the capital of Great Eagle as at 31 December 2010.
- Eagle Asset Management (CP) Limited is a connected person by virtue of its being the management company (as defined under the REIT Code) of Champion REIT.
- Mr. Lee Ching Ming, Adrian is a connected person by virtue of his being a director of the REIT Manager.
- These Units were directly held by Fortune Mega Investments Limited. Its intermediate holding companies Julian Holdings Limited, Kerry Properties Limited, Kerry Properties (Hong Kong) Limited and Spring Capital Holdings Limited were deemed to be interested in the same parcel of Units. Each of them was a connected person by virtue of being an associate of Mr. Ho Shut Kan (a director of the REIT Manager). Their unitholdings remained unchanged as compared with the position as at 30 June 2010.
- These Units were directly held by Wing Tai Corporation Limited. The number of Units held by it decreased by 300,000 Units as compared with the position as at 30 June 2010. Renowned Development Limited and Wing Tai (Cheng) Holdings Limited were its intermediate holding companies that were controlled by Mr. Cheng Wai Chee, Christopher. Further details of Mr. Cheng's interest in Champion REIT are disclosed in the section headed "Holdings of Directors and Chief Executive of the REIT Manager, the REIT Manager and Substantial Unitholders".
- The 634,146,341 Units held by Bright Form Investments Limited ("Bright Form") are underlying Units, being derivative interests derived from the convertible bonds due 2013 in the principal amount of HK\$2,340,000,000 directly held by Bright Form.



7 The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries, unless otherwise expressly stated herein, excludes, the Trustee and its proprietary subsidiaries ("HSBC Group") who are connected persons by virtue of being holding company, controlling entities, subsidiaries or associated companies (as defined under the REIT Code) of the Trustee of Champion REIT according to the information available to the REIT Manager.

HSBC Group was deemed to be interested in these Units of which 1,122,000 Units were held by its holding company, controlling entities (as defined in the REIT Code), subsidiaries and associated companies (as defined in the REIT Code) of the Trustee and 47,578 Units were held by its directors, senior executives, officers and their associates (as defined in the REIT Code). The number of Units held by the HSBC Group decreased by 16,000 Units as compared with the position as at 30 June 2010.

8 This percentage has been compiled based on the total number of issued Units of Champion REIT of 4,930,584,756 as at 31 December 2010 and rounded down to 2 decimal places.

Save as disclosed in the notes above, there was no change in the number of Units held by the connected persons during the period from 1 July 2010 to 31 December 2010.

## HOLDINGS OF DIRECTORS AND CHIEF EXECUTIVE OF THE REIT MANAGER, THE REIT MANAGER AND SUBSTANTIAL UNITHOLDERS

As at 31 December 2010, the following persons had interests or short positions in the Units, underlying Units and debentures of Champion REIT or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be disclosed to the REIT Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO:

### (a) Units and Underlying Units

Name	Number of Units Held <sup>4</sup>	Number of Underlying Units Held <sup>4</sup>	Total	Percentage of Issued Units <sup>5</sup>
<b>Directors and Chief Executive of the REIT Manager</b>				
Lo Ka Shui	2,536,014,605 <sup>1</sup>	634,146,341 <sup>1</sup>	3,170,160,946 <sup>1</sup>	64.29
Cheng Wai Chee, Christopher	75,680,434 <sup>2</sup>	13,550,135 <sup>2</sup>	89,230,569 <sup>2</sup>	1.80
Lee Ching Ming, Adrian	73,250	-	73,250	0.001
<b>REIT Manager</b>				
Eagle Asset Management (CP) Limited	186,308,798 <sup>1</sup>	-	186,308,798 <sup>1</sup>	3.77
<b>Substantial Unitholders</b>				
Great Eagle Holdings Limited	2,536,014,605 <sup>1</sup>	634,146,341 <sup>1</sup>	3,170,160,946 <sup>1</sup>	64.29
HSBC International Trustee Limited	2,538,710,280 <sup>1</sup>	634,146,341 <sup>1</sup>	3,172,856,621 <sup>1</sup>	64.35
Top Domain International Limited	1,420,416,628	-	1,420,416,628	28.80
Keen Flow Investments Limited	913,580,933	-	913,580,933	18.52
Bright Form Investments Limited	-	634,146,341	634,146,341	12.86
Government of Singapore Investment Corporation Pte Ltd.	252,878,000 <sup>3</sup>	-	252,878,000 <sup>3</sup>	5.12

## DISCLOSURE OF INTERESTS

### (b) Debentures <sup>6</sup>

Name	Nominal Value of Debentures
<b>Directors of the REIT Manager</b>	
Lo Ka Shui	HK\$2,340,000,000 <sup>7</sup>
Cheng Wai Chee, Christopher	HK\$50,000,000 <sup>8</sup>

Notes:

1 Great Eagle was deemed to be interested in a total of 3,170,160,946 Units held by its controlled corporations comprising:

- (a) 1,420,416,628 Units held by Top Domain International Limited directly;
- (b) 913,580,933 Units held by Keen Flow Investments Limited directly;
- (c) 634,146,341 Units being underlying Units of the convertible bonds due 2013 held by Bright Form Investments Limited;
- (d) 186,308,798 Units held by Eagle Asset Management (CP) Limited directly;
- (e) 14,578,503 Units held by Fine Noble Limited directly; and
- (f) 1,129,743 Units held by Great Eagle Nichemusic Limited directly.

Among the 2,538,710,280 Units held by HSBC International Trustee Limited ("HITL"), 2,536,014,605 Units were the same parcel of Units held by Great Eagle. The 634,146,341 underlying Units held by HITL were also the same parcel of underlying Units held by Great Eagle.

HITL was deemed to be interested in these Units in its capacity as a trustee of a discretionary trust which held 33.04% interests in Great Eagle. Certain directors of Great Eagle including Dr. Lo Ka Shui and Mr. Lo Kai Shui (who are also directors of the REIT Manager), Madam Lo To Lee Kwan, Mr. Lo Hong Sui, Antony, Madam Law Wai Duen, Mr. Lo Hong Sui, Vincent and Dr. Lo Ying Sui, Archie are among the beneficiaries of the discretionary trust. Dr. Lo Ka Shui in his own capacity and as the founder of another discretionary trust held 16.71% voting rights in the capital of Great Eagle. Dr. Lo Ka Shui has notifiable interests in the same parcel of Units held by Great Eagle by virtue of his capacity as the controller of Great Eagle for the purpose of the SFO.

2 Among these Units in which Mr. Cheng Wai Chee, Christopher were deemed to be interested:

- (a) 75,680,434 Units were directly held by Wing Tai Corporation Limited, being his indirect controlled corporations; and
- (b) 13,550,135 Units were underlying Units of the convertible bonds due 2013 held by a trust of which he was a beneficiary.

3 Government of Singapore Investment Corporation Pte Ltd. ("GIC") was interested in these Units in the capacity as investment manager. According to the Disclosure of Interest Form of GIC on 14 January 2011, the number of Units held by it decreased to 140,100,222 Units representing 2.84% of the total number of issued Units of Champion REIT.

4 Unless otherwise stated, the interests in Units disclosed above represent long positions in Units.

5 This percentage has been compiled based on the total number of issued Units of Champion REIT of 4,930,584,756 as at 31 December 2010 and rounded down to 2 decimal places.

6 The debentures means the aggregate principal amount of HK\$4,680,000,000 of convertible bonds due 2013 ("2008 Convertible Bonds") issued by Fair Vantage Limited (a wholly owned and controlled entity of Champion REIT) in 2008.

7 These interests in 2008 Convertible Bonds convertible into 634,146,341 Units were beneficially held by Great Eagle as mentioned in note 1(c) above.

8 These interests in 2008 Convertible Bonds convertible into 13,550,135 Units were held by a trust of which Mr. Cheng Wai Chee, Christopher was a beneficiary as mentioned in note 2(b) above.

Save as disclosed above, as at 31 December 2010, so far as is known to the Directors and chief executive of the REIT Manager:

- (i) no person (other than a Director) was interested (or deemed to be interested) in Units, or holds any short position in Units which were required to be disclosed to the REIT Manager and the Stock Exchange pursuant to Divisions 2, 3 and 4 of Part XV of the SFO; and
- (ii) none of the Directors or chief executives of the REIT Manager had any interests (or deemed to be interested) and short positions in the Units, underlying Units and debentures of Champion REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the REIT Manager and the Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the "Code Governing Dealings in Securities by the Management Persons" as adopted by the REIT Manager.



## FINANCIALS

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# INDEPENDENT AUDITOR'S REPORT



## TO THE UNITHOLDERS OF CHAMPION 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))

We have audited the consolidated financial statements of Champion Real Estate Investment Trust (“Champion REIT”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 83 to 127, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGER'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The manager of Champion REIT is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the deed of trust dated 26 April 2006, as amended from time to time (the “Trust Deed”) and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the “Code”) issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Appendix C of the Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the manager, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31 December 2010 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong

21 February 2011

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	NOTES	2010 HK\$'000	2009 HK\$'000
Rental income	7	<b>1,702,786</b>	1,856,480
Building management fee income		<b>155,824</b>	165,614
Rental related income	8	<b>17,301</b>	12,934
<b>Total revenue</b>		<b>1,875,911</b>	2,035,028
Property operating expenses	9	<b>(367,224)</b>	(325,806)
<b>Net property income</b>		<b>1,508,687</b>	1,709,222
Interest income		<b>4,969</b>	2,532
Manager's fee	10	<b>(181,042)</b>	(205,107)
Trust and other expenses		<b>(13,896)</b>	(15,762)
Increase in fair value of investment properties		<b>5,867,385</b>	4,156,335
Change in fair value of derivative components of convertible bonds	23	<b>(943,423)</b>	(597,242)
Change in fair value of rental stabilisation arrangement	17	<b>483</b>	2,810
Gain on repurchase of own convertible bonds		-	2,062
Finance costs	11	<b>(756,238)</b>	(754,766)
<b>Profit before tax and distribution to unitholders</b>	12	<b>5,486,925</b>	4,300,084
Income taxes	13	<b>(1,046,988)</b>	(555,531)
<b>Profit for the year, before distribution to unitholders</b>		<b>4,439,937</b>	3,744,553
Distribution to unitholders		<b>(1,066,870)</b>	(1,241,947)
<b>Profit for the year, after distribution to unitholders</b>		<b>3,373,067</b>	2,502,606
<b>Basic earnings per unit</b>	14	<b>HK\$0.91</b>	HK\$0.81
<b>Diluted earnings per unit</b>	14	<b>HK\$0.90</b>	HK\$0.78

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Profit for the year, after distribution to unitholders	<b>3,373,067</b>	2,502,606
Cash flow hedges:		
Gain (losses) arising during the year	<b>90,607</b>	(42,821)
Less: Reclassification adjustments for amounts recognised in profit or loss	<b>172,757</b>	173,696
	<b>263,364</b>	130,875
Total comprehensive income for the year	<b>3,636,431</b>	2,633,481

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	NOTES	2010 HK\$'000	2009 HK\$'000
<b>Non-current assets</b>			
Investment properties	16	50,222,600	44,240,800
Rental stabilisation arrangement	17	6,033	44,943
Loan receivables	18	-	52,737
Total non-current assets		50,228,633	44,338,480
<b>Current assets</b>			
Loan receivables	18	54,566	-
Trade and other receivables	19	107,709	103,107
Tax recoverable		6,561	-
Bank balances and cash	20	2,038,090	1,832,105
Total current assets		2,206,926	1,935,212
<b>Total assets</b>		<b>52,435,559</b>	<b>46,273,692</b>
<b>Current liabilities</b>			
Trade and other payables	21	1,153,065	1,050,000
Deposits received		368,347	331,380
Tax liabilities		11,654	48,224
Distribution payable		536,508	633,339
Secured term loans	22	6,997,329	-
Convertible bonds	23	900,765	-
Derivative financial instruments	24	59,353	-
Total current liabilities		10,027,021	2,062,943
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Secured term loans	22	2,446,147	9,433,278
Convertible bonds	23	6,597,729	6,261,830
Derivative financial instruments	24	-	149,960
Deferred tax liabilities	25	1,987,379	1,006,379
Total non-current liabilities, excluding net assets attributable to unitholders		11,031,255	16,851,447
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>21,058,276</b>	<b>18,914,390</b>
<b>Net assets attributable to unitholders</b>		<b>31,377,283</b>	<b>27,359,302</b>
<b>Number of units in issue ('000)</b>	26	<b>4,930,585</b>	<b>4,823,535</b>
<b>Net asset value per unit</b>	28	<b>HK\$6.36</b>	<b>HK\$5.67</b>

The consolidated financial statements on pages 83 to 127 were approved and authorised for issue by the Board of Directors of Eagle Asset Management (CP) Limited, as the Manager of Champion Real Estate Investment Trust ("Champion REIT") on 21 February 2011 and were signed on its behalf by:

LO Ka Shui  
DIRECTOR

LEE Ching Ming, Adrian  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2010

	<b>Issued units HK\$'000</b>	<b>Hedging reserve HK\$'000</b>	<b>Others HK\$'000</b>	<b>Profit less distribution HK\$'000</b>	<b>Total HK\$'000</b>
	(note 26)		(note)		
Net assets attributable to unitholders as at 1 January 2009	19,759,751	(516,611)	5,752,658	(1,167,344)	23,828,454
Profit for the year, before distribution to unitholders	-	-	-	3,744,553	3,744,553
Distribution	-	-	-	(1,241,947)	(1,241,947)
Cash flow hedges	-	130,875	-	-	130,875
Total comprehensive income for the year	-	130,875	-	2,502,606	2,633,481
Amount received pursuant to Distribution Waiver Amendment Deed	-	-	5,285	-	5,285
Issue of units	892,082	-	-	-	892,082
<b>Net assets attributable to unitholders as at 31 December 2009</b>	<b>20,651,833</b>	<b>(385,736)</b>	<b>5,757,943</b>	<b>1,335,262</b>	<b>27,359,302</b>
Profit for the year, before distribution to unitholders	-	-	-	4,439,937	4,439,937
Distribution	-	-	-	(1,066,870)	(1,066,870)
Cash flow hedges	-	263,364	-	-	263,364
Total comprehensive income for the year	-	263,364	-	3,373,067	3,636,431
Issue of units	381,550	-	-	-	381,550
<b>Net assets attributable to unitholders as at 31 December 2010</b>	<b>21,033,383</b>	<b>(122,372)</b>	<b>5,757,943</b>	<b>4,708,329</b>	<b>31,377,283</b>

Note: "Others" represent

- (i) Excess of fair value of property interests acquired over acquisition costs from unitholders amounting to HK\$5,752,658,000 in prior years; and
- (ii) Pursuant to the Deed of Amendment of Distribution Entitlement Waiver Deed dated 14 February 2008 ("Distribution Waiver Amendment Deed"), the undertakings made by Top Domain International Limited, a wholly owned subsidiary of Great Eagle Holdings Limited ("Great Eagle"), under the Distribution Entitlement Waiver Deed dated 26 April 2006 in respect of distribution periods in 2008 ceased to be effective in consideration of a total amount of HK\$86,185,000, of which HK\$5,285,000 was received and retained during the year ended 31 December 2009.



# DISTRIBUTION STATEMENT

For the year ended 31 December 2010

	NOTE	2010 HK\$'000	2009 HK\$'000
<b>Interim Distribution Period</b>			
Total distributable income		<b>573,803</b>	676,231
Percentage of distributable income for distribution (note (i))		<b>90%</b>	90%
Distributable income for Interim Distribution Period		<b>516,423</b>	608,608
Additional amounts (note (i))		<b>13,939</b>	-
<b>Total distribution amount paid</b>		<b>530,362</b>	608,608
<b>Final Distribution Period</b>			
Total distributable income	15	<b>1,084,264</b>	1,312,318
Less: distributable income paid in Interim Distribution Period		<b>(516,423)</b>	(608,608)
Distributable income available for Final Distribution Period		<b>567,841</b>	703,710
Percentage of distributable income for distribution (note (i))		<b>90%</b>	90%
Distributable income for Final Distribution Period		<b>511,057</b>	633,339
Additional amounts (note (i))		<b>25,451</b>	-
<b>Total distribution amount to be paid</b>		<b>536,508</b>	633,339
<b>Total distribution amounts for the year</b>		<b>1,066,870</b>	1,241,947
<b>Distributions per unit to unitholders</b>			
Interim distribution per unit paid (note (ii))		<b>HK\$0.1076</b>	HK\$0.1304
Final distribution per unit to be paid (note (iii))		<b>HK\$0.1088</b>	HK\$0.1305
		<b>HK\$0.2164</b>	HK\$0.2609

Notes:

- (i) The Manager has stated that it will distribute 90% (2009: 90%) of available distributable income as distributions for each of the six month periods ended 30 June 2010 (the "Interim Distribution Period") and 31 December 2010 (the "Final Distribution Period"), respectively.
- For the Interim Distribution Period and Final Distribution Period in 2010, additional amounts of HK\$13,939,000 and HK\$25,451,000, respectively, were distributed at the discretion of Manager for the amount received according to the Rental Stabilisation Arrangement (see note 17).
- (ii) The interim distribution per unit of HK\$0.1076 for the Interim Distribution Period in 2010 was calculated based on the interim distribution paid of HK\$530,362,000 for the period and 4,930,584,756 units as of 9 September 2010, which was the record date for the period. The distribution was paid to unitholders on 4 October 2010.
- The interim distribution per unit of HK\$0.1304 for the interim distribution period in 2009 was calculated based on the interim distribution paid of HK\$608,608,000 for the period and 4,666,721,106 units as of 4 September 2009, which was the record date for the period.
- (iii) The final distribution per unit of HK\$0.1088 for the Final Distribution Period in 2010 is calculated based on the final distribution to be paid of HK\$536,508,000 for the period and 4,930,584,756 units. Such final distribution will be subject to further adjustments upon the issuance of units on or before 27 April 2011, which is the record date set for such period. The final distribution will be paid to unitholders on or about 16 May 2011.
- The final distribution per unit of HK\$0.1305 for the final distribution period in 2009 was calculated based on the final distribution paid of HK\$633,339,000 for the period and 4,851,365,471 units as of 26 April 2010, which was the record date for the period.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax and distribution to unitholders	<b>5,486,925</b>	4,300,084
Adjustments for:		
Increase in fair value of investment properties	<b>(5,867,385)</b>	(4,156,335)
Change in fair value of derivative components of convertible bonds	<b>943,423</b>	597,242
Change in fair value of rental stabilisation arrangement	<b>(483)</b>	(2,810)
Gain on repurchase of own convertible bonds	-	(2,062)
Manager's fee paid and payable in units	<b>113,063</b>	205,107
Interest income	<b>(4,969)</b>	(2,532)
Finance costs	<b>756,238</b>	754,766
Operating cash flow before movements in working capital	<b>1,426,812</b>	1,693,460
(Increase) decrease in trade and other receivables	<b>(4,298)</b>	12,508
Increase in trade and other payables	<b>35,169</b>	3,043
Increase (decrease) in deposits received	<b>36,967</b>	(16,020)
<b>CASH GENERATED FROM OPERATIONS</b>	<b>1,494,650</b>	1,692,991
Interest paid	<b>(279,404)</b>	(315,882)
Hong Kong Profits Tax paid	<b>(109,119)</b>	(83,921)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,106,127</b>	1,293,188
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>2,836</b>	1,032
Cash received from rental stabilisation arrangement	<b>39,393</b>	11,710
Additions to investment properties	<b>(1,065)</b>	(35,465)
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>41,164</b>	(22,723)
<b>FINANCING ACTIVITIES</b>		
Distribution paid	<b>(941,306)</b>	(540,653)
Repurchase of own convertible bonds	-	(18,400)
Proceeds received pursuant to the Distribution Waiver Amendment Deed	-	5,285
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(941,306)</b>	(553,768)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>205,985</b>	716,697
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>1,832,105</b>	1,115,408
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR,</b>		
Represented by bank balances and cash	<b>2,038,090</b>	1,832,105

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

## 1. GENERAL

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 are listed on The Stock Exchange of Hong Kong Limited (the “HKSE”). Champion REIT is governed by the deed of trust dated 26 April 2006, as amended from time to time (the “Trust Deed”), entered into between 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 subsidiaries (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, Hong Kong, and 1 Queen’s Road Central, Hong Kong, respectively.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand

The adoption of the new and revised HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustments have been recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>6</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification to Rights Issues <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual period beginning on or after 1 February 2010

3 Effective for annual period beginning on or after 1 July 2010

4 Effective for annual period beginning on or after 1 January 2011

5 Effective for annual period beginning on or after 1 July 2011

6 Effective for annual period beginning on or after 1 January 2012

7 Effective for annual period beginning on or after 1 January 2013

#### HKFRS 9 “Financial Instruments”

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Manager anticipates that the application of HKFRS 9 will have no material impact on the results and the financial position of the Group.

## **2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)**

### **HKAS 12 (Amendments) “Deferred Tax: Recovery of Underlying Assets”**

The amendments to HKAS 12 “Deferred Tax: Recovery of Underlying Assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The Manager anticipates that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. Had the amendments been adopted for the year ended 31 December 2010, the deferred tax liabilities for investment properties would have been decreased by HK\$1,764,624,000 and the profit for the current year would have been increased by HK\$869,389,000.

The Manager anticipates that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of preparation of consolidated financial statements**

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. 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 HKSE.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of Champion REIT and its subsidiaries. Control is achieved where Champion REIT has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities.

The results of entities acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### **Investment properties**

Investment properties are properties held to earn rental and/or for capital appreciation.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Leasing**

Leases are classified as finance leases whenever the terms 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 profit or loss on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as income in the period in which they are earned.

In the event that lease incentives are given to enter into operating leases, such incentives are recognised as an asset. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 (which include origination fees) 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***

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL").

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### ***Financial assets at fair value through profit or loss***

A financial asset (i.e. rental stabilisation arrangement) at FVTPL is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near futures; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on loans and receivables below).

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial instruments (continued)

##### *Financial assets (continued)*

##### *Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables and other receivables, receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio beyond the invoice date, observable changes in national or local economic conditions that correlate with default on receivables.

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.

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Instruments, or components of instruments, that impose on Champion REIT an obligation to deliver to the holders a pro-rata share of the net assets only on liquidation are presented as equity only when certain specific criteria are met.

In accordance with the Trust Deed, Champion REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and has a limited life of 80 years less one day from the date of its commencement. Therefore, the units issued by Champion REIT contain a contractual obligation upon its termination to distribute a share of all net cash proceeds derived from the sale or realisation of its assets less any liabilities to its unitholders in accordance with their proportionate interests in Champion REIT at the date of its termination. Accordingly, the units issued by Champion REIT is a compound instrument that contains both equity and liability components.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Financial instruments (continued)**

##### ***Financial liabilities and equity (continued)***

##### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

##### ***Other financial liabilities***

Other financial liabilities (including trade and other payables, distribution payable, bank and other borrowings and liability component of the convertible bonds) are subsequently measured at amortised cost, using the effective interest method.

##### ***Unit issue costs***

The transaction costs relating to initial public offering, listing of units of Champion REIT and acquisition of properties are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. Other transaction costs are recognised as an expense.

##### ***Convertible bonds***

Convertible bonds issued by the Group that contain both liability and derivative components (including early redemption option which is not closely related to the host liability component, and conversion option) are classified separately into the respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own units is a conversion option derivative. 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 components are 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 components in proportion to their relative fair values. Transaction costs relating to the derivative components 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.

##### ***Derivative financial instruments and hedging***

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 the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective 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 non-derivative host contracts are treated as separate derivatives when their risk 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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Hedge accounting**

The Group uses interest rate swaps to hedge its exposure against changes in interest rates. Hedging 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 Group 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 cash flows of the hedged item.

#### ***Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in net assets attributable to unitholders (hedging reserve) are reclassified to 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 accumulated in the hedging reserve at that time remains in net assets attributable to unitholders and 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 accumulated in net assets attributable to unitholders is recognised immediately in profit or loss.

#### ***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 in other comprehensive income is recognised in profit or loss.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Borrowing costs**

All borrowing costs in relation to non-qualifying assets are recognised in profit or loss 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 year. 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 end of the reporting period.

Deferred tax is recognised on temporary 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. 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.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case the deferred tax is also recognised in other comprehensive income or directly in net assets attributable to unitholders respectively.

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, management has considered the following key sources of estimation uncertainty at the end of the reporting period that would have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

As described in note 16, investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates. In relying on the valuation report, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in notes 23 and 24, the fair values of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Valuation techniques commonly used by market practitioners are applied. For derivative components, assumptions are made based on market data such as historical volatility of Champion REIT's unit prices. Interest rate swaps are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

## 5. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Loan receivables	<b>54,566</b>	52,737
Trade and other receivables	<b>10,564</b>	14,837
Bank balances and cash	<b>2,038,090</b>	1,832,105
	<b>2,103,220</b>	1,899,679
<i>Financial assets at FVTPL</i>		
Rental stabilisation arrangement	<b>6,033</b>	44,943
<b>Financial liabilities</b>		
<i>Financial liabilities at FVTPL</i>		
Derivative components of convertible bonds	<b>1,602,171</b>	658,748
<i>Derivative instruments in designated hedge accounting relationships</i>		
Interest rate swaps	<b>59,353</b>	149,960
<i>Financial liabilities at amortised costs</i>		
Trade and other payables	<b>158,113</b>	160,806
Distribution payable	<b>536,508</b>	633,339
Secured term loans	<b>9,443,476</b>	9,433,278
Liability component of convertible bonds	<b>5,896,323</b>	5,603,082
	<b>16,034,420</b>	15,830,505

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 5. FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Financial risks management objectives and policies

The Group's major financial instruments include derivative financial instruments, secured term loans, loan receivables, trade and other receivables, bank and cash balances, rental stabilisation arrangement, convertible bonds, trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include interest rate risk, credit risk, liquidity risk and other price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### (i) Interest rate risk

The Group is exposed to cash flow and fair value interest rate risks in relation to non-derivative assets and liabilities. The Group's cash flow interest rate risk arises mainly from its variable-rate secured term loans (see note 22 for details). The Group is also exposed to fair value interest rate risk in relation to its time deposits, debt portion of the convertible bonds.

The Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on certain of its secured term loans. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 24 for details).

The Group reviews the continuing effectiveness of hedging instruments at least at the end of each reporting period and until the hedging instrument expires or is terminated or the hedge no longer meets the criteria for hedging accounting. The Group mainly used regression analysis and comparison of change in fair value of the hedging instruments and the hedged items for assessing the hedging effectiveness.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's term loans.

##### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivatives instruments. For variable-rate term loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's:

- i. profit before tax and distribution to unitholders for the year ended 31 December 2010 would decrease/increase by HK\$12,270,000 (2009: HK\$12,270,000). This is mainly attributable to the Group's exposure to interest rates on its secured term loan which is not hedged.
- ii. hedging reserve would be credited by HK\$12,621,000/debited by HK\$11,022,000 (2009: credited by HK\$51,290,000/debited by HK\$41,851,000) mainly as a result of the changes in the fair value of interest rate swaps.

##### (ii) Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Manager has established credit limits for tenants and monitors their balances on an ongoing basis. Credit evaluations are performed by the Property Manager on behalf of the Manager before lease agreements are entered into with tenants. In addition, the Manager reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Manager considers that the Group's credit risk is significantly reduced.

## 5. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risks management objectives and policies (continued)

#### (ii) Credit risk (continued)

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings and loan receivables from a swap counterparty, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### (iii) Liquidity and capital risk management

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 issued by the Securities and Futures Commission concerning limits on total borrowings and monitors the level of borrowings to be within the permitted limit.

The Group has cash and cash equivalents of HK\$2,038,090,000 as at 31 December 2010 (2009: HK\$1,832,105,000). In addition to the cash resources, the Group has total available borrowing facilities amounted to HK\$10,154,000,000 (2009: HK\$10,154,000,000), of which HK\$9,454,000,000 (2009: HK\$9,454,000,000) was drawn as at 31 December 2010. The undrawn committed facility in the form of revolving bank loans totalled HK\$700,000,000 as at 31 December 2010 (2009: HK\$700,000,000). Management is in the process of negotiation with banks to refinance the existing secured term loan which is due within one year. Therefore the management considers that the Group would have sufficient financial resources to satisfy its commitments and working capital requirements.

The Group also considers the cost of capital and the risk associated with the capital. The Group has to maintain a level of borrowings that shall not exceed 45% of the total gross asset value as required by the Code. As at 31 December 2010, the gearing ratio was 28.4% (2009: 32.2%). The ratio is calculated as total borrowings (principal amounts of secured term loans and convertible bonds) divided by total assets of the Group.

#### *Liquidity and interest risk tables*

The Group manages liquidity risk by maintaining adequate banking facilities as well as by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As at 31 December 2010, the Group has undrawn committed facility of HK\$700,000,000 (2009: HK\$700,000,000). Details of which are set out in note 22.

The following tables detail the Group's expected maturity for its non-derivative financial assets as well as the Group's remaining contractual maturity for its non-derivative financial liabilities.

The tables below have been drawn up based on the undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis. For non-derivative financial liabilities, the tables reflect the undiscounted (outflows) of financial liabilities (except units of Champion REIT) based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated based on interest rate at the end of the reporting period. For convertible bonds, they are presented based on cash flows for payment of coupon interest and redemption at maturities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 5. FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Financial risks management objectives and policies (continued)

##### (iii) Liquidity and capital risk management (continued)

##### Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	0-60 days HK\$'000	61-180 days HK\$'000	181-365 days HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	Total amount HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2010</b>									
<i>Non-interest bearing</i>									
Trade and other receivables	-	10,564	-	-	-	-	-	10,564	10,564
Loan receivables	-	-	55,307	-	-	-	-	55,307	54,566
		10,564	55,307	-	-	-	-	65,871	65,130
<i>Variable interest rate</i>									
Bank balances and cash	0.36	2,038,092	-	-	-	-	-	2,038,092	2,038,090
<b>Total</b>		2,048,656	55,307	-	-	-	-	2,103,963	2,103,220
<i>Non-interest bearing</i>									
Trade and other payables	-	(158,113)	-	-	-	-	-	(158,113)	(158,113)
Distribution payable	-	(536,508)	-	-	-	-	-	(536,508)	(536,508)
		(694,621)	-	-	-	-	-	(694,621)	(694,621)
<i>Variable interest rate instruments</i>									
Secured term loans	0.81	(13,174)	(7,019,669)	(9,742)	(19,431)	(2,462,204)	-	(9,524,220)	(9,443,476)
<i>Fixed interest rate instruments</i>									
Convertible bonds	5.96	-	(873,387)	(23,300)	(46,600)	(5,795,280)	-	(6,738,567)	(5,896,323)
<b>Total</b>		(707,795)	(7,893,056)	(33,042)	(66,031)	(8,257,484)	-	(16,957,408)	(16,034,420)

## 5. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risks management objectives and policies (continued)

#### (iii) Liquidity and capital risk management (continued)

##### Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	0-60 days HK\$'000	61-180 days HK\$'000	181-365 days HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	Total amount HK\$'000	Total carrying amount HK\$'000
<b>As at 31 December 2009</b>									
<i>Non-interest bearing</i>									
Trade and other receivables	-	14,837	-	-	-	-	-	14,837	14,837
Loan receivables	-	-	-	-	55,307	-	-	55,307	52,737
		14,837	-	-	55,307	-	-	70,144	67,574
<i>Variable interest rate</i>									
Bank balances and cash	0.02	1,832,107	-	-	-	-	-	1,832,107	1,832,105
<b>Total</b>		1,846,944	-	-	55,307	-	-	1,902,251	1,899,679
<i>Non-interest bearing</i>									
Trade and other payables	-	(160,806)	-	-	-	-	-	(160,806)	(160,806)
Distribution payable	-	(633,339)	-	-	-	-	-	(633,339)	(633,339)
		(794,145)	-	-	-	-	-	(794,145)	(794,145)
<i>Variable interest rate instruments</i>									
Secured term loans	0.62	(10,051)	(19,144)	(29,035)	(7,032,510)	(15,706)	(2,460,631)	(9,567,077)	(9,433,278)
<i>Fixed interest rate instruments</i>									
Convertible bonds	5.96	-	(30,950)	(30,950)	(896,687)	(46,600)	(5,795,280)	(6,800,467)	(5,603,082)
<b>Total</b>		(804,196)	(50,094)	(59,985)	(7,929,197)	(62,306)	(8,255,911)	(17,161,689)	(15,830,505)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 5. FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Financial risks management objectives and policies (continued)

##### (iii) Liquidity and capital risk management (continued)

###### *Liquidity and interest risk tables (continued)*

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash outflows on the interest rate swaps that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments is prepared based on the expected cash flows as the Manager considers that the expected cash flows are essential for an understanding of the timing of the cash flows of these derivatives, which have been entered into for hedging purposes.

	<b>0-60 days HK\$'000</b>	<b>61-180 days HK\$'000</b>	<b>181-365 days HK\$'000</b>	<b>1-2 years HK\$'000</b>	<b>Total HK\$'000</b>
Net settled:					
<b>As at 31 December 2010</b>					
Interest rate swaps	<b>(21,662)</b>	<b>(30,110)</b>	-	-	<b>(51,772)</b>
<b>As at 31 December 2009</b>					
Interest rate swaps	(20,350)	(40,700)	(62,745)	(29,528)	(153,323)

##### (iv) Other price risk

The Group is exposed to risk through fluctuation of forecasted rental income arising from the rental stabilisation arrangement and price risk through its unit price risks arising from the derivative components of the convertible bonds. Details of rental stabilisation arrangement and convertible bonds are set out in note 17 and note 23, respectively.

###### *Sensitivity analysis*

If the inputs (i.e. volatility and market rent) to the valuation model had been 5% higher/lower while all other variables were held constant, profit before tax and distribution to unitholders would increase/decrease as follows:

A positive number indicates a decrease in profit before tax whereas a negative number indicates an increase in profit before tax.

	<b>2010 HK\$'000</b>	2009 HK\$'000
<b>Derivative components of convertible bonds</b>		
Volatility, higher by 5%	<b>35,744</b>	91,033
Volatility, lower by 5%	<b>(36,590)</b>	(129,852)
<b>Rental stabilisation arrangement</b>		
Change in market rent, higher by 5%	<b>(1)</b>	(14)
Change in market rent, lower by 5%	<b>3</b>	15



## 5. FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Fair value

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

- the fair values of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of interest rate swaps is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments. For rental stabilisation arrangement, the fair value is estimated using the Black-Scholes model whereas for derivative components of convertible bonds, the fair values are estimated using the Binomial model.

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.

### (d) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>As at 31 December 2010</b>				
<i>Financial assets at FVTPL</i>				
Rental stabilisation arrangement	-	-	<b>6,033</b>	<b>6,033</b>
<i>Financial liabilities at FVTPL</i>				
Derivative components of convertible bonds	-	-	<b>1,602,171</b>	<b>1,602,171</b>
<i>Derivative instruments in designated hedge accounting relationships</i>				
Interest rate swaps	-	<b>59,353</b>	-	<b>59,353</b>
<b>As at 31 December 2009</b>				
<i>Financial assets at FVTPL</i>				
Rental stabilisation arrangement	-	-	44,943	44,943
<i>Financial liabilities at FVTPL</i>				
Derivative components of convertible bonds	-	-	658,748	658,748
<i>Derivative instruments in designated hedge accounting relationships</i>				
Interest rate swaps	-	149,960	-	149,960

There were no transfers between Level 1 and 2 in both current and last years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 5. FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Fair value measurements recognised in the consolidated statement of financial position (continued)

##### *Reconciliation of Level 3 fair value measurements of financial assets (liabilities)*

	<b>Rental stabilisation arrangement HK\$'000</b>	<b>Derivative components of convertible bonds HK\$'000</b>	<b>Total HK\$'000</b>
As at 1 January 2009	53,843	(62,021)	(8,178)
Change in fair value	2,810	(597,242)	(594,432)
Repurchase during the year	-	515	515
Cash received	(11,710)	-	(11,710)
<b>As at 1 January 2010</b>	<b>44,943</b>	<b>(658,748)</b>	<b>(613,805)</b>
Change in fair value	483	(943,423)	(942,940)
Cash received	(39,393)	-	(39,393)
<b>As at 31 December 2010</b>	<b>6,033</b>	<b>(1,602,171)</b>	<b>(1,596,138)</b>

The above change in fair value is reported as “change in fair value of rental stabilisation arrangement” and “change in fair value of derivative components of convertible bonds”, respectively, in the consolidated income statement.

## 6. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker ("CODM"), management of the Manager, for the purpose of resource allocation and performance assessment is more specifically focused on the operating results of the two investment properties, namely Citibank Plaza and Langham Place.

### Segment revenue and results

The following is an analysis of the Group's revenue and results by the two investment properties.

For the year ended 31 December 2010

	<b>Citibank Plaza HK\$'000</b>	<b>Langham Place HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Revenue</b>	<b>1,129,498</b>	<b>746,413</b>	<b>1,875,911</b>
<b>Segment results – Net property income</b>	<b>942,194</b>	<b>566,493</b>	<b>1,508,687</b>
Interest income			4,969
Manager's fee			(181,042)
Trust and other expenses			(13,896)
Increase in fair value of investment properties			5,867,385
Change in fair value of derivative components of convertible bonds			(943,423)
Change in fair value of rental stabilisation arrangement			483
Finance costs			(756,238)
<b>Profit before tax and distribution to unitholders</b>			<b>5,486,925</b>
Income taxes			(1,046,988)
<b>Profit for the year, before distribution to unitholders</b>			<b>4,439,937</b>
Distribution to unitholders			(1,066,870)
<b>Profit for the year, after distribution to unitholders</b>			<b>3,373,067</b>
<b>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:</b>			
Manager's fee	(113,063)	(67,979)	(181,042)
Increase in fair value of investment properties	4,374,285	1,493,100	5,867,385

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 6. SEGMENT INFORMATION (CONTINUED)

#### Segment revenue and results (continued)

For the year ended 31 December 2009

	Citibank Plaza HK\$'000	Langham Place HK\$'000	Consolidated HK\$'000
<b>Revenue</b>	1,314,462	720,566	2,035,028
<b>Segment results – Net property income</b>	1,143,056	566,166	1,709,222
Interest income			2,532
Manager's fee			(205,107)
Trust and other expenses			(15,762)
Increase in fair value of investment properties			4,156,335
Change in fair value of derivative components of convertible bonds			(597,242)
Change in fair value of rental stabilisation arrangement			2,810
Gain on repurchase of own convertible bonds			2,062
Finance costs			(754,766)
<b>Profit before tax and distribution to unitholders</b>			4,300,084
Income taxes			(555,531)
<b>Profit for the year, before distribution to unitholders</b>			3,744,553
Distribution to unitholders			(1,241,947)
<b>Profit for the year, after distribution to unitholders</b>			2,502,606
<b>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:</b>			
Manager's fee	(137,167)	(67,940)	(205,107)
Increase in fair value of investment properties	2,743,935	1,412,400	4,156,335

## 6. SEGMENT INFORMATION (CONTINUED)

### Other segment information

	<b>Citibank Plaza HK\$'000</b>	<b>Langham Place HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>For the year ended 31 December 2010</b>			
Additions to non-current assets	<b>114,415</b>	-	<b>114,415</b>
<b>For the year ended 31 December 2009</b>			
Additions to non-current assets	35,465	-	35,465

### Segment assets and liabilities

For the purpose of performance assessment, fair values of investment properties are reviewed by the CODM. As at 31 December 2010, the fair value of Citibank Plaza and Langham Place was HK\$33,747,100,000 (2009: HK\$29,258,400,000) and HK\$16,475,500,000 (2009: HK\$14,982,400,000), respectively.

Save as abovementioned, no other assets or liabilities are included in the measures of the Group's segment reporting.

### Geographical information

The Group's activities are all carried out in Hong Kong.

The Group's revenue from external customers and information about its non-current assets are all located in Hong Kong.

## 7. RENTAL INCOME

	<b>2010 HK\$'000</b>	2009 HK\$'000
Rental income	<b>1,675,597</b>	1,829,181
Car park income	<b>27,189</b>	27,299
	<b>1,702,786</b>	1,856,480

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 8. RENTAL RELATED INCOME

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Interest income from tenants	<b>558</b>	671
Promotional levy income	<b>7,170</b>	7,171
Surplus on forbearance fee	<b>2,489</b>	59
Sundry income	<b>7,084</b>	5,033
	<b>17,301</b>	12,934

### 9. PROPERTY OPERATING EXPENSES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Building management expenses	<b>183,630</b>	180,468
Car park operating expenses	<b>7,312</b>	6,234
Government rent and rates	<b>61,293</b>	53,454
Legal cost and stamp duty	<b>5,111</b>	1,073
Promotion expenses	<b>16,552</b>	14,658
Property and lease management service fee	<b>50,986</b>	55,967
Property miscellaneous expenses	<b>3,960</b>	3,992
Rental commission	<b>36,912</b>	8,222
Repairs and maintenance	<b>1,468</b>	1,738
	<b>367,224</b>	325,806

### 10. MANAGER'S FEE

Pursuant to the Trust Deed, as the net property income of Champion REIT exceeds HK\$200 million for each of the six months ended 30 June 2010 and 31 December 2010, the Manager is entitled to receive 12% of the net property income for each of the six months ended 30 June 2010 and 31 December 2010 as remuneration.

In relation to certain properties of Citibank Plaza acquired upon listing, the fee payable to the Manager shall be paid in the form of units until 31 December 2010. For certain properties of Citibank Plaza acquired in January 2007 and Langham Place acquired in June 2008, the Manager has elected to receive 12% of its fee in the form of units and cash, respectively, for each of the six months ended 30 June 2010 and 31 December 2010. In last year, Manager's fee was settled by issue of units.

## 11. FINANCE COSTS

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Finance costs represent:		
Interest expense on bank borrowings wholly repayable within five years	<b>226,448</b>	242,108
Interest expense on convertible bonds wholly repayable within five years	<b>355,141</b>	338,009
Release of cumulative loss on hedging instrument (note 24)	<b>173,099</b>	173,099
Other borrowing costs	<b>1,550</b>	1,550
	<b>756,238</b>	754,766

## 12. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Profit before tax and distribution to unitholders has been arrived at after charging:		
Auditors' remuneration	<b>2,600</b>	2,700
Trustee's remuneration	<b>8,292</b>	7,668
Principal valuer's fee	<b>350</b>	328
Other professional fees and charges	<b>2,437</b>	5,198
Roadshow and public relations expenses	<b>231</b>	24
Bank charges	<b>71</b>	62

## 13. INCOME TAXES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax:		
Current tax		
- Current year	<b>65,172</b>	88,694
- Under (over) provision in prior year	<b>816</b>	(165)
	<b>65,988</b>	88,529
Deferred tax (note 25)		
- Current year	<b>981,000</b>	467,002
	<b>1,046,988</b>	555,531

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 13. INCOME TAXES (CONTINUED)

The income taxes for the year can be reconciled to the profit before tax and distribution to unitholders as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Profit before tax and distribution to unitholders	<b>5,486,925</b>	4,300,084
Tax at the domestic income tax rate of 16.5%	<b>905,343</b>	709,514
Tax effect of income not taxable for tax purpose	<b>(68,084)</b>	(270,995)
Tax effect of expenses not deductible for tax purpose	<b>173,912</b>	116,487
Under(over)provision in prior year	<b>816</b>	(165)
Utilisation of tax losses previously not recognised	-	(27,738)
Tax effect of tax losses not recognised	<b>35,884</b>	34,249
Other	<b>(883)</b>	(5,821)
Income taxes for the year	<b>1,046,988</b>	555,531

### 14. 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:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit for the year, before distribution to unitholders for the purpose of basic earnings per unit	<b>4,439,937</b>	3,744,553
Effect of dilutive potential units:		
Interest on convertible bonds (net of tax effect)	<b>349,255</b>	338,009
Change in fair value of derivative components of convertible bonds	<b>943,423</b>	597,242
Gain on repurchase of own convertible bonds	-	(2,062)
Profit for the year, before distribution to unitholders for the purpose of diluted earnings per unit	<b>5,732,615</b>	4,677,742



#### 14. BASIC AND DILUTED EARNINGS PER UNIT (CONTINUED)

	2010	2009
<b>Number of units</b>		
Weighted average number of units for the purpose of basic earnings per unit	<b>4,890,064,636</b>	4,607,273,895
Effect of dilutive potential units:		
Units to be issued in respect of Manager's fee	<b>2,903,634</b>	7,631,314
Convertible bonds	<b>1,442,450,094</b>	1,398,226,201
Weighted average number of units for the purpose of diluted earnings per unit	<b>6,335,418,364</b>	6,013,131,410
<b>Basic earnings per unit before distribution to unitholders</b>	<b>HK\$0.91</b>	HK\$0.81
<b>Diluted earnings per unit before distribution to unitholders</b>	<b>HK\$0.90</b>	HK\$0.78

#### 15. TOTAL DISTRIBUTABLE INCOME

The total distributable income is the profit for the year, 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 the year are set out below:

	2010	2009
	HK\$'000	HK\$'000
Profit for the year, before distribution to unitholders	<b>4,439,937</b>	3,744,553
Adjustments:		
Manager's fee paid and payable in units	<b>113,063</b>	205,107
Increase in fair value of investment properties	<b>(5,867,385)</b>	(4,156,335)
Change in fair value of derivative components of convertible bonds	<b>943,423</b>	597,242
Change in fair value of rental stabilisation arrangement	<b>(483)</b>	(2,810)
Non-cash gain	<b>(1,829)</b>	(1,768)
Non-cash finance costs	<b>476,538</b>	459,327
Deferred tax	<b>981,000</b>	467,002
<b>Total distributable income</b>	<b>1,084,264</b>	1,312,318

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 16. INVESTMENT PROPERTIES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>FAIR VALUE</b>		
At the beginning of the year	<b>44,240,800</b>	40,049,000
Additions during the year	<b>114,415</b>	35,465
Increase in fair value during the year	<b>5,867,385</b>	4,156,335
	<b>50,222,600</b>	44,240,800

The fair value of the Group's investment properties at 31 December 2010 and 2009 has been arrived at on the basis of valuation carried out by Knight Frank Petty Limited ("Knight Frank"), independent qualified professional valuers not connected to the Group. The valuation was arrived by using the Income Capitalisation Approach which is a method of valuation whereby the existing rental income of all lettable units of the property are capitalised for their respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at its current market rent as at the end of the reporting period. Upon the expiry of the existing tenancy, each of the leased area is assumed to be let at the market rent as at the end of the reporting period, which is in turn capitalised at the market yield as expected by investors for the period and with the expectations of renewal of Government lease upon its expiry. The capitalisation rate adopted is made by reference to the yields achieved in analysed market sales transactions and the valuer's knowledge of the market expectation from property investors. The expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating cost, risk factor and the like. The capitalisation rates for the retail and office accommodation range from 4.1% to 4.5% (2009: 4.2% to 4.7%) and 4.0% to 4.2% (2009: 4.0% to 4.2%), respectively.

The Group's property interests held under finance 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 have been mortgaged as security for credit facilities and convertible bonds as detailed in notes 22 and 23, respectively.

### 17. RENTAL STABILISATION ARRANGEMENT

Pursuant to the rental stabilisation arrangement (the "Arrangement") in relation to the acquisition of 3 floors and certain carparking spaces in Citibank Plaza, Kerry Properties Limited ("Kerry"), being the Guarantor, had undertaken that during the five years commencing from 5 January 2007 (the "Full Rental Stabilisation Period"), the New Property Income (as defined in the agreement) for each 6-month period ending 30 June and 31 December during the Full Rental Stabilisation Period shall not be less than HK\$30,992,000. The total amount of shortfall receivable from Kerry under the Arrangement is subject to a maximum amount of HK\$95,223,000 for the Full Rental Stabilisation Period (the "Maximum Rental Stabilisation Amount"). On 5 January 2007, Kerry had paid an amount equal to the Maximum Rental Stabilisation Amount into a designated escrow account.

During the year, the Group received an aggregate amount of HK\$39,393,000 (2009: HK\$11,710,000), which represents the shortfall of New Property Rental of HK\$39,390,000 (2009: HK\$11,702,000) and interest on the escrow account of HK\$3,000 (2009: HK\$8,000).

The Arrangement is accounted for as financial derivative and measured at fair value at the end of the reporting period. The fair value gain during the year of HK\$483,000 (2009: HK\$2,810,000) was credited to consolidated income statement. At 31 December 2010 and 2009, the fair value is determined based on the Black-Scholes model using the assumptions of current market rents at the end of respective reporting periods, expected volatility based on past years historical rent index, volatility of grade A central office and the duration of the Arrangement.

## 18. LOAN RECEIVABLES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Loan receivables	<b>54,566</b>	52,737
Analysed for reporting purpose as:		
Amount shown under non-current assets	-	52,737
Amount shown under current assets	<b>54,566</b>	-
	<b>54,566</b>	52,737

The amount represents the receivable due from the interest rate swap counterparty. The amount is unsecured, receivable in full on 24 May 2011 and is carried at amortised cost using effective interest rate of 3.42% per annum.

## 19. TRADE AND OTHER RECEIVABLES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>10,096</b>	11,744
Deferred rent receivables	<b>50,131</b>	37,269
Deposits, prepayments and other receivables	<b>47,482</b>	54,094
	<b>107,709</b>	103,107

Rental receivables from tenants are payable on presentation of invoices. The collection is closely monitored to minimise any credit risk associated with these receivables.

Aging analysis of the Group's trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
0 - 3 months	<b>10,096</b>	11,744

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$10,096,000 (2009: HK\$11,744,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

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For the year ended 31 December 2010

### 20. BANK BALANCES AND CASH

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Cash on hand	<b>6</b>	14
Cash at bank	<b>264,990</b>	201,174
Time deposits	<b>1,773,094</b>	1,630,917
	<b>2,038,090</b>	1,832,105

Bank balances carry interest at market rates of 0.001% to 0.01% per annum. Time deposits with a maturity of less than three months carry interest at market rates which range from 0.1% to 0.6% per annum.

### 21. TRADE AND OTHER PAYABLES

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>52,602</b>	37,904
Rental received in advance	<b>17,069</b>	29,887
Other payables	<b>119,919</b>	132,084
Accrued stamp duty	<b>963,475</b>	850,125
	<b>1,153,065</b>	1,050,000

The accrual for stamp duty is based on the current stamp duty rate of 4.25% (2009: 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 which Champion REIT acquired the property interest in Citibank Plaza upon listing.

Aging analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
0 - 3 months	<b>52,602</b>	37,904

## 22. SECURED TERM LOANS

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Secured term loans	<b>9,454,000</b>	9,454,000
Loan front-end fee	<b>(10,524)</b>	(20,722)
	<b>9,443,476</b>	9,433,278
The maturity of the above secured term loans is as follows:		
Within one year	<b>6,997,329</b>	-
More than one year but not exceeding two years	-	6,990,380
More than two years but not exceeding five years	<b>2,446,147</b>	2,442,898
	<b>9,443,476</b>	9,433,278
Less: amount due within one year shown under current liabilities	<b>(6,997,329)</b>	-
Amount due after one year	<b>2,446,147</b>	9,433,278

The secured term loans comprise the following:

- (i) In relation to the term loan and revolving credit facilities of HK\$7,200,000,000 granted to the Group on 24 May 2006, the total facilities drawn down by the Group as at 31 December 2010 was HK\$7,000,000,000 (2009: HK\$7,000,000,000). It bears interest at floating interest rate of 1-month Hong Kong Interbank Offered Rate ("HIBOR") (2009: 1-month HIBOR) plus 0.53% per annum and is repayable in full on 24 May 2011. The interest rate is fixed at the rate of 2.8225% per annum by the use of interest rate swaps as set out in note 24.

As security for the facilities granted to the Group, certain investment properties with a fair value of HK\$32,232,250,000 as at 31 December 2010 (2009: HK\$27,967,700,000) together with the assignments of sales proceeds, insurance proceeds, rental income, revenue and all other income generated from these properties have been pledged and mortgaged to the syndicated banks.

- (ii) In relation to the term loan and revolving credit facilities of HK\$2,954,000,000 granted to the Group on 2 June 2008 to finance the acquisition of Langham Place, the total facilities drawn down by the Group as at 31 December 2010 was HK\$2,454,000,000 (2009: HK\$2,454,000,000). It bears interest at floating interest rate of HIBOR plus 0.59% per annum and is repayable in full in June 2013.

As security for the facilities granted to the Group, certain investment properties with a fair value of HK\$16,475,500,000 as at 31 December 2010 (2009: HK\$14,982,400,000) together with the assignments of sales proceeds, insurance proceeds, rental income, revenue and all other income generated from these properties have been pledged and mortgaged to the syndicated banks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 23. CONVERTIBLE BONDS

On 22 December 2006, Treasure Source Limited (“2006 Bonds Issuer”), an entity directly wholly-owned and controlled by Champion REIT, issued HK\$765,000,000 2% guaranteed convertible bonds due 2011 (“2006 Bonds”). As security for the 2006 Bonds, certain investment properties with a fair value of HK\$1,514,850,000 as at 31 December 2010 (2009: HK\$1,290,700,000) together with the assignment of insurance proceeds have been granted and mortgaged in favour of the bond holders by the 2006 Bonds Issuer.

The principal terms of the 2006 Bonds include the following:

#### Conversion

The holders of the 2006 Bonds are entitled to convert their bonds into units of Champion REIT at any time on or after 1 February 2007 up to and including 13 May 2011 at a conversion price adjusted to HK\$4.26 per unit which came into effect since 27 May 2009 as a result of Excess Distribution (as defined in terms and conditions of the 2006 Bonds) adjustment during that period.

If the holder has elected to convert the 2006 Bonds, the 2006 Bonds 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.

#### Redemption

Unless previously converted, redeemed or purchased and cancelled, the 2006 Bonds will be redeemed at 110.328% of their outstanding principal amount on 23 May 2011 (the “2006 Bonds Maturity Date”).

The 2006 Bonds Issuer may redeem the convertible bonds, in whole and not in part, on or at any time after 22 December 2009 but not less than seven business days prior to the 2006 Bonds Maturity Date, if the closing price of the units of Champion REIT on each of the 20 consecutive trading days immediately prior to the date upon which notice of such redemption is given was at least 130% of the applicable Early Redemption Amount (as defined below) for each 2006 Bonds divided by the then effective Conversion Ratio (as defined below).

The “Early Redemption Amount” is the principal amount of the convertible bonds plus a gross yield of 4.15% per annum, calculated on a semi-annual basis, from 22 December 2006, the closing date of the convertible bond issue, to the 2006 Bonds Maturity Date.

The “Conversion Ratio” is the principal amount of the convertible bonds divided by the then effective conversion price.

There was no conversion, redemption and repurchase of the 2006 Bonds during the year ended 31 December 2010. As at 31 December 2010, the principal amount of the 2006 Bonds was HK\$765,000,000 (2009: HK\$765,000,000). The carrying amount of the liability component and fair value of derivative component amounting to HK\$900,765,000 is classified as current liability according to the 2006 Bonds Maturity Date.

On 3 June 2008, Fair Vantage Limited (“2008 Bonds Issuer”), an entity directly wholly-owned and controlled by Champion REIT, issued HK\$4,680,000,000 1% guaranteed convertible bonds due 2013 (“2008 Bonds”). As security for the 2008 Bonds, certain investment properties with a fair value of HK\$16,475,500,000 as at 31 December 2010 (2009: HK\$14,982,400,000) together with the assignment of insurance proceeds have been granted and mortgaged in favour of the bond holders by the 2008 Bonds Issuer.

The principal terms of the 2008 Bonds include the following:

#### Conversion

The holders of the 2008 Bonds are entitled to convert their bonds into units of Champion REIT at any time on or after 3 June 2009 up to the date which is seven days prior to 3 June 2013 at a conversion price adjusted to HK\$3.69 per unit which came into effect since 25 May 2010 as a result of Excess Distribution (as defined in terms and conditions of the 2008 Bonds) adjustment.

If the holder has elected to convert the 2008 Bonds, the 2008 Bonds Issuer will be required to deliver, in respect of each bond converted; (a) an amount of cash, as elected by the 2008 Bonds Issuer; and (b) units, the number of which should be calculated in accordance to the terms and conditions of the 2008 Bonds.

## 23. CONVERTIBLE BONDS (CONTINUED)

### Redemption

Unless previously converted, redeemed or purchased and cancelled, the 2008 Bonds will be redeemed at 123.94% of their outstanding principal amount on 3 June 2013 (the “2008 Bonds Maturity Date”).

The 2008 Bonds Issuer may redeem the convertible bonds, in whole and not in part, on or at any time after 3 June 2011 but not less than seven business days prior to the 2008 Bonds Maturity Date, if the closing price of the units of Champion REIT on each of the 20 consecutive trading days immediately prior to the date upon which notice of such redemption is given was at least 130% of the applicable Early Redemption Amount (as defined below) for each 2008 Bonds divided by the then effective Conversion Ratio (as defined below).

The “Early Redemption Amount” is the principal amount of the convertible bonds plus a gross yield of 5.25% per annum, calculated on a semi-annual basis, from 3 June 2008, the closing date of the convertible bond issue, to the 2008 Bonds Maturity Date.

The “Conversion Ratio” is the principal amount of the convertible bonds divided by the then effective conversion price.

There was no conversion, redemption and repurchase of the 2008 Bonds during the year ended 31 December 2010. During the year ended 31 December 2009, the 2008 Bonds Issuer repurchased HK\$20,000,000 of the 2008 Bonds at a price range of 90 to 93 per cent of their principal amounts. The repurchased 2008 Bonds were cancelled on 24 June 2009. As at 31 December 2010, the principal amount of 2008 Bonds was HK\$4,660,000,000 (2009: HK\$4,660,000,000).

As at 31 December 2010, Great Eagle, a significant unitholder, through its directly wholly-owned subsidiary, Bright Form Investments Limited, held an aggregate principal amount of HK\$2,340,000,000 of 2008 Bonds (2009: HK\$2,340,000,000).

The 2006 Bonds and the 2008 Bonds (collectively referred to as the “Bonds”) contain liability components stated at amortised cost and derivative components stated at fair value. The effective interest rates of the liability component of 2006 Bonds and 2008 Bonds are 5.55% and 6.375% per annum, respectively.

As at 31 December 2010, the fair values of the derivative components (including conversion options and early redemption options) are based on valuation provided to the Group by an independent valuer. The fair values are determined based on the Binomial model using the assumptions as follows:

	2010		2009	
	2006 Bonds	2008 Bonds	2006 Bonds	2008 Bonds
Unit price	<b>HK\$4.59</b>	<b>HK\$4.59</b>	HK\$3.30	HK\$3.30
Risk-free rate of interest	<b>0.33%</b>	<b>0.83%</b>	0.86%	2.09%
Dividend yield	<b>4.64%</b>	<b>4.64%</b>	8.03%	8.02%
Historical volatility (with similar time to maturity)	<b>19.72%</b>	<b>41.05%</b>	51.03%	39.93%

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For the year ended 31 December 2010

### 23. CONVERTIBLE BONDS (CONTINUED)

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

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
<b>Liability component</b>		
At the beginning of the year	<b>5,603,082</b>	5,346,998
Interest charged	<b>355,141</b>	338,009
Interest paid	<b>(61,900)</b>	(61,978)
Repurchase during the year	-	(19,947)
At the end of the year	<b>5,896,323</b>	5,603,082
<b>Derivative components</b>		
At the beginning of the year	<b>658,748</b>	62,021
Change in fair value	<b>943,423</b>	597,242
Repurchase during the year	-	(515)
At the end of the year	<b>1,602,171</b>	658,748
<b>Total convertible bonds</b>	<b>7,498,494</b>	6,261,830

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
The maturity of the Bonds is as follows:		
Within one year	<b>900,765</b>	-
More than one year but not exceeding two years	-	862,324
More than two years but not exceeding five years	<b>6,597,729</b>	5,399,506
	<b>7,498,494</b>	6,261,830
Less: amount due within one year shown under current liabilities	<b>(900,765)</b>	-
Amount due after one year	<b>6,597,729</b>	6,261,830



## 24. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Cash flow hedge - interest rate swaps	<b>59,353</b>	149,960
Analysed for reporting purpose as:		
Amount shown under non-current liabilities	-	149,960
Amount shown under current liabilities	<b>59,353</b>	-
	<b>59,353</b>	149,960

The Group uses interest rate swaps to minimise the exposure to movements in interest rates in relation to its floating rate term loan by swapping from floating rate to fixed rate. 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.

On 9 October 2009, the interest rate swaps arrangement was amended from quarterly payments to monthly payments with effect from the coupon period starting 24 November 2009 until maturity on 24 May 2011. As a result of the amendment, the fixed rate was changed from 2.865% per annum to 2.8225% per annum.

Subsequent to the amendment to the terms of the interest rate swaps in 2008, the cumulative losses on the interest rate swaps from inception of the hedge until the amendment of the terms of the interest rate swaps is released to consolidated income statement over the periods during which the variability of interest payment in relation to the secured term loan affects the consolidated income statement. During the year, release of such cumulative losses from the hedging reserve amounted to HK\$173,099,000 (2009: HK\$173,099,000).

At 31 December 2010 and 2009, major terms of the interest rate swaps are set out below:

<b>Notional amount</b>	<b>Maturity</b>	<b>Swaps</b>
HK\$7,000,000,000	24 May 2011	From 1 month HIBOR plus 0.53% to a fixed rate of 2.8225%

The above derivatives are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 25. DEFERRED TAX LIABILITIES

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

	<b>Accelerated tax depreciation</b>	<b>Investment properties</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2009	116,933	442,486	(20,042)	539,377
Charge (credit) to consolidated income statement during the year	87,022	452,749	(72,769)	467,002
<b>As at 31 December 2009</b>	<b>203,955</b>	<b>895,235</b>	<b>(92,811)</b>	<b>1,006,379</b>
Charge to consolidated income statement during the year	71,197	869,389	40,414	981,000
<b>As at 31 December 2010</b>	<b>275,152</b>	<b>1,764,624</b>	<b>(52,397)</b>	<b>1,987,379</b>

For the purposes of presentation in the consolidated statement of financial position, deferred tax assets and liabilities have been offset and shown under non-current liabilities.

As at 31 December 2010, the Group has unutilised tax losses amounting to HK\$857,416,000 (2009: HK\$885,392,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$317,558,000 (2009: HK\$562,490,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$539,858,000 (2009: HK\$322,902,000) due to unpredictability of future profit stream. Tax losses may be carried forward indefinitely.

### 26. ISSUED UNITS

	<b>Number of units</b>	<b>HK\$'000</b>
Balance at 1 January 2009	4,434,597,819	19,759,751
Payment of Manager's fee through issuance of new units during the year (note (i))	87,306,349	203,320
Units issued under distribution reinvestment scheme (note (ii))	301,630,621	688,762
<b>Balance at 31 December 2009</b>	<b>4,823,534,789</b>	<b>20,651,833</b>
Payment of Manager's fee through issuance of new units during the year (note (i))	43,316,507	159,223
Units issued under distribution reinvestment scheme (note (ii))	63,733,460	222,327
<b>Balance at 31 December 2010</b>	<b>4,930,584,756</b>	<b>21,033,383</b>

## 26. ISSUED UNITS (CONTINUED)

Notes:

- (i) Details of units issued during the year as payment of Manager's fee are as follows:

<b>Issue date</b>	<b>Payment of the Manager's fees for the period</b>	<b>Average issue price per unit determined based on the Trust Deed</b>	<b>Aggregate issue price</b>	<b>Number of units issued</b>
		HK\$	HK\$'000	
<b>In 2010</b>				
9 March 2010	1.7.2009 to 31.12.2009	3.59	99,912	27,830,682
31 August 2010	1.1.2010 to 30.6.2010	3.83	59,311	15,485,825
			<b>159,223</b>	<b>43,316,507</b>
<b>In 2009</b>				
3 April 2009	1.7.2008 to 31.12.2008	1.920	98,126	51,107,281
21 August 2009	1.1.2009 to 30.6.2009	2.906	105,194	36,199,068
			203,320	87,306,349

- (ii) Details of units issued during the current year under distribution reinvestment scheme (i.e. unitholders electing to receive scrip units in lieu of cash distribution) are as follows:

<b>Issue date</b>	<b>Distribution period</b>	<b>Scrip price</b>	<b>Number of units issued</b>
		HK\$	
<b>In 2010</b>			
25 May 2010	1.7.2009 to 31.12.2009	3.4884	<b>63,733,460</b>
<b>In 2009</b>			
27 May 2009	1.7.2008 to 31.12.2008	1.7708	144,816,938
13 October 2009	1.1.2009 to 30.6.2009	2.7569	156,813,683
			301,630,621

## 27. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, 43,316,507 (2009: 87,306,349) units were issued as payment for the Manager's fee, amounting to HK\$159,223,000 (2009: HK\$203,320,000).

In addition, 63,733,460 (2009: 301,630,621) units were issued under distribution reinvestment scheme.

- (ii) As described in note 21, additional accrual for stamp duty amounting to HK\$113,350,000 (2009: Nil) was provided in the current year.

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### 28. 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 2010 of HK\$31,377,283,000 (2009: HK\$27,359,302,000) by the number of units in issue of 4,930,584,756 (2009: 4,823,534,789) as at 31 December 2010.

### 29. NET CURRENT LIABILITIES

At 31 December 2010, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$7,820,095,000 (2009: HK\$127,731,000).

### 30. TOTAL ASSETS LESS CURRENT LIABILITIES

At 31 December 2010, the Group's total assets less current liabilities amounted to HK\$42,408,538,000 (2009: HK\$44,210,749,000).

### 31. OPERATING LEASE COMMITMENTS

At 31 December 2010, commitments in respect of non-cancellable operating leases for rental of investment properties were as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,453,933</b>	1,339,657
In the second to fifth year inclusive	<b>2,672,402</b>	1,227,981
Over five years	<b>218,801</b>	-
	<b>4,345,136</b>	2,567,638

The properties held had committed leases usually 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\$41,324,000 (2009: HK\$31,232,000) was received for the year.

Certain future minimum lease payments are calculated based on the estimated market rent to be received from the contracted tenants during specified time intervals of the contracted period as stipulated in the lease agreement.

## 32. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, in addition to those disclosed in note 23, the Group entered into the following transactions with connected and related parties:

	NOTES	2010 HK\$'000	2009 HK\$'000
<i>Rental income</i>			
China Mobile Hong Kong Company Limited	(a)	223	223
Langham Hotels International Limited	(b)	9,626	9,626
Langham Place Hotel (HK) Limited	(b)	3,579	3,996
Main St. Cafe Hong Kong Company Limited	(b)	702	1,778
Strong Dynamic Limited	(b)	6,600	6,600
The Great Eagle Properties Management Company, Limited	(b)	3,636	3,636
The Great Eagle Company, Limited	(b)	26,000	26,000
Toptech Co. Limited	(b)	1,895	3,004
Eagle Asset Management (CP) Limited	(b)	394	394
Eagle Property Management (CP) Limited	(b)	2,752	2,914
HSBC Group*	(c)	45,860	52,393
<i>Interest income</i>			
HSBC Group*	(c)	594	528
<i>Building management fee income</i>			
Strong Dynamic Limited	(b)	3,045	3,444
The Great Eagle Properties Management Company, Limited	(b)	434	434
Langham Hotels International Limited	(b)	1,398	1,398
Langham Place Hotel (HK) Limited	(b)	542	542
Toptech Co. Limited	(b)	335	502
Main St. Cafe Hong Kong Company Limited	(b)	82	204
Eagle Property Management (CP) Limited	(b)	326	326
HSBC Group*	(c)	4,072	4,076
<i>Building management fee</i>			
The Great Eagle Properties Management Company, Limited	(b)	154,573	150,900
Longworth Management Limited	(b)	30,621	30,621
<i>Property and lease management service fee</i>			
Eagle Property Management (CP) Limited	(b)	50,987	55,966
<i>Rental commission</i>			
Eagle Property Management (CP) Limited	(b)	29,936	8,185

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 32. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

	NOTES	2010 HK\$'000	2009 HK\$'000
<i>Repairs and maintenance fee</i>			
The Great Eagle Engineering Company Limited	(b)	<b>354</b>	793
Toptech Co. Limited	(b)	<b>172</b>	240
Keysen Engineering Company, Limited	(b)	<b>117</b>	160
The Great Eagle Properties Management Company, Limited	(b)	<b>4</b>	7
Sun Fook Kong Housing Services Limited	(e)	<b>5</b>	-
<i>Repairs and maintenance and renovations contracted to</i>			
The Great Eagle Engineering Company Limited	(b)	<b>1,628</b>	928
Toptech Co. Limited	(b)	<b>331</b>	940
Keysen Engineering Company, Limited	(b)	<b>346</b>	226
The Great Eagle Properties Management Company, Limited	(b)	<b>4</b>	7
Sun Fook Kong Housing Services Limited	(e)	<b>5</b>	-
<i>Property miscellaneous expenses</i>			
Langham Place Hotel (HK) Limited	(b)	<b>46</b>	51
Grow On Development Limited (trade as Eaton Hotel Hong Kong)	(b)	<b>25</b>	28
<i>Insurance fee</i>			
The Great Eagle Insurance Agency Limited	(b)	<b>794</b>	921
<i>Trust and other expenses</i>			
HSBC Institutional Trust Services (Asia) Limited	(c)	<b>8,292</b>	7,668
HSBC Group*	(c)	<b>69</b>	61
<i>Manager's fee</i>			
Eagle Asset Management (CP) Limited	(f)	<b>181,042</b>	205,107
<i>Finance costs</i>			
Hang Seng Bank Limited^	(c)	<b>69,269</b>	114,592
Bright Form Investments Limited*	(b)	<b>153,680</b>	145,880
<i>Valuation fee</i>			
Knight Frank Petty Limited	(d)	<b>350</b>	325
Savills Valuation and Professional Services Limited	(d)	-	3

### 32. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Balances with related parties are as follows:

	NOTES	2010 HK\$'000	2009 HK\$'000
<i>Amount due from</i>			
The Great Eagle Properties Management Company, Limited	(b) & (g)	<b>25,942</b>	26,068
Longworth Management Limited	(b) & (g)	<b>15,311</b>	15,311
<i>Amount due to</i>			
Eagle Property Management (CP) Limited	(b) & (g)	<b>17,148</b>	10,394
Eagle Asset Management (CP) Limited	(b) & (g)	<b>87,425</b>	98,126
Toptech Co. Limited	(b) & (g)	<b>285</b>	370
The Great Eagle Engineering Company Limited	(b) & (g)	<b>1,132</b>	742
The Great Eagle Properties Management Company, Limited	(b) & (g)	<b>6,391</b>	33
Keysen Engineering Company, Limited	(b) & (g)	<b>251</b>	88
The Great Eagle Company, Limited	(b) & (g)	-	13
The Great Eagle Insurance Agency Limited	(b) & (g)	-	30
Langham Place Hotel (HK) Limited	(b) & (g)	<b>124</b>	3
<i>Deposits placed with the Group for the lease of the Group's properties</i>			
China Mobile Hong Kong Company Limited	(a)	<b>37</b>	37
Eagle Property Management (CP) Limited	(b) & (h)	<b>10</b>	10
The Great Eagle Properties Management Company, Limited	(b)	<b>915</b>	887
Toptech Co. Limited	(b)	-	869
Strong Dynamic Limited	(b) & (i)	-	-
Langham Hotels International Limited	(b) & (j)	-	-
Langham Place Hotel (HK) Limited	(b) & (k)	<b>15</b>	15
HSBC Group*	(c)	<b>9,078</b>	10,381

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 32. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (a) This company is an associate of Dr. Lo Ka Shui (the Chairman of Champion REIT and a director of Great Eagle) by virtue of Dr Lo being an independent non-executive director of the ultimate holding company of this company.
- (b) These companies are the subsidiaries of Great Eagle, a significant holder of Champion REIT units.
- (c) These companies are the Trustee or associates of the Trustee.
- (d) These companies are the principal valuer of Champion REIT or its associates.
- (e) This company is a subsidiary of SFK Construction Holdings Limited ("SFK"), which is an associate of Mr. Lo Kai Shui, a director of the Manager, who is entitled to exercise control of 33% or more of the voting power at the general meeting of SKF.
- (f) The Manager's fee is calculated at 12% of the net property income provided that Champion REIT achieves net property income of HK\$200 million for each of the six month period ended 30 June 2010 and 31 December 2010.
- (g) The amounts due from and due to related parties are unsecured, interest-free and have no fixed repayment terms.
- (h) In addition to HK\$10,000 (2009: HK\$10,000) received as damage deposit, a bank guarantee of HK\$837,000 (2009: HK\$837,000) was received in lieu of deposit.
- (i) A bank guarantee of HK\$2,585,000 (2009: HK\$2,593,000) was received in lieu of deposit.
- (j) A bank guarantee of HK\$2,864,000 (2009: HK\$2,864,000) was received in lieu of deposit.
- (k) In addition to HK\$15,000 (2009: HK\$15,000) received as damage deposit, a bank guarantee of HK\$1,154,000 (2009: HK\$1,160,000) was received in lieu of deposit.
- \* 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 2010) and HK\$2,954 million (of which HK\$2,454 million term loan was drawn down on 3 June 2008 and outstanding as at 31 December 2010).
- \* The finance cost represents effective interest for the aggregate principal amount of HK\$2,340,000,000 of 2008 Bonds held by Bright Form Investments Limited as at 31 December 2010.

### 33. PARTICULARS OF SUBSIDIARIES OF CHAMPION REIT

The following subsidiaries are wholly-owned by Champion REIT as at 31 December 2010 and 2009.

Name	Issued and fully paid Ordinary share capital	Principal activity
<b>Incorporated in the British Virgin Islands and directly owned and controlled by Champion REIT:</b>		
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
Elvert Castle Holdings 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



### 33. PARTICULARS OF SUBSIDIARIES OF CHAMPION REIT (CONTINUED)

<b>Name</b>	<b>Issued and fully paid Ordinary share capital</b>	<b>Principal activity</b>
<b>Incorporated in the British Virgin Islands and indirectly owned and controlled by Champion REIT:</b>		
Bass Castle Investments Limited	1 share of US\$1	Investment holding
Best Noble Enterprises Limited	1 share of US\$1	Investment holding
Eagle Castle Holdings Limited	1 share of US\$1	Investment holding
Helon Castle Investments Limited	1 share of US\$1	Investment holding
<b>Incorporated and operating in Hong Kong and indirectly owned and controlled by Champion REIT:</b>		
Benington Limited	100 shares of HK\$10 each	Property investment
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	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	Property investment
Maple Court Limited	2 shares of HK\$1 each	Property investment
Panhy Limited	2 shares of HK\$1 each	Property investment
Renaissance City Development Company Limited	2 shares of HK\$10 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
Trump Treasure Limited	1 share of HK\$1	Financing
Well Charm Development Limited	2 shares of HK\$1 each	Property investment
<b>Incorporated and operating in Cayman Islands and indirectly owned and controlled by Champion REIT:</b>		
Ernest Limited	100 shares of US\$1 each	Investment holding
Fair Vantage Limited	1 share of US\$1	Debt securities issuer

## PERFORMANCE TABLE

	<b>Year ended 31.12.2010</b>	Year ended 31.12.2009	Year ended 31.12.2008	Year ended 31.12.2007	Period ended 31.12.2006
Net asset value (HK\$'000)	<b>31,377,283</b>	27,359,302	23,828,454	19,544,281	16,562,844
Net asset value per unit (HK\$)	<b>6.36</b>	5.67	5.37	6.98	6.04
The highest traded price during the period (HK\$)	<b>4.70</b>	3.37	4.85	4.77	4.375
The highest premium of the traded price to net asset value <sup>1</sup>	<b>N/A</b>	N/A	N/A	N/A	N/A
The lowest traded price during the period (HK\$)	<b>3.23</b>	1.56	1.31	3.69	3.70
The highest discount of the traded price to net asset value	<b>49.21%</b>	72.49%	75.61%	47.13%	38.74%
The distribution yield per unit <sup>2</sup>	<b>4.71%</b>	7.91%	15.30%	7.43%	8.75%
The net profit (loss) yield per unit <sup>3</sup>	<b>19.62%</b>	23.52%	(31.19%)	25.29%	11.57%

### Notes:

- 1 The highest traded price is lower than the net asset value per unit. Accordingly, no premium of the traded price to net asset value is presented.
- 2 Distribution yield per unit is calculated based on the distribution per unit of HK\$0.2164 (which calculation was set out in the Distribution Statement) for the year ended 31 December 2010 over the traded price of HK\$4.59 as at 31 December 2010.
- 3 Net profit yield per unit is calculated based on profit for the year before distribution to unitholders per unit for the year ended 31 December 2010 over the traded price of HK\$4.59 as at 31 December 2010.

# CORPORATE INFORMATION

## **CHAMPION REIT**

Champion 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))

## **REIT MANAGER**

Eagle Asset Management (CP) Limited  
Suite 3008, 30th Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2879 1288  
Fax: (852) 2827 1338  
Email: info@eam.com.hk

## **BOARD OF DIRECTORS OF THE REIT MANAGER**

### *Non-executive Directors*

LO Ka Shui (Chairman)  
CHENG Wai Chee, Christopher  
HO Shut Kan  
LO Kai Shui

### *Executive Director*

LEE Ching Ming, Adrian (Chief Executive Officer)

### *Independent Non-executive Directors*

CHA Mou Sing, Payson  
ELDON, David Gordon  
SHEK Lai Him, Abraham

## **AUDIT COMMITTEE OF THE REIT MANAGER**

ELDON, David Gordon (Chairman)  
LO Ka Shui  
SHEK Lai Him, Abraham

## **DISCLOSURES COMMITTEE OF THE REIT MANAGER**

LEE Ching Ming, Adrian (Chairman)  
LO Ka Shui  
SHEK Lai Him, Abraham

## **RESPONSIBLE OFFICERS OF THE REIT MANAGER**

LEE Ching Ming, Adrian  
CHOO Chong Yao, Patrick  
KWONG Chi Kwong

## **COMPANY SECRETARY OF THE REIT MANAGER**

G. E. Secretaries Limited

## **PROPERTY MANAGER**

Eagle Property Management (CP) Limited

## **TRUSTEE**

HSBC Institutional Trust Services (Asia) Limited

## **PRINCIPAL BANKER**

Hang Seng Bank Limited

## **LEGAL ADVISOR**

Baker & McKenzie

## **AUDITOR**

Deloitte Touche Tohmatsu

## **PRINCIPAL VALUER**

Knight Frank Petty Limited

## **UNIT REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong  
Tel: (852) 2862 8628  
Fax: (852) 2529 6087  
Email: hkinfo@computershare.com.hk

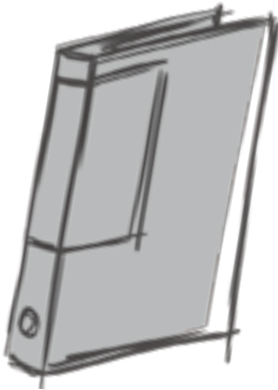
## **WEBSITE**

[www.ChampionReit.com](http://www.ChampionReit.com)

## **STOCK CODE**

2778





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