

**Eagle Asset Management (CP) Limited**

*Suite 3008, 30th Floor  
Great Eagle Centre  
23 Harbour Road  
Wanchai  
Hong Kong*

**Fair Vantage Limited**

*The offices of  
Offshore Incorporations (Cayman) Limited  
Scotia Centre, 4th Floor  
P.O. Box 2804, George Town  
Grand Cayman KY1-1112  
Cayman Islands*

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20 February 2012

Citibank, N.A., London Branch  
(as Bond Trustee)  
14th Floor, Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

Attn: Agency and Trust  
Fax no. (44) 20 7500 5857 / (44) 20 7500 5877

*with a copy to:*  
Citibank, N.A., Hong Kong Branch  
39th Floor, Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central, Hong Kong

Attn: Agency and Trust  
Fax no. (852) 2868 8048

and

Citibank, N.A., London Branch  
(as Agents)  
21st Floor, Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

Attn: Agency and Trust – Bond Paying Agency Department  
Fax no. (44) 20 7508 3878

and

The Bondholders

Dear Sirs,

**HK\$4,680,000,000 1% Guaranteed Convertible Bonds due 2013 (the “Bonds”) issued by Fair Vantage Limited convertible into units (the “Unit(s)”) of Champion Real Estate Investment Trust (“Champion REIT”)**

Reference is made to the trust deed dated 3 June 2008 constituting the Bonds ("Trust Deed"), the paying and conversion agency agreement dated 3 June 2008 in relation to the Bonds ("Agency

Agreement") and the terms and conditions of the Bonds ("T&C") (collectively, the "Bond Documents"). Unless otherwise defined, all capitalized terms used in this notice shall have the same meanings as defined in the Bond Documents.

Pursuant to Clauses 8.1, 8.2, 8.3 and 8.4 of the Trust Deed, Clauses 7.6, 7.7 and 17.2 of the Agency Agreement and Conditions 7.5.10, 7.7 and 18 of the T&C, we hereby give you (in your capacity as the Bond Trustee and the Agents) and the Bondholders notice that:

- (a) a meeting of the board of directors of the REIT Manager (the "Board") was held on 20 February 2012 and the Board has announced the final results for Champion REIT in respect of the year ended 31 December 2011, as more particularly set out in the attached announcement of Champion REIT dated 20 February 2012 (the "Announcement");
- (b) based on the total distributable amount for the year ended 31 December 2011 as stated in the Announcement, the distribution per Unit is HK\$0.2241 as determined in accordance with the T&C, which exceeds an amount equal to 2.5% of the Average Closing Price of one Unit for the relevant period as stipulated in Condition 7.5.5 of the T&C. Therefore, there will be an Excess Distribution within the meaning of the T&C, thereby giving rise to an adjustment to the Conversion Price under the T&C. The Excess Distribution is expected to be made on 16 May 2012. Accordingly, the above adjustment is expected to take effect from 16 May 2012 (the "Adjustment Date");
- (c) as at the date hereof, the Conversion Price is HK\$3.61 per Unit. With effect from the Adjustment Date, the Conversion Price will be HK\$3.44 per Unit;
- (d) should there be any further adjustment ("Further Adjustment") of the Conversion Price prior to the Adjustment Date, we will provide you with a revised notice in accordance with the Bond Documents, setting out (amongst other things) how the Conversion Price will be adjusted for the Further Adjustment, as well as how the Conversion Price will be adjusted for the Excess Distribution referred to in this notice;
- (e) the record date for determining the entitlement of the distribution as stated in the Announcement is 3 May 2012; and
- (f) the Register of Unitholders of Champion REIT will be closed from Friday, 27 April 2012 to Thursday, 3 May 2012 (the record date), both days inclusive, during which period no transfer of Units will be effected for the purpose of identifying those Unitholders who will be qualified for the distribution in respect of the six months ended 31 December 2011 and the attendance of the annual general meeting to be held on 3 May 2012.

If you require any further information, please do not hesitate to contact us.

Yours faithfully,  
For and on behalf of  
Eagle Asset Management (CP) Limited  
(as manager of Champion Real Estate  
Investment Trust)

Yours faithfully,  
For and on behalf of  
Fair Vantage Limited

Lee Ching Ming, Adrian  
Executive Director and  
Chief Executive Officer

Lee Ching Ming, Adrian  
Director

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**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))*

**(Stock Code: 2778)**

Managed by

**Eagle Asset Management**

Eagle Asset Management (CP) Limited

## **2011 FINAL RESULTS ANNOUNCEMENT**

*Champion Real Estate Investment Trust is a trust formed to own and invest in income-producing office and retail properties and is one of the 10 largest REITs by market capitalization in the Asia excluding Japan region. 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.*



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## FINAL RESULTS

The board of directors (“Board”) of Eagle Asset Management (CP) Limited (“REIT Manager”) as manager of Champion Real Estate Investment Trust (“Champion REIT” or “Trust”) is pleased to announce financial results of the Trust for the year ended 31 December 2011 (“Year” or “Period”).

## FINANCIAL HIGHLIGHTS

*For the year ended 31 December 2011*

	FY2011	FY2010	% Change
Key Financial Figures	HK\$'000	HK\$'000	
Total Revenue	1,940,282	1,875,911	+ 3.4%
Property Operating Expenses	(377,995)	(367,224)	+ 2.9%
Net Property Income	1,562,287	1,508,687	+ 3.6%
Profit After Tax	6,492,970	5,309,326 <sup>1</sup>	+22.3%
Distributable Income	1,170,311	1,084,264	+ 7.9%
Distribution Amount	1,110,520	1,066,870	+ 4.1%
Gross Value of Portfolio	54,857,300	50,222,600	+ 9.2%

	FY2011	FY2010	% Change
Ratios and Per Unit Figures			
Distribution per Unit (HK\$)	0.2241	0.2162	+ 3.7%
Net Asset Value per Unit (HK\$)	7.82	6.72 <sup>1</sup>	+ 16.4%
Gearing Ratio	25.0%	28.4%	- 3.4% <sup>2</sup>
Expense Ratio	19.5%	19.6%	- 0.1% <sup>2</sup>
Payout Ratio <sup>3</sup>	94.4%	94.8%	- 0.4% <sup>2</sup>

<sup>1</sup> Profit After Tax restated from HK\$4,440 million, NAV per unit restated from HK\$6.36

<sup>2</sup> Absolute change used for figures stated in percentages

<sup>3</sup> Distribution Amount (disregarding any discretionary distribution) as a percentage of Distributable Income

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

Total Revenue for 2011 improved by 3.4% to HK\$1,940 million. The office market in the Central District has softened since the second quarter of 2011 due to uncertainties in the banking and financial industry arising primarily from the debt crisis in Europe. The revenue from Citibank Plaza managed to improve marginally in 2011 nonetheless. And it was the continued strong performance of Langham Place Mall that contributed most to the overall revenue expansion. Net Property Income of the REIT improved by 3.6% to HK\$1,562 million.

The appraised value of Champion REIT's properties increased 9.2% to HK\$54,857 million. The Trust's debt on the other hand decreased 5.5% from HK\$14,879 million to HK\$14,059 million because of the conversion, retirement or repurchase of various convertible bonds previously issued by the Trust. As a result, the Gearing Ratio as of 31 December 2011 improved to 25.0% from 28.4% a year ago. Net Asset Value improved correspondingly to HK\$7.82 per Unit, from HK\$6.72 in December 2010<sup>1</sup>.

Profit After Tax increased to HK\$6,493 million for the Period. Excluding revaluation gains and other items that are non-cash in nature, Distributable Income for the Period is HK\$1,170 million, up 7.9% from 2010. The Distribution Amount, after retention of HK\$66 million for future use, is HK\$1,111 million. The Distribution per Unit ("DPU") for the second half of the year is HK\$0.1196. Combined with HK\$0.1045 paid out for the first half, the total DPU for the year is HK\$0.2241. This represents an increase of 3.7% from 2010. The effective distribution ratio for the year is 94.4%.

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<sup>1</sup> Net Assets for 2010 have been restated because of new accounting standards being introduced. Under the new Hong Kong standards, deferred taxes are no longer provided on upward revaluation of investment properties. Prior to the restatement, the Net Asset Value per Unit as at 31 December 2010 was HK\$6.36.

## Operational Review

	FY 2011	FY 2010	% Change
<b>Citibank Plaza</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	
Revenue	1,154,144	1,129,498	+ 2.2%
Operating Expenses	208,509	187,304	+ 11.3%
Net Property Income	945,635	942,194	+ 0.4%
<b>Langham Place Office</b>			
Revenue	254,314	267,506	- 4.9%
Operating Expenses	49,476	51,613	- 4.1%
Net Property Income	204,838	215,893	- 5.1%
<b>Langham Place Mall</b>			
Revenue	531,824	478,907	+ 11.0%
Operating Expenses	120,010	128,307	- 6.5%
Net Property Income	411,814	350,600	+ 17.5%

### *Citibank Plaza*

*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.*

The office leasing market in Central weakened in the second half of 2011 after rents peaked in the first quarter. This weakening was a result of financial institutions reaction first to the downgrading of the U.S. sovereign debt rating by Standard and Poor's and then to the growing European debt crisis. Banks in particular, facing tightening capital requirements and hence lower profitability, have come under pressure to downsize. While demand waned in the district, there was however almost no new supply of premium-grade office space for the entire year. Demand in the form of new and upgrading Chinese companies, new regional headquarters from the surrounding countries and international law firms building a presence in Hong Kong, was sufficient to keep overall vacancy in Central below 4% at the year's end.

Asking rents remained relatively firm, although effective rents began to trend downwards in the second half of 2011.

The occupancy rate at Citibank Plaza improved from a low of 81.5% at the beginning of the year to 90.4% at year end, despite the expiry of 30% of the building during the year. That was the result of greater flexibility in our pricing strategy in the second half. The weighted average occupancy for the year was 87.6%.

**Average Monthly Office Passing Rents at Citibank Plaza**  
(HK\$ per sq. ft. of lettable area)

Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11
84.67	84.47	85.01	84.97	85.05	85.35	84.33	84.56	84.56	84.64	84.31	84.79	85.15

Spot rents (the rental rate of new tenancies) at Citibank Plaza improved from HK\$100 per sq. ft. at the end of 2010 to HK\$120 per sq. ft. at mid year, before weakening back to around HK\$100 per sq. ft. by the year's end. Passing rental rates (the average rental rate of existing tenancies) at Citibank Plaza were held back by two factors. Firstly, a number of the larger leases commencing in 2011 were negotiated in 2010 when rent levels were still below HK\$100 per sq. ft. Secondly, the leases expiring in 2011, comprising close to a third of the building carried a relatively high average rent of HK\$97.61 per sq. ft. Nevertheless passing rents improved marginally to HK\$85.15 per sq. ft. Benefitting from a higher average occupancy, revenue from Citibank Plaza increased by 2.2% from HK\$1,129 million in 2010 to HK\$1,154 million in 2011.

Rental commissions associated with a higher volume of leasing activities (covering over 40% of the floor area) in 2011 more than doubled to HK\$41 million from HK\$18.9 million in 2010. Mainly due to this item, operating expenses increased by 11.3% to HK\$209 million for 2011. Net of the increased leasing expenses, net property income increased marginally by HK\$3.4 million to HK\$946 million.

### ***Langham Place Office Tower***

*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.*

The demand-supply dynamics at the Kowloon office market, where the banking industry has a relatively small presence, were more in the landlords' favour. The continuing expansion of the services sector and relocations from Hong Kong Island created sustained demand for office space across all office districts on the Kowloon Peninsula. Occupancy at the Langham Place Office Tower was maintained at a high level of 96.8% at year-end 2011, as compared to 99.2% in 2010. At the same time, competitive pressure from the peripheral Kowloon East area eased considerably in 2011 as the vacancy rates there had fallen significantly. Consequently, spot rents in the various office districts of Kowloon, including those along the Tsim Sha Tsui – Yau Ma Tei – Mongkok corridor, rose over the year.

#### **Average Monthly Office Passing Rents at Langham Place** *(HK\$ per sq. ft. of gross floor area)*

<b>Dec 10</b>	<b>Jan 11</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>May 11</b>	<b>Jun 11</b>	<b>Jul 11</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>Nov 11</b>	<b>Dec 11</b>
26.40	26.45	26.47	26.58	26.74	26.83	26.93	27.29	27.29	27.44	27.39	27.43	27.43

At the end of 2010, the spot rents were between HK\$25-33 per sq. ft. They have now increased to HK\$32-38 per sq. ft. depending on the floor level and the tenants' business nature. Passing rents have begun to rise as a result of the higher pricing levels and they increased from HK\$26.40 to HK\$27.43 over the course of the year. As most of the leases that commenced in the first half of 2011 were locked in the previous year and there was little additional vacant space to lease out in the second half, the recent increase in spot rents have yet to feed through in earnest.

While pure rental revenue improved slightly, revenue for the Langham Place Office Tower was affected by the expiry of a naming right agreement at the end of 2010, and the loss of associated income of about HK\$14.1 million caused revenue to fall by 4.9% to HK\$254 million. Net property income also saw a corresponding decrease of 5.1%, from HK\$216 million in 2010 to HK\$205 million in 2011.



### ***Langham Place Mall***

*Langham Place Mall is a 15-level, 600,000 gross sq. ft. 'vertical' mall focusing on mid-priced 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.*

Foot traffic at the Mall went up even further in 2011 from the already very high levels of 2010, mainly due to more visits by tourists, especially those from Mainland China. The Mall remained virtually fully let throughout the year. Its renowned innovative promotion programmes continued to be well received in 2011, further solidifying its position as the leading shopping centre for the young and trendy in Hong Kong. Shops in Langham Place have continued to be keenly sought after by retailers, so much so that we have considerable leverage in selecting retailers that possess the best potential for sales growth. Many of the new tenants brought in during the past two years have produced remarkable sales results.

Retail sales in Hong Kong were very strong in 2011, on the back of the continuing influx of Mainland tourists. With its increasingly appealing mix of quality retailers, the performance of Langham Place Mall has more than kept pace with the general market. The average gross sales of tenants at the Mall improved by 24% year-on-year to HK\$889 per sq. ft. Driven by our effective and persistent marketing and publicity efforts targeting the Mainland, through both print and social media, many Mainland tourists shopping for name-brand cosmetics and mid-priced fashion now consider Langham Place to be one of their favourite destinations, and they have been a factor behind the increased spending at the Mall.

#### **Average Monthly Retail Passing Rents at Langham Place** *(HK\$ per sq. ft. of lettable area, excluding turnover rent)*

Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11
97.48	97.65	97.65	98.00	98.09	98.56	98.48	98.71	99.00	99.67	100.11	100.64	100.77

The strong demand for shop space at the Mall has given the leasing team considerable pricing power and the vast majority of existing tenants have been willing to pay higher rents to retain their spaces while new tenants are paying to get in. The average passing rent rate increased

from HK\$97.48 per sq. ft. at the end of 2010 to HK\$100.77 at year-end. On top of that, turnover rent increased by 56% from HK\$41 million in 2010 to HK\$64 million in 2011, equivalent to an additional HK\$16.71 per sq. ft. per month in income over the base rents. The jump in turnover rents indicates that the sales growth of the tenants has outpaced the rise in their basic rents.

Revenue increased by 11% from HK\$479 million to HK\$532 million. Revenue growth would have been even stronger were it not for the expiry of a naming right agreement at the end of 2010 and the loss of associated income of about HK\$11.9 million. An increase in the property management and promotion charges charged to tenants brought in extra revenue of HK\$5 million. Expenses decreased 6.5% from HK\$128 million in 2010 to HK\$120 million in 2011 mainly due to lower rental commissions as only 17% of the leases in the Mall by floor area expired in 2011 compared to the 44% rolled over in 2010. After combining the impact of higher rental income with lower operating costs, net property income for 2011 rose 17.5% to HK\$412 million from HK\$351 million in 2010.

## **Outlook**

2012 will continue to pose challenges for our leasing activities at Citibank Plaza. It will take time for the debt crisis in Europe to be resolved, thereby dragging down global economic growth. As the year began, many banks have embarked upon aggressive cost control programmes, which often entail headcount reduction. Over the coming months, reduced space requirements and decentralization will affect the Central office market. There will therefore be downward pressure on rent rates. The limited new supply in the Central core and the continued strength of the China economy should however help to lessen the impact. Though less than 10% of the floor area in Citibank Plaza will see their leases expire in 2012, it is our plan to stay competitive on rent rates in order to maintain occupancy. In the mean time, the management team has been working hard to improve the tenant experience at the property through significant upgrades in the quality of facility management and customer service.

The prospects for Langham Place in 2012 should be somewhat brighter. We expect continued high levels of occupancy for the Office Tower where the vast majority of the tenants are non-financial in nature. There also exists a gap between passing and market rents that can be closed over time. However as only 10% of its leases by floor area are expiring this year,

income growth through rental reversion will be moderate. The Langham Place Mall should continue to benefit from a robust retail market in 2012. We will continue to allocate resources to enhance the profile and reputation of the Mall in China, so as to capture more Mainland tourist traffic. 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 mid-priced fashion and accessories retailers. For 2012, 26% of the space in the Mall will be due for rollover and we have in the vast majority of the cases locked in higher rent rates. Coupled with the full-year accounting for rental increases arising from leases done in 2011, we should continue to see good growth in base rental income from this property in 2012. It however remains to be seen if the phenomenal increase in turnover rent income of 2011 (which contributed 13.7% on top of the base rent income) can be sustained. A slow down in the growth rate of tenant sales could lead to a decline in turnover rents, thereby moderating the overall income growth of the Mall in 2012.

The finances of Champion REIT should remain stable in 2012. In May 2011, the HK\$763 million in outstanding principal of our convertible bond issued in 2006 was fully repaid through internal resources while a bank loan of HK\$7,000 million was refinanced for 3 years at a favourable interest rate of 0.93% p.a. above the Hong Kong Interbank Offered Rate (about 0.4% currently). The floating interest rate is substantially lower than the previous fixed interest rate of 2.82% p.a. and the full year impact of interest savings from the refinancing and bond maturity will only be seen in 2012. Our gearing level is relatively low at a debt to value ratio of 25.0%.

There is no refinancing requirement in 2012 and the next scheduled refinancing will be in May 2013 when debt secured with Langham Place totaling HK\$7,059 million in notional principal will fall due. The liquidity in the HK Dollar funding market has tightened considerably since we secured the Citibank Plaza refinancing, resulting in a significant increase in the interest spread. We are watching the situation closely and are exploring various avenues to secure the necessary financing ahead of time. Unless there is considerable loosening in the present tight liquidity situation, it would be likely for us to see higher costs on refinancing.

The turmoil in the world financial markets has imparted a degree of uncertainty to the prospects the Hong Kong markets. The income from Citibank Plaza will come under some

downward pressure in reaction to slow office demand in Central. That however should be mitigated to some extent by the rental growth at the Langham Place Mall. The income of Champion REIT should therefore be relatively stable overall in 2012. We will vigilantly monitor developments in the economy and take all necessary measures on a timely basis to maintain our earnings momentum.

## VALUATION OF PROPERTIES

According to the Property Valuation Reports issued by Knight Frank Petty Limited on 9 February 2012, the valuation of the properties of Champion REIT broken down by usage as of 31 December 2011 is as follows:

	Citibank Plaza	Langham Place	Sub-total
Dec 2011 Valuation	HK\$ mil	HK\$ mil	HK\$ mil
Office	35,482	6,494	41,976
Retail	379	11,590	11,969
Car Park	277	217	494
Miscellaneous	300	118	418
<b>Total</b>	<b>36,438</b>	<b>18,419</b>	<b>54,857</b>

Champion REIT's property portfolio is now valued at HK\$54.9 billion, an increase of HK\$4.7 billion from the December 2010 valuation of HK\$50.2 billion. Specifically, the appraised value of Citibank Plaza increased by 8.0% while that of Langham Place increased by 11.8%. Capitalization rates used in valuing the properties were 4.0% for Citibank Plaza, 4.2% for the Langham Place Office Tower and 4.1% for Langham Place Mall. These capitalization rates are unchanged from a year ago and the increase in property value stems principally from higher rental assumptions, in particular at the Langham Place Mall.

## **FINANCIAL REVIEW**

### **Distributions**

#### ***Distribution Amount***

Total distribution amount of Champion REIT for the Year was HK\$1,110,520,000 (2010: HK\$1,066,870,000). Such Distribution Amount was calculated based on 90% (2010: 90%) of Champion REIT's total available distributable income for each of the first and second halves of the Year, plus an additional amount of HK\$6,050,000 (2010: HK\$39,390,000) 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 94.4% (2010: 94.8%).

#### ***Distribution per Unit***

The distribution per unit for the six months ended 31 December 2011 was HK\$0.1196. Such distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 January 2012 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 2011.

With an interim distribution per unit of HK\$0.1045 and a final distribution per unit of HK\$0.1196, total distribution per unit for the Year amounted to HK\$0.2241 (2010: HK\$0.2162). The distribution per unit of HK\$0.2241 represents a distribution yield of 7.67% based on the closing price of HK\$2.92 as at 30 December 2011.

#### ***Closure of Register of Unitholders***

The Register of Unitholders will be closed from Friday, 27 April 2012 to Thursday, 3 May 2012 ("Record Date"), both days inclusive, during which period no transfer of Units will be effected. The payment of the 2011 Final Distribution will be made on 16 May 2012 to Unitholders whose names appear on the Register of Unitholders on the Record Date.

In order to qualify for the 2011 Final Distribution and be entitled to attend and vote at the 2012 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, no later than 4:30 p.m. on Thursday, 26 April 2012.

## **Debt Profile**

Total outstanding borrowings of the Trust amounted to HK\$14,059 million as at 31 December 2011. It comprised of bank borrowings of HK\$9,454 million and convertible bonds of HK\$4,605 million in principal amount. When compared to HK\$14,879 million as at 31 December 2010, total borrowings of the Trust decreased by HK\$820 million. The reduction in borrowings was due to (a) the redemption of the outstanding principal of HK\$763 million of the convertible bonds issued in year 2006 (the "2006 Bonds") at 110.328% on 23 May 2011 through internal resources of the Trust; and (b) the conversions and repurchases of the convertible bonds during the year which are summarized below:

- The conversion of a total principal amount of HK\$2 million of the 2006 Bonds at the conversion price of HK\$4.26. The conversions were settled by cash in an aggregate amount of HK\$2.2 million.
- The conversion of a principal amount of HK\$10,000 of the convertible bonds issued in year 2008 (the "2008 Bonds") at the conversion price of HK\$3.61. The conversion was settled by the issuance of 2,770 units of Champion REIT.
- The repurchase of a total principal amount of HK\$55 million of the 2008 Bonds at the price of 119 per cent of its principal amount. The repurchased convertible bonds were cancelled on 9 December 2011.

A new term loan of HK\$7,000 million (the "2011 Term Loan") was put in place in May 2011 to fully refinance the outstanding principal of HK\$7,000 million under the term loan granted to the Trust in May 2006. Interest rate swaps with a notional amount of HK\$7,000 million used for hedging purposes matured on 24 May 2011 and were not renewed. The 2011 Term Loan bears interest at a floating rate of HIBOR plus 0.93% per annum and will be due on 24 May 2014.

The 2008 Bonds were issued at a yield to maturity of 5.25%, a redemption price of 123.94% and coupon of 1% per annum. As at 31 December 2011, the 2008 Bonds were convertible at an adjusted conversion price of HK\$3.61.

As at 31 December 2011, all bank loans of the Trust, representing 67% of the Trust's total debt, were on floating bases. The REIT Manager will monitor interest rate movements and may, depending on market conditions, consider putting in place interest rate swaps in respect of the loan facilities in place.

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

	31 December 2011	
Due in the ...	HK\$ million	% of total
Due in year 2012	-	-
Due in year 2013	7,059	50.2
Due in year 2014	7,000	49.8
<b>Total</b>	<b>14,059</b>	<b>100.0</b>

The valuation of the Trust's investment properties at 31 December 2011 was appraised at HK\$54,857.3 million, representing a 9.2% appreciation from HK\$50,222.6 million achieved at 31 December 2010. Consequently, the gearing ratio, or total borrowings as a percentage of gross assets was 25.0% as compared with 28.4% a year ago. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 27.2%.

### Net Assets Attributable To Unitholders

Driven primarily by an increase in the fair value of investment properties, net assets attributable to unitholders was HK\$38,755.6 million or HK\$7.82 per unit as at 31 December 2011, an increase of 16.9% compared to the restated value of HK\$33,141.9 million or HK\$6.72 per unit as at 31 December 2010. The restatement for 2010 was due to the adoption of the amendments to HKAS 12, "Income Taxes" where deferred tax liabilities are no longer required for the appreciation of investment properties. The net asset value per unit of HK\$7.82 represented a 167.8% premium to the closing unit price of HK\$2.92 as at 30 December 2011.

## **Cash Position**

As at 31 December 2011, the Trust had total undrawn bank loan facilities of HK\$500 million (31 December 2010: HK\$700 million) and cash balance of HK\$1,292.8 million (31 December 2010: HK\$2,038.1 million). The decrease in the Trust's cash balance was mainly due to the redemption of the 2006 Bonds in an amount of HK\$841.8 million during the year.

Upon the refinancing and redemption of the 2006 Bonds in May 2011, properties of the Trust with a fair value of HK\$5,785 million as at 31 December 2011 previously granted as securities were released and discharged. This will facilitate additional financing if necessary. Taking into consideration the financial resources available to the Trust, the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

## **Pledge Assets**

As at 31 December 2011, properties of the Trust with a fair value of HK\$49,072.3 million (31 December 2010: HK\$50,222.6 million) were mortgaged to the bond trustee to secure the obligations of the issuer of the convertible bonds or pledged to secure the banking facilities granted to the Trust.

## **Commitments**

As at 31 December 2011, the Trust did not have any significant commitments.

## **NEW UNITS ISSUED**

As at 31 December 2011, the total number of issued Units of Champion REIT was 4,956,590,003. As compared with the position of 31 December 2010, a total of 26,005,247 new Units were issued during the year.

On 26 August 2011, 14,367,734 new Units were issued to the REIT Manager at HK\$3.833 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 60% of the Manager's Fee of approximately HK\$55,072,000 for the first half of 2011.



On 6 July 2011, 2,770 new Units were issued at HK\$3.61 per Unit pursuant to the conversion of a principal amount of HK\$10,000 of the 1% Coupon Guaranteed Convertible Bonds due 2013 issued in 2008.

On 8 March 2011, 11,634,743 new Units were issued to the REIT Manager at HK\$4.62 per Unit (being the Market Price ascribed in the Trust Deed) as payment of the Manager's Fee arising from the Citibank Plaza of approximately HK\$53,753,000 for the second half of 2010.

## **REAL ESTATE SALE AND PURCHASE**

Champion REIT did not enter into any real estate sales and purchases transactions during the year ended 31 December 2011.

## **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. 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 2011:

Area of Operation	Locations		
	Citibank Plaza	Langham Place	Others
General management	-	-	13
Leasing	4	11	-
Marketing and promotion	-	9	-
Property management	60	144	-
Contractors/technical staff	132	297	-
<b>Total</b>	<b>196</b>	<b>461</b>	<b>13</b>

## **CORPORATE GOVERNANCE**

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.

Champion REIT is a collective investment scheme authorised by the Securities and Futures Commission (the “SFC”) under section 104 of the Securities and Futures Ordinance (“SFO”) and regulated by the SFC pursuant to the provisions of the SFO and the Code on Real Estate Investment Trusts issued by the SFC (the “REIT Code”) and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The REIT Manager also 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.

During the year ended 31 December 2011, the REIT Manager and Champion REIT have complied with the provisions of the REIT Code, the Trust Deed of Champion REIT, the relevant provisions and requirements of the SFO and the Listing Rules applicable to Champion REIT.

The REIT Manager and Champion REIT have complied with the provisions of the Compliance Manual and all code provisions, where applicable, as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011.

The REIT Manager has adopted the Code Governing Dealings in Securities by the Management Persons (“Securities Dealings Code”) on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. The Management Persons include directors, executive officers and the company secretary of the REIT Manager.

The REIT Manager has made specific enquiry of the Management Persons who have confirmed that they have complied with the required standard set out in the Securities Dealings Code during the year ended 31 December 2011.

## **REPURCHASE, SALE OR REDEMPTION OF CHAMPION REIT'S SECURITIES**

A general mandate for repurchase of Units in the open market was given by Unitholders at the annual general meeting held on 27 April 2011. During the year ended 31 December 2011, neither the Manager nor any of Champion REIT's special purpose vehicles had purchased, sold or redeemed any Units pursuant to this mandate.

Fair Vantage Limited, the issuer of the HK\$4,680,000,000 1% Coupon Guaranteed Convertible Bonds due 2013 issued in 2008 (the "2008 Convertible Bonds"), repurchased HK\$55,000,000 of the 2008 Convertible Bonds, at a price of 119% of their principal amounts in November 2011. The 2008 Convertible Bonds are listed on the Stock Exchange. The repurchased 2008 Convertible Bonds were cancelled on 9 December 2011.

On 23 May 2011, Treasure Source Limited, the issuer of the 2% Guaranteed Convertible Bonds due 2011 in the aggregate principal amount of HK\$765,000,000 (the "Bonds"), pursuant to the terms and conditions of the Bonds, fully redeemed the Bonds with an outstanding principal amount of HK\$763,000,000 at 110.328% in an aggregate redemption amount of approximately HK\$841,800,000 on its maturity. The redeemed outstanding Bonds were cancelled.

Save as disclosed above, there was no repurchase, sale or redemption of Champion REIT's securities by the Manager or its special purpose vehicles during the year ended 31 December 2011.

## **PUBLIC FLOAT**

As far as the REIT Manager is aware, as at the date of this announcement, 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 RESULTS**

The final results of Champion REIT for the year ended 31 December 2011 have been reviewed by the Audit Committee and Disclosures Committee of the REIT Manager.

## **ANNUAL GENERAL MEETING**

It is proposed that the 2012 Annual General Meeting (“2012 AGM”) of Champion REIT will be held on Thursday, 3 May 2012 and the notice of 2012 AGM will be published and issued to Unitholders in due course.

## **ISSUANCE OF ANNUAL REPORT**

The Annual Report 2011 of Champion REIT will be despatched to Unitholders and published on the websites of the Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and Champion REIT ([www.ChampionReit.com](http://www.ChampionReit.com)) on or about 19 March 2012.

## **SCOPE OF WORK OF MESSRS. DELOTTE TOUCHE TOHMATSU**

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, distribution statement and the related notes thereto for the year ended 31 December 2011 as set out in this announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong

Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises four Non-executive Directors, namely Dr. Lo Ka Shui (*Chairman*), Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan and Mr. Lo Kai Shui; one Executive Director, Mr. Lee Ching Ming, Adrian (*Chief Executive Officer*) and three Independent Non-executive Directors, namely Mr. Cha Mou Sing, Payson, Mr. Shek Lai Him, Abraham and Mr. Ip Yuk Keung, Albert.

By Order of the Board  
**Eagle Asset Management (CP) Limited**  
(as manager of Champion Real Estate Investment Trust)  
**Lo Ka Shui**  
*Chairman*

Hong Kong, 20 February 2012

# FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>NOTES</u>	<u>2011</u> <u>HK\$'000</u>	<u>2010</u> <u>HK\$'000</u> (restated)
Rental income	5	<b>1,757,980</b>	1,702,786
Building management fee income		<b>164,436</b>	155,824
Rental related income	6	<b>17,866</b>	17,301
<b>Total revenue</b>		<b>1,940,282</b>	1,875,911
Property operating expenses	7	<b>(377,995)</b>	(367,224)
<b>Net property income</b>		<b>1,562,287</b>	1,508,687
Interest income		<b>10,548</b>	4,969
Manager's fee	8	<b>(187,474)</b>	(181,042)
Trust and other expenses		<b>(15,980)</b>	(13,896)
Increase in fair value of investment properties		<b>4,634,700</b>	5,867,385
Change in fair value of derivative components of convertible bonds		<b>1,246,398</b>	(943,423)
Change in fair value of rental stabilisation arrangement		<b>17</b>	483
Gain on repurchase of convertible bonds		<b>1,895</b>	-
Gain on settlement of convertible bonds		<b>219</b>	-
Finance costs	9	<b>(575,238)</b>	(756,238)
<b>Profit before tax and distribution to unitholders</b>	10	<b>6,677,372</b>	5,486,925
Income taxes	11	<b>(184,402)</b>	(177,599)
<b>Profit for the year, before distribution to unitholders</b>		<b>6,492,970</b>	5,309,326
Distribution to unitholders		<b>(1,110,520)</b>	(1,066,870)
<b>Profit for the year, after distribution to unitholders</b>		<b>5,382,450</b>	4,242,456
 <b>Basic earnings per unit</b>	 12	 <b>HK\$1.31</b>	 HK\$1.09
 <b>Diluted earnings per unit</b>	 12	 <b>HK\$0.88</b>	 HK\$1.04

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

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	<b><u>2011</u></b> <b>HK\$'000</b>	<b><u>2010</u></b> HK\$'000 (restated)
Profit for the year, after distribution to unitholders	<b><u>5,382,450</u></b>	<u>4,242,456</u>
Cash flow hedges:		
Gain arising during the year	<b>59,353</b>	90,607
Reclassification adjustments for amounts recognised in profit or loss	<b><u>63,019</u></b>	<u>172,757</u>
	<b><u>122,372</u></b>	<u>263,364</u>
<b>Total comprehensive income for the year</b>	<b><u><u>5,504,822</u></u></b>	<u><u>4,505,820</u></u>

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2011**

	<u>NOTES</u>	<u>31.12.2011</u> <u>HK\$'000</u>	<u>31.12.2010</u> <u>HK\$'000</u> (restated)	<u>1.1.2010</u> <u>HK\$'000</u> (restated)
<b>Non-current assets</b>				
Investment properties		<b>54,857,300</b>	50,222,600	44,240,800
Rental stabilisation arrangement		-	6,033	44,943
Loan receivables		-	-	52,737
Total non-current assets		<b>54,857,300</b>	50,228,633	44,338,480
<b>Current assets</b>				
Loan receivables		-	54,566	-
Trade and other receivables	14	<b>180,034</b>	107,709	103,107
Tax recoverable		<b>1,798</b>	6,561	-
Bank balances and cash		<b>1,292,752</b>	2,038,090	1,832,105
Total current assets		<b>1,474,584</b>	2,206,926	1,935,212
<b>Total assets</b>		<b>56,331,884</b>	52,435,559	46,273,692
<b>Current liabilities</b>				
Trade and other payables	15	<b>1,169,976</b>	1,153,065	1,050,000
Deposits received		<b>405,131</b>	368,347	331,380
Tax liabilities		<b>73,988</b>	11,654	48,224
Distribution payable		<b>592,565</b>	536,508	633,339
Secured term loans		-	6,997,329	-
Convertible bonds		-	900,765	-
Derivative financial instruments		-	59,353	-
Total current liabilities		<b>2,241,660</b>	10,027,021	2,062,943
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>				
Secured term loans		<b>9,407,481</b>	2,446,147	9,433,278
Convertible bonds		<b>5,632,722</b>	6,597,729	6,261,830
Derivative financial instruments		-	-	149,960
Deferred tax liabilities		<b>294,454</b>	222,755	111,144
Total non-current liabilities, excluding net assets attributable to unitholders		<b>15,334,657</b>	9,266,631	15,956,212
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>17,576,317</b>	19,293,652	18,019,155
<b>Net assets attributable to unitholders</b>		<b>38,755,567</b>	33,141,907	28,254,537
<b>Number of units in issue ('000)</b>	16	<b>4,956,590</b>	4,930,585	4,823,535
<b>Net asset value per unit</b>	17	<b>HK\$7.82</b>	HK\$6.72	HK\$5.86



**DISTRIBUTION STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

	<u>NOTE</u>	<u>2011</u> <u>HK\$'000</u>	<u>2010</u> <u>HK\$'000</u>
<b>Interim Distribution Period</b>			
Total distributable income		<b>568,784</b>	573,803
Percentage of distributable income for distribution (note (i))		<b>90%</b>	90%
Distributable income for Interim Distribution Period		<b>511,905</b>	516,423
Additional amounts (note (i))		<b>6,050</b>	13,939
<b>Total distribution amount paid</b>		<b>517,955</b>	530,362
<b>Final Distribution Period</b>			
Total distributable income	13	<b>1,170,311</b>	1,084,264
Less: distributable income paid in Interim Distribution Period		<b>(511,905)</b>	(516,423)
Distributable income available for Final Distribution Period		<b>658,406</b>	567,841
Percentage of distributable income for distribution (note (i))		<b>90%</b>	90%
Distributable income for Final Distribution Period		<b>592,565</b>	511,057
Additional amounts (note (i))		-	25,451
<b>Total distribution amount to be paid</b>		<b>592,565</b>	536,508
<b>Total distribution amounts for the year</b>		<b>1,110,520</b>	1,066,870
<b>Distributions per unit to unitholders</b>			
Interim distribution per unit paid (note (ii))		<b>HK\$0.1045</b>	HK\$0.1076
Final distribution per unit to be paid (note (iii))		<b>HK\$0.1196</b>	HK\$0.1086
		<b>HK\$0.2241</b>	HK\$0.2162

Notes:

- (i) It is the policy of the Manager to distribute 90% (2010: 90%) of available distributable income as distributions for each of the six month periods ended 30 June (the "Interim Distribution Period") and 31 December (the "Final Distribution Period").

For the Interim Distribution Period and Final Distribution Period in 2011, additional amounts of HK\$6,050,000 (2010: HK\$13,939,000) and HK\$nil (2010: HK\$25,451,000), respectively, were distributed at the discretion of Manager for the amount received according to the Rental Stabilisation Arrangement.

**DISTRIBUTION STATEMENT - continued**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

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Notes: - continued

- (ii) The interim distribution per unit of HK\$0.1045 for the Interim Distribution Period in 2011 was calculated based on the interim distribution paid of HK\$517,955,000 for the period and 4,956,590,003 units as of 14 September 2011, which was the record date for the period. The distribution was paid to unitholders on 3 October 2011.

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.

- (iii) The final distribution per unit of HK\$0.1196 for the Final Distribution Period in 2011 is calculated based on the final distribution to be paid of HK\$592,565,000 for the period and 4,956,590,003 units. Such final distribution will be subject to further adjustments upon the issuance of units between 1 January 2012 and 3 May 2012, which is the record date set for such period. The final distribution will be paid to unitholders on or about 16 May 2012.

The final distribution per unit of HK\$0.1086 for the final distribution period in 2010 was calculated based on the final distribution paid of HK\$536,508,000 for the period and 4,942,219,499 units as of 27 April 2011, which was the record date for the period.

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# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **FOR THE YEAR ENDED 31 DECEMBER 2011**

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### **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 new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification to Rights Issues
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### Amendments to HKAS 12 "Income Taxes" (applied in advance of their effective date)

The Group has applied amendments to HKAS 12 titled "Deferred Tax: Recovery of Underlying Assets" in advance of their effective date (annual periods beginning on or after 1 January 2012). Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred tax, unless the presumption is rebutted in certain circumstances.

As a result, the Group's investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax in respect of such properties. The application of the amendments has resulted in deferred tax liabilities being decreased by HK\$895,235,000 and HK\$1,764,624,000 as at 1 January 2010 and 31 December 2010, respectively, with the corresponding adjustment being recognised in profits less distribution under the consolidated statement of changes in net assets attributable to unitholders. In addition, the application has resulted in the Group's income taxes being reduced by HK\$869,389,000 and profit before distribution to unitholders being increased by the same amount for the year ended 31 December 2010.

In the current year, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties. The application of the amendments has resulted in the Group's income taxes for the year ended 31 December 2011 being reduced by HK\$764,726,000 and profit before distribution to unitholders being increased by the same amount.

### Summary of the effect of the above change in accounting policy

The effect of the above change in accounting policy described above on the results for the current and prior period by line items presented in the consolidated income statement is as follows:

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Decrease in income taxes and corresponding increase in profit for the year, before distribution to unitholders	<u>764,726</u>	<u>869,389</u>

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued**

**Summary of the effect of the above change in accounting policy - continued**

	<u><b>2011</b></u> <b>HK\$</b>	<u><b>2010</b></u> <b>HK\$</b>
<i><b>Impact on basic earnings per unit</b></i>		
Basic earnings per unit before adjustment	<b>1.16</b>	0.91
Adjustment in relation to application of amendments of HKAS 12	<u><b>0.15</b></u>	<u>0.18</u>
Reported basic earnings per unit	<u><b>1.31</b></u>	<u>1.09</u>
<i><b>Impact on diluted earnings per unit</b></i>		
Diluted earnings per unit before adjustment	<b>0.76</b>	0.90
Adjustment in relation to application of amendments of HKAS 12	<u><b>0.12</b></u>	<u>0.14</u>
Reported diluted earnings per unit	<u><b>0.88</b></u>	<u>1.04</u>

The effect of the above change in accounting policy on the financial positions of the Group as at 1 January 2010 and 31 December 2010 are as follows:

	As at 1.1.2010 (originally stated) HK\$'000	<u>Adjustment</u> HK\$'000	As at 1.1.2010 (restated) HK\$'000
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	<u>1,006,379</u>	<u>(895,235)</u>	<u>111,144</u>
	As at 31.12.2010 (originally stated) HK\$'000	<u>Adjustment</u> HK\$'000	As at 31.12.2010 (restated) HK\$'000
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	<u>1,987,379</u>	<u>(1,764,624)</u>	<u>222,755</u>

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets <sup>1</sup>
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
Amendment to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2014

### HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at 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 reporting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

## **2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued**

### **HKFRS 9 "Financial Instruments" - continued**

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Manager anticipates that HKFRS 9 will be adopted in the Group's financial statements for the annual period beginning 1 January 2015 but that the application of HKFRS 9 may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

### **HKFRS 13 "Fair Value Measurement"**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial Instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Manager anticipates that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will not affect the Group's financial position, however, the application will result in more extensive disclosures in the consolidated financial statements.

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.

#### 4. 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 2011

	<b>Citibank Plaza HK\$'000</b>	<b>Langham Place HK\$'000</b>	<b><u>Consolidated</u> HK\$'000</b>
<b>Revenue</b>	<b><u>1,154,144</u></b>	<b><u>786,138</u></b>	<b><u>1,940,282</u></b>
<b>Segment results - Net property income</b>	<b><u>945,635</u></b>	<b><u>616,652</u></b>	<b>1,562,287</b>
Interest income			10,548
Manager's fee			(187,474)
Trust and other expenses			(15,980)
Increase in fair value of investment properties			4,634,700
Change in fair value of derivative components of convertible bonds			1,246,398
Change in fair value of rental stabilisation arrangement			17
Gain on repurchase of own convertible bonds			1,895
Gain on settlement of convertible bonds			219
Finance costs			(575,238)
<b>Profit before tax and distribution to unitholders</b>			<b>6,677,372</b>
Income taxes			(184,402)
<b>Profit for the year, before distribution to unitholders</b>			<b>6,492,970</b>
Distribution to unitholders			(1,110,520)
<b>Profit for the year, after distribution to unitholders</b>			<b><u>5,382,450</u></b>
<b>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:</b>			
Manager's fee	(113,476)	(73,998)	(187,474)
Increase in fair value of investment properties	<u>2,690,700</u>	<u>1,944,000</u>	<u>4,634,700</u>



#### 4. SEGMENT INFORMATION - continued

##### Segment revenue and results - continued

For the year ended 31 December 2010

	Citibank <u>Plaza</u> HK\$'000	Langham <u>Place</u> HK\$'000	<u>Consolidated</u> HK\$'000 (restated)
<b>Revenue</b>	<u>1,129,498</u>	<u>746,413</u>	<u>1,875,911</u>
<b>Segment results - Net property income</b>	<u>942,194</u>	<u>566,493</u>	1,508,687
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			<u>(756,238)</u>
<b>Profit before tax and distribution to unitholders</b>			5,486,925
Income taxes			<u>(177,599)</u>
<b>Profit for the year, before distribution to unitholders</b>			5,309,326
Distribution to unitholders			<u>(1,066,870)</u>
<b>Profit for the year, after distribution to unitholders</b>			<u>4,242,456</u>

##### **Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:**

Manager's fee	(113,063)	(67,979)	(181,042)
Increase in fair value of investment properties	<u>4,374,285</u>	<u>1,493,100</u>	<u>5,867,385</u>

##### **Other segment information**

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

#### 4. SEGMENT INFORMATION - continued

##### Segment assets and liabilities

For the purpose of performance assessment, fair values of investment properties are reviewed by the CODM. As at 31 December 2011, the fair value of Citibank Plaza and Langham Place was HK\$36,437,800,000 (2010: HK\$33,747,100,000) and HK\$18,419,500,000 (2010: HK\$16,475,500,000), 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.

#### 5. RENTAL INCOME

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Rental income	1,728,358	1,675,597
Car park income	29,622	27,189
	<u>1,757,980</u>	<u>1,702,786</u>

#### 6. RENTAL RELATED INCOME

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Interest income from tenants	550	558
Promotional levy income	7,141	7,170
Surplus on forbearance fee	-	2,489
Sundry income	10,175	7,084
	<u>17,866</u>	<u>17,301</u>

## 7. PROPERTY OPERATING EXPENSES

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Building management expenses	184,306	183,630
Car park operating expenses	7,718	7,312
Government rent and rates	60,488	61,293
Legal cost and stamp duty	5,375	5,111
Promotion expenses	15,085	16,552
Property and lease management service fee	51,177	50,986
Property miscellaneous expenses	2,270	3,960
Rental commission	49,855	36,912
Repairs and maintenance	1,721	1,468
	<u>377,995</u>	<u>367,224</u>

## 8. 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 2011 and 31 December 2011, the Manager is entitled to receive 12% of the net property income for each of the six months ended 30 June 2011 and 31 December 2011 as remuneration.

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
<b>Manager's fee:</b>		
In the form of units	112,484	113,063
In the form of cash	74,990	67,979
	<u>187,474</u>	<u>181,042</u>

Pursuant to election allowed by the Trust Deed on 14 January 2011, 60% of Manager's Fee for each of the six months ended 30 June 2011 and 31 December 2011 arising from the properties currently owned by Champion REIT shall be settled in the form of units calculated based on the issue price per unit as determined in accordance with the Trust Deed, and the balance of 40% will be received in cash.

In relation to certain properties of Citibank Plaza acquired upon listing, the fee payable to the Manager was 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.

## 9. FINANCE COSTS

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
<b>Finance costs represent:</b>		
Interest expense on bank borrowings wholly repayable within five years	163,089	226,448
Interest expense on convertible bonds wholly repayable within five years	344,988	355,141
Release of cumulative loss on hedging instrument	66,075	173,099
Other borrowing costs	1,086	1,550
	<u>575,238</u>	<u>756,238</u>

## 10. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
<b>Profit before tax and distribution to unitholders has been arrived at after charging:</b>		
Auditors' remuneration	2,000	2,600
Trustee's remuneration	9,442	8,292
Principal valuer's fee	355	350
Other professional fees and charges	3,063	2,437
Roadshow and public relations expenses	16	231
Bank charges	106	71
	<u>15,982</u>	<u>24,081</u>

## 11. INCOME TAXES

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000 (restated)
<b>Hong Kong Profits Tax:</b>		
<b>Current tax</b>		
- Current year	112,677	65,172
- Underprovision in prior year	26	816
	<u>112,703</u>	<u>65,988</u>
<b>Deferred tax</b>		
- Current year	71,699	111,611
	<u>184,402</u>	<u>177,599</u>

## 12. 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:

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000 (restated)
<b><u>Earnings</u></b>		
<b>Profit for the year, before distribution to unitholders for the purpose of basic earnings per unit</b>	<b>6,492,970</b>	5,309,326
Effect of dilutive potential units:		
Interest on convertible bonds (net of tax effect)	333,036	349,255
Change in fair value of derivative components of convertible bonds	(1,246,398)	943,423
Gain on repurchase of convertible bonds	(1,895)	-
Gain on settlement of convertible bonds	(219)	-
<b>Profit for the year, before distribution to unitholders for the purpose of diluted earnings per unit</b>	<b><u>5,577,494</u></b>	<b><u>6,602,004</u></b>
	<u>2011</u>	<u>2010</u>
<b><u>Number of units</u></b>		
Weighted average number of units for the purpose of basic earnings per unit	4,950,030,693	4,892,968,270
Effect of dilutive potential units:		
Convertible bonds	1,359,418,518	1,442,450,094
<b>Weighted average number of units for the purpose of diluted earnings per unit</b>	<b><u>6,309,449,211</u></b>	<b><u>6,335,418,364</u></b>

### 13. 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:

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000 (restated)
Profit for the year, before distribution to unitholders	6,492,970	5,309,326
Adjustments:		
Manager's fee paid and payable in units	112,484	113,063
Increase in fair value of investment properties	(4,634,700)	(5,867,385)
Change in fair value of derivative components of convertible bonds	(1,246,398)	943,423
Change in fair value of rental stabilisation arrangement	(17)	(483)
Non-cash gain	(741)	(1,829)
Non-cash finance costs	375,014	476,538
Deferred tax	71,699	111,611
<b>Total distributable income</b>	<u><u>1,170,311</u></u>	<u><u>1,084,264</u></u>

### 14. TRADE AND OTHER RECEIVABLES

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Trade receivables	16,788	10,096
Deferred rent receivables	112,445	50,131
Deposits, prepayments and other receivables	50,801	47,482
	<u><u>180,034</u></u>	<u><u>107,709</u></u>

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:

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
0 - 3 months	<u><u>16,788</u></u>	<u><u>10,096</u></u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$16,788,000 (2010: HK\$10,096,000) 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.

## 15. TRADE AND OTHER PAYABLES

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
Trade payables	64,124	52,602
Rental received in advance	18,251	17,069
Other payables	124,126	119,919
Accrued stamp duty	963,475	963,475
	<u>1,169,976</u>	<u>1,153,065</u>

The accrual for stamp duty is based on the current stamp duty rate of 4.25% (2010: 4.25%) 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:

	<u>2011</u> HK\$'000	<u>2010</u> HK\$'000
0 - 3 months	<u>64,124</u>	<u>52,602</u>

## 16. ISSUED UNITS

	<u>Number of units</u>	<u>HK\$'000</u>
Balance at 1 January 2010	4,823,534,789	20,651,833
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
Balance at 31 December 2010	4,930,584,756	21,033,383
Payment of Manager's fee through issuance of new units during the year (note (i))	26,002,477	108,825
Units issued upon the conversion of convertible bonds	2,770	13
<b>Balance at 31 December 2011</b>	<u><b>4,956,590,003</b></u>	<u><b>21,142,221</b></u>

## 16. ISSUED UNITS - continued

Notes:

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

<u>Issue date</u>	<u>Payment of the Manager's fees for the period</u>	<u>Issue price per unit determined based on the Trust Deed HK\$</u>	<u>Aggregate issue price HK\$'000</u>	<u>Number of units issued</u>
<b>In 2011</b>				
8 March 2011	1.7.2010 to 31.12.2010	4.62	53,753	11,634,743
26 August 2011	1.1.2011 to 30.6.2011	3.833	55,072	14,367,734
			<b>108,825</b>	<b>26,002,477</b>
<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
			159,223	43,316,507

- (ii) Details of units issued during the year ended 31 December 2010 under distribution reinvestment scheme (i.e. unitholders electing to receive scrip units in lieu of cash distribution) were as follows:

<u>Issue date</u>	<u>Distribution period</u>	<u>Scrip price HK\$</u>	<u>Number of units issued</u>
<b>In 2010</b>			
25 May 2010	1.7.2009 to 31.12.2009	3.4884	63,733,460

## 17. 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 2011 of HK\$38,755,567,000 (2010 (restated): HK\$33,141,907,000) by the number of units in issue of 4,956,590,003 (2010: 4,930,584,756) as at 31 December 2011.

## 18. NET CURRENT LIABILITIES

At 31 December 2011, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$767,076,000 (2010: HK\$7,820,095,000).

## 19. TOTAL ASSETS LESS CURRENT LIABILITIES

At 31 December 2011, the Group's total assets less current liabilities amounted to HK\$54,090,224,000 (2010: HK\$42,408,538,000).