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ChampionREIT

冠君產業信託

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

2018 INTERIM RESULTS ANNOUNCEMENT

Champion Real Estate Investment Trust is a trust formed to own and invest in income-producing office and retail properties. The Trust's focus is on Grade-A commercial properties in prime locations. It currently offers investors direct exposure to 2.93 million sq. ft. of prime office and retail floor area by way of two landmark properties in Hong Kong, Three Garden Road and Langham Place, one on each side of the Victoria Harbour.

INTERIM 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 six months ended 30 June 2018 (“**Period**”).

FINANCIAL HIGHLIGHTS

	6 Months Ended 30 Jun 2018	6 Months Ended 30 Jun 2017	Change
	HK\$' million	HK\$' million	
Total Rental Income ¹	1,303	1,183	+ 10.1%
Net Property Operating Expenses ¹	126	118	+ 6.3%
Net Property Income	1,177	1,064	+ 10.6%
Profit After Tax	4,722	4,601	+ 2.6%
Distributable Income	812	758	+ 7.2%
Distribution Amount	731	682	+ 7.2%
Distribution per Unit (HK\$)	0.1253	0.1171	+ 7.0%

	As at 30 Jun 2018	As at 31 Dec 2017	Change
	HK\$' million	HK\$' million	
Gross Value of Portfolio	80,744	76,704	+ 5.3%
Net Asset Value per Unit (HK\$)	11.05	10.36	+ 6.7%
Gearing Ratio	18.1%	18.9%	- 0.8pp

1 Building Management Fee Income is directly offset against Building Management Fee Expenses instead of being classified as an income item.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Hong Kong's overall office and retail market is approaching all-time high during the first half of 2018 driven by the strong fundamentals. In particular, Hong Kong's strategic significance to Chinese financial firms has strengthened their appetite for offices in Central. Hong Kong's retail sales posted double-digit growth, fueled by robust consumer spending and a rise in visitors from Mainland China. Having our assets situated in irreplaceable locations, we are delighted to report another set of solid results, which reflects our efforts to deliver sustainable growth. Distributable income increased by 7.2% to HK\$812 million and distribution per unit ("DPU") went up 7.0% to HK\$0.1253 (2017: HK\$0.1171).

All the properties in the portfolio have attained higher passing rents, with Three Garden Road being the highest achiever. Meanwhile, Langham Place Mall has outperformed Hong Kong's retail sales market, boosting turnover rents in the first half of the year. The Trust's operating expenses ratio slightly improved, despite net property operating expenses climbed 6.3% to HK\$126 million, which was mainly attributable to the higher operating expenses of Three Garden Road. The net property income grew 10.6% to HK\$1,177 million (2017: HK\$1,064 million).

The Trust is keeping close monitor on interest rate risks and managing liabilities proactively. During 2018, a total amount of HK\$925 million of medium term notes were issued so far, further raising the fixed rate debt portion while lowering the secured debt portion. The proportion of fixed rate debt increased to 54.2% as of today (50.0% as at 31 December 2017). A higher average HIBOR and a raised fixed rate debt portion have driven up the cash finance costs by 22.0% to HK\$185 million (2017: HK\$152 million).

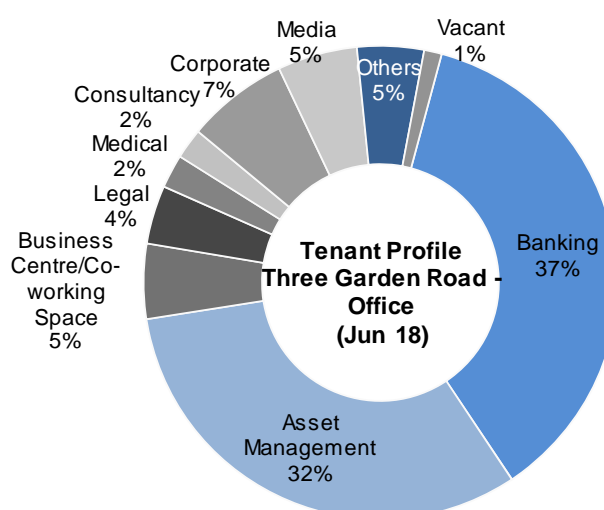
As at 30 June 2018, the Trust's properties had an appraised value of HK\$80.7 billion, a 5.3% increase from HK\$76.7 billion as at 31 December 2017. This increase was driven primarily by higher rental rate assumptions. Net asset value per unit as at 30 June 2018 was HK\$11.05, representing a rise of 6.7% as compared with HK\$10.36 as at 31 December 2017. The gearing ratio dropped to 18.1% as at 30 June 2018 from 18.9% as at 31 December 2017.

OPERATIONAL REVIEW

Three Garden Road

	6 Months Ended 30 Jun 2018	6 Months Ended 30 Jun 2017	Change
	HK\$'000	HK\$'000	
Rental Income	671,847	595,806	+ 12.8%
Net Property Operating Expenses	64,877	59,014	+ 9.9%
Net Property Income	606,970	536,792	+ 13.1%

With the underlying imbalance between office supply and demand as well as close to historical low vacancy in Central, income from Three Garden Road continued to grow in the first half of 2018. Chinese corporations remained the dominant demand driver for offices in prestigious Central locations, while the demand for business centres and co-working spaces in prime locations has also been on the rise.



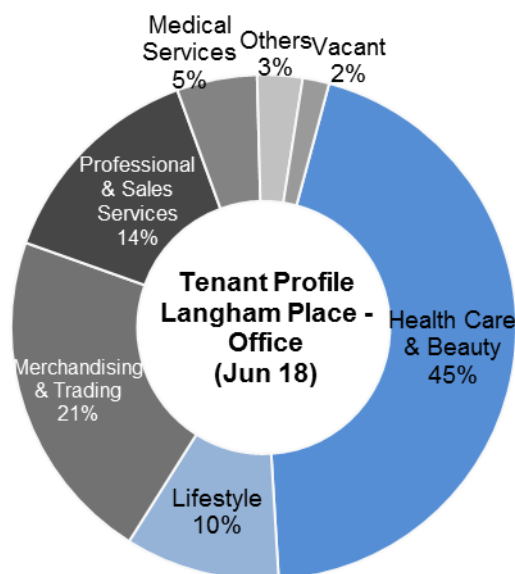
The total rental income from Three Garden Road increased by 12.8% to HK\$672 million (2017: HK\$596 million), which was attributable to a higher average occupancy rate and increased passing rents. The occupancy rate of the property reached a record high of 98.8% as at 30 June 2018, compared with 94.2% as at 31 December 2017. The tight supply of prime offices in Central has enhanced the pricing power of landlords in the district. The latest rents achieved for Three Garden Road reached HK\$130 per sq. ft. (based on lettable area). The uptrend in market rentals has driven up the passing rents to HK\$95.87 per sq. ft. (based on lettable area) as at 30 June 2018, compared with HK\$92.52 per sq. ft. (based on lettable area) as at 31 December 2017.

As a consequence of the higher rental rates and increased occupancy achieved, the rental commission, lease management services fees and government rent increased accordingly. Net property operating expenses rose 9.9% to HK\$65 million as a result, whereas net property income attained a solid growth of 13.1% to HK\$607 million (2017: HK\$537 million).

Langham Place Office Tower

	6 Months Ended 30 Jun 2018	6 Months Ended 30 Jun 2017	Change
	HK\$'000	HK\$'000	
Rental Income	167,085	174,996	- 4.5%
Net Property Operating Expenses	12,244	11,716	+ 4.5%
Net Property Income	154,841	163,280	- 5.2%

Langham Place Office Tower has been reinforcing its position as a lifestyle hub. During the period under review, in-house healthcare and beauty tenants continued to show expansion needs while the clustering effect also attracted new lifestyle tenants. The tenant mix has gradually shifted away from traditional office occupants. As at 30 June 2018, the proportion of lifestyle, healthcare and beauty segments expanded further to 55%.



The total rental income was HK\$167 million for the first half of 2018, compared with HK\$175 million in 2017. The decline in rental income stemmed from a lower average occupancy level. With available spaces being taken up by healthcare and beauty tenants, the occupancy rate slightly improved to 98.3%. Latest achieved rents are above HK\$50 per sq. ft. (based on gross floor area), higher than the passing rents of HK\$41.24 per sq. ft. (based on gross floor area) as at 30 June 2018.

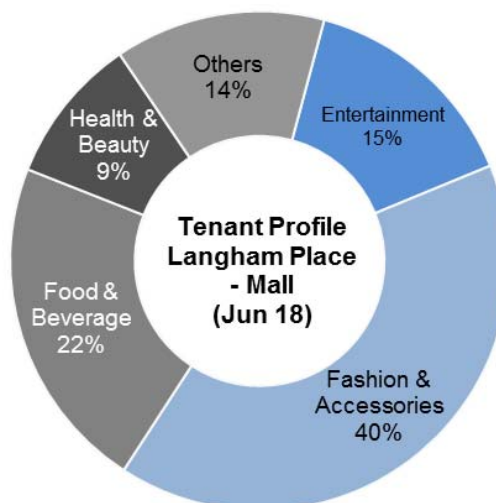
Total net property operating expenses went up 4.5% to HK\$12 million. This is driven by the increase in net building management expenses and government rates as average occupancy level dropped slightly. Net property income fell 5.2% to HK\$155 million (2017: HK\$163 million).

Langham Place Mall

	6 Months Ended 30 Jun 2018	6 Months Ended 30 Jun 2017	Change
	HK\$'000	HK\$'000	
Rental Income	463,681	411,972	+ 12.6%
Net Property Operating Expenses	48,731	47,687	+ 2.2%
Net Property Income	414,950	364,285	+ 13.9%

Hong Kong's retail market rebounded in the first half of 2018, supported by the growth in tourist arrival and increased tourist spending attributed to the favourable RMB exchange rate. Tenant sales at Langham Place Mall accelerated and recorded a 23.5% increase year over year, achieving another outperformance against the city's retail market growth of 13.4%. Sales witnessed growth generally across all segments, with tourist-related trades being the outperformers.

Rental income from the Mall grew 12.6% to HK\$464 million, driven mainly by a significant increase in turnover rents on the back of solid sales performance of beauty and skincare tenants. Turnover rents have more than doubled to HK\$94 million (2017: HK\$41 million) while base rents remained stable. The average passing base rents marginally improved to HK\$177.56 per sq. ft. (based on lettable floor area) as at 30 June 2018. Overall positive rental reversion was achieved for new leases and lease renewals effective in 2018.



Net property operating expenses increased by 2.2% to HK\$49 million, attributable to net building management expenses due to higher maintenance costs. Net property income grew 13.9% to HK\$415 million, compared with HK\$364 million last year.

OUTLOOK

The solid economic growth in Hong Kong and favourable office supply-demand dynamics will continue to support office rent and occupancy levels. Global geopolitical tensions and the US-China trade wrangles may cause uncertainties and volatilities in the financial markets, which in turn can impact office demand in the Central business district.

The robust momentum of Hong Kong's retail market may be challenged by the depreciation of RMB which would drag down Chinese shoppers' spending and potentially dampen the growth trajectory in the first half. The high base effect in the second half of 2017 would further present a challenging outlook for the second half of this year. Though the base rents of the Mall are expected to remain stable, volatilities in the turnover rents portion could affect the overall rental income. The Trust will step up its efforts to stay on top of the market and enhance shopping experience and facilities at the Mall. More cutting-edge campaigns riding on new technologies and experience-based promotion will be held to attract our target customers.

In view of the volatile interest rate environment, the Trust will sustain its active management over interest rate risks and keep looking for opportunities to secure more long-term debts so as to gradually increase the fixed rate portion. Various refinancing options will also be examined for the bank loan maturing in 2019 in order to enhance the credit profile of the Trust and optimize interest costs.

Opportunities may arise for rebalancing the properties portfolio of the Trust in the ever-changing market environment. The Trust will prudently look at opportunities that might optimize unitholders' value and distribution.

VALUATION OF PROPERTIES

Pursuant to the Code on Real Estate Investment Trusts, Knight Frank Petty Limited retired as the principal valuer after having conducted valuations of the Trust's properties for three consecutive years. Colliers International (Hong Kong) Limited was appointed as the principal valuer and, according to the Property Valuation Reports issued on 19 July 2018, the appraised total value of Champion REIT properties, broken down by usage, as at 30 June 2018 was:

	Three Garden Road	Langham Place	Sub-total
Jun 2018 Valuation	HK\$ mil	HK\$ mil	HK\$ mil
Office	46,934	9,670	56,604
Retail	657	21,960	22,617
Car Park	584	366	950
Miscellaneous	352	221	573
Total	48,527	32,217	80,744

As at 30 June 2018, the appraised value of the Trust's property portfolio stood at HK\$80.7 billion, a rise of 5.3% from HK\$76.7 billion as at 31 December 2017. This increase was primarily driven by higher rental assumptions. The capitalization rates used to value Three Garden Road, Langham Place Office and Langham Place Mall remained unchanged at 3.6%, 4.0% and 3.75% respectively.

FINANCIAL REVIEW

DISTRIBUTIONS

The Distribution Amount of Champion REIT for the six months ended 30 June 2018 was HK\$731 million (2017: HK\$682 million), calculated as 90% of Champion REIT's total available distributable income of HK\$812 million (2017: HK\$758 million).

The distribution per unit for the six months ended 30 June 2018 ("**Interim Distribution per Unit**") was HK\$0.1253. This represents an annualized distribution yield of 5.1% based on the closing price of HK\$5.21 as at 29 June 2018. Such distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 July 2018 and the record date. A further announcement will be made to unitholders informing them of any adjustment to the Interim Distribution per Unit.

CLOSURE OF REGISTER OF UNITHOLDERS

The Register of Unitholders will be closed from Tuesday, 18 September 2018 to Friday, 21 September 2018 (“**Record Date**”), both days inclusive, during which period no transfer of Units will be effected. The payment of the distribution for the six months ended 30 June 2018 will be made on Friday, 5 October 2018 to Unitholders whose names appear on the Register of Unitholders on the Record Date.

In order to qualify for the distribution for the six months ended 30 June 2018, 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 of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 17 September 2018.

DEBT PROFILE

Outstanding Debt Facilities^{(1) (2)}

As at 30 June 2018

HK\$ million	Utilised facilities	Fixed rate debt ⁽³⁾	Floating rate debt ⁽³⁾
Secured Bank Loans	9,950	3,450	6,500
Medium Term Notes	5,091	4,248 ⁽⁴⁾	843
Total	15,041	7,698	7,343
Percentage		51.2%	48.8%

(1) All amounts are stated at face value

(2) All outstanding debt facilities were denominated in Hong Kong Dollars except for (4) below

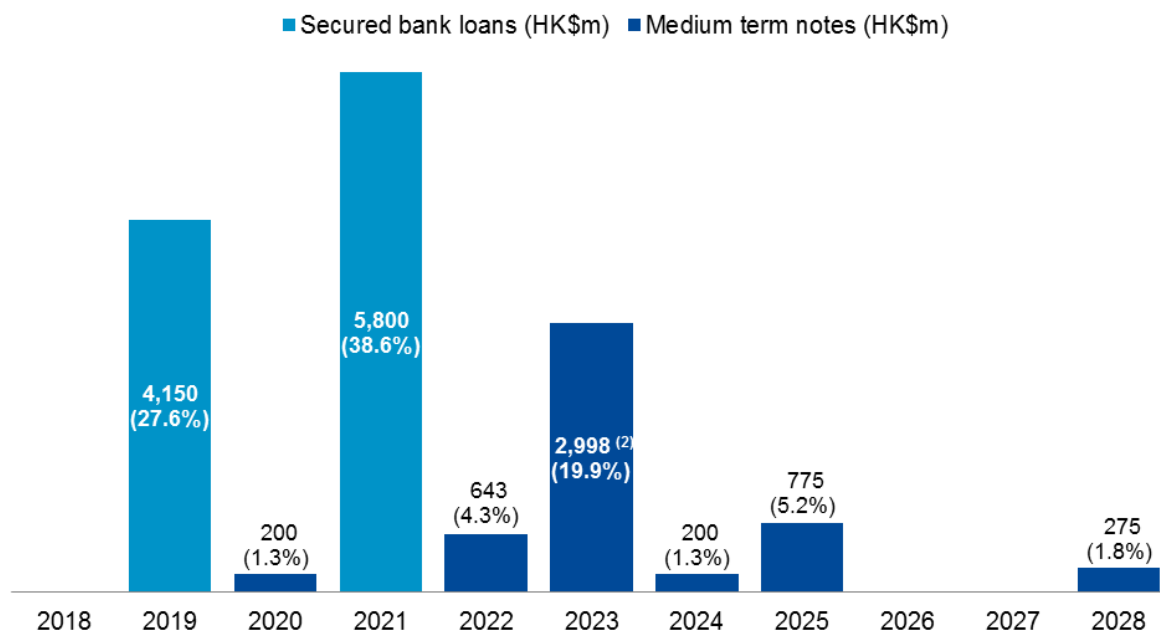
(3) After interest rate swaps

(4) Included notes with outstanding principal amount of US\$386.4 million, fully hedged at an average rate of HK\$7.7595 to US\$1.00

The Trust is keeping close monitor on interest rate risks and managing liabilities proactively. During 2018, a total amount of HK\$925 million of medium term notes were issued so far, further raising the fixed rate debt portion while lowering the secured debt portion. The proportion of fixed rate debt increased to 54.2% as of today (50.0% as at 31 December 2017). A higher average HIBOR and a raised fixed rate debt portion have driven up the cash finance costs by 22.0% to HK\$185 million (2017: HK\$152 million). As at 30 June 2018, the average life of the Trust’s debt outstanding was 3.1 years while the effective interest rate was 3.0%.

Outstanding Debt Maturity Profile ⁽¹⁾

As at 30 June 2018



(1) All amounts are stated at face value

(2) After accounting for cross-currency swaps

The Trust's investment properties as at 30 June 2018 were appraised at a total value of HK\$80.7 billion, representing a 5.3% increase from HK\$76.7 billion as at 31 December 2017. Correspondingly, the Gearing Ratio (or total borrowings as a percentage of gross assets) decreased from 18.9% as at 31 December 2017 to 18.1% as at 30 June 2018. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 22.3% (31 December 2017: 23.1%).

Net Assets Value per Unit

Net Asset Value per Unit as at 30 June 2018 was HK\$11.05. It represented a 112.1% premium to the closing unit price of HK\$5.21 as at 29 June 2018.

Cash Position

As at 30 June 2018, the Trust had total undrawn bank loan facilities of HK\$300 million and a cash balance of HK\$1,609 million. With these financial resources, the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

Pledge Assets

As at 30 June 2018, properties of Champion REIT with a fair value of HK\$48.5 billion were pledged to secure the debt facilities granted to the Trust. Only Three Garden Road was pledged to secure the Trust's bank loans.

Commitments

As at 30 June 2018, the Trust has authorised capital expenditure for improvement works of investment properties which was contracted for but not provided in the condensed consolidated financial statements amounting to HK\$39 million.

Save as aforementioned, the Trust did not have any significant commitments at the end of the reporting period.

NEW UNITS ISSUED

On 1 March 2018, 11,870,272 new Units were issued to the REIT Manager at the price of HK\$5.57 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the Manager's Fee of approximately HK\$66,117,500 for the second half of 2017.

Except for the above, no new Units were issued during the Period. As at 30 June 2018, the total number of issued Units of Champion REIT was 5,834,898,392.

REAL ESTATE SALE AND PURCHASE

Champion REIT did not enter into any (i) real estate sales and purchases; and (ii) investments in Property Development and Related Activities (as defined in the Trust Deed) during the Period.

RELEVANT INVESTMENTS

The full investment portfolio of the Relevant Investments (as defined in the Trust Deed) of Champion REIT as at 31 July 2018 is set out below:

As at 31 Jul 2018	Type	Primary Listing	Country of Issuer	Currency	Total Cost	Mark-to-market Value	Weighting of GAV (%)	Credit Rating
KERPRO 5 ½ 04/06/21	Bond	Singapore Exchange	BVI	USD	HK\$67,296,000	HK\$62,442,000	0.0803%	N/A
NANFUN 4 ½ 09/20/22 EMTN	Bond	Singapore Exchange	BVI	USD	HK\$9,797,000	HK\$9,535,000	0.0123%	S&P BBB-
NANFUN 4 ¾ 05/29/24 EMTN	Bond	Singapore Exchange	BVI	USD	HK\$56,603,000	HK\$54,830,000	0.0705%	S&P BBB-
NWDEVL 5 ¼ 02/26/21	Bond	HKEX	BVI	USD	HK\$41,574,000	HK\$40,275,000	0.0518%	N/A
PCCW 3 ¾ 03/08/23	Bond	Singapore Exchange	BVI	USD	HK\$49,641,000	HK\$48,863,000	0.0629%	S&P BBB
Total					HK\$224,911,000	HK\$215,944,000	0.2778%	

Notes: (1) The weighting of GAV is by reference to the latest published accounts as adjusted for any distribution declared and any published valuation.

(2) All figures presented above have been rounded to the nearest thousand.

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

During the Period, the REIT Manager and Champion REIT have complied with the Code on Real Estate Investment Trusts, the Trust Deed of Champion REIT, the relevant provisions and requirements of the Securities and Futures Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”) applicable to Champion REIT.

The REIT Manager and Champion REIT have also complied with the provisions of the Compliance Manual and all code provisions, where applicable, as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules throughout the Period. Key components of the governance framework and the corporate governance report for the Period will be set out in the forthcoming Interim Report.

BUY-BACK, SALE OR REDEMPTION OF UNITS

A general mandate for buy-back of Units in the open market was given by Unitholders at the annual general meeting held on 9 May 2018. During the Period, neither the REIT Manager nor any of Champion REIT's special purpose vehicles had bought back, sold or redeemed any Units pursuant to this mandate.

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 INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager, and by the Trust's external auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

ISSUANCE OF INTERIM REPORT

The Interim Report of Champion REIT for the Period will be despatched to Unitholders and published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and Champion REIT (www.ChampionReit.com) before the end of August 2018.

BOARD OF DIRECTORS

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

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

Hong Kong, 16 August 2018

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

	<u>NOTES</u>	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Rental income	4	1,284,859	1,164,467
Building management fee income	4	142,162	134,910
Rental related income		17,754	18,307
Total revenue		1,444,775	1,317,684
Property operating expenses	5	(268,014)	(253,327)
Net property income		1,176,761	1,064,357
Interest income		10,900	9,361
Manager's fee	6	(141,211)	(127,723)
Trust and other expenses		(16,307)	(9,426)
Increase in fair value of investment properties		4,033,138	3,962,708
Finance costs	7	(197,934)	(166,972)
Profit before tax and distribution to unitholders	8	4,865,347	4,732,305
Income taxes	9	(143,020)	(131,095)
Profit for the period, before distribution to unitholders		4,722,327	4,601,210
Distribution to unitholders		(731,022)	(681,751)
Profit for the period, after distribution to unitholders		3,991,305	3,919,459
Basic earnings per unit	12	HK\$0.81	HK\$0.79

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Profit for the period, after distribution to unitholders	<u>3,991,305</u>	<u>3,919,459</u>
Other comprehensive income (expense):		
Items that may be subsequently reclassified to profit or loss:		
Cash flow hedges:		
Fair value adjustments on cross currency swaps and interest rate swaps designated as cash flow hedges	51,173	(82,168)
Reclassification of fair value adjustments to profit or loss	<u>(4,325)</u>	<u>(13,547)</u>
	<u>46,848</u>	<u>(95,715)</u>
Total comprehensive income for the period	<u><u>4,038,153</u></u>	<u><u>3,823,744</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	<u>NOTES</u>	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Non-current assets			
Investment properties		80,744,000	76,704,000
Notes receivables		220,314	220,531
Derivative financial instruments		81,137	36,587
Total non-current assets		<u>81,045,451</u>	<u>76,961,118</u>
Current assets			
Trade and other receivables	13	282,202	294,910
Tax recoverable		1,605	6,421
Time deposits with original maturity over three months		200,000	-
Bank balances and cash		1,409,003	1,190,389
Total current assets		<u>1,892,810</u>	<u>1,491,720</u>
Total assets		<u>82,938,261</u>	<u>78,452,838</u>
Current liabilities			
Trade and other payables	14	1,336,245	1,338,049
Deposits received		690,751	652,685
Tax liabilities		136,151	38,921
Distribution payable		731,022	730,979
Secured bank borrowings		4,142,590	-
Total current liabilities		<u>7,036,759</u>	<u>2,760,634</u>
Non-current liabilities, excluding net assets attributable to unitholders			
Secured bank borrowings		5,765,296	10,172,623
Medium term notes		5,101,461	4,612,054
Derivative financial instruments		784	17,674
Deferred tax liabilities		578,448	538,611
Total non-current liabilities, excluding net assets attributable to unitholders		<u>11,445,989</u>	<u>15,340,962</u>
Total liabilities, excluding net assets attributable to unitholders		<u>18,482,748</u>	<u>18,101,596</u>
Net assets attributable to unitholders		<u>64,455,513</u>	<u>60,351,242</u>
Number of units in issue ('000)	15	<u>5,834,898</u>	<u>5,823,028</u>
Net asset value per unit	16	<u>HK\$11.05</u>	<u>HK\$10.36</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL

Champion Real Estate Investment Trust ("Champion REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units are listed on The Stock Exchange of Hong Kong Limited. 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 Eagle Asset Management (CP) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts (the "REIT 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 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 condensed consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of Champion REIT.

The Manager 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 has sufficient financial resources to satisfy its commitments and working capital for its present requirements within one year from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Hong Kong Accounting Standard 34 "Interim Financial Reporting" and the relevant disclosure requirements set out in Appendix C of the REIT Code.

Principal accounting policies

The condensed 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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES – continued

Principal accounting policies – continued

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

3. 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 are more specifically focused on the operating results of the three investment properties, namely Three Garden Road, Langham Place Office Tower and Langham Place Mall.

Segment revenue and results

The following is an analysis of the Group's revenue and results by the three investment properties for the period under review.

3. SEGMENT INFORMATION - continued

For the six months ended 30 June 2018

	Three Garden Road HK\$'000 (unaudited)	Langham Place Office Tower HK\$'000 (unaudited)	Langham Place Mall HK\$'000 (unaudited)	<u>Consolidated</u> HK\$'000 (unaudited)
Segment revenue	<u>749,703</u>	<u>192,153</u>	<u>502,919</u>	<u>1,444,775</u>
Segment results - Net property income	<u>606,970</u>	<u>154,841</u>	<u>414,950</u>	<u>1,176,761</u>
Interest income				10,900
Manager's fee				(141,211)
Trust and other expenses				(16,307)
Increase in fair value of investment properties				4,033,138
Finance costs				(197,934)
Profit before tax and distribution to unitholders				<u>4,865,347</u>
Income taxes				(143,020)
Profit for the period, before distribution to unitholders				<u>4,722,327</u>
Distribution to unitholders				(731,022)
Profit for the period, after distribution to unitholders				<u>3,991,305</u>
 Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Increase in fair value of investment properties	<u>2,359,138</u>	<u>220,000</u>	<u>1,454,000</u>	<u>4,033,138</u>

3. SEGMENT INFORMATION - continued

Segment revenue and results - continued

For the six months ended 30 June 2017

	Three Garden Road HK\$'000 (unaudited)	Langham Place Office Tower HK\$'000 (unaudited)	Langham Place Mall HK\$'000 (unaudited)	<u>Consolidated</u> HK\$'000 (unaudited)
Segment revenue	<u>668,513</u>	<u>199,446</u>	<u>449,725</u>	<u>1,317,684</u>
Segment results - Net property income	<u>536,792</u>	<u>163,280</u>	<u>364,285</u>	<u>1,064,357</u>
Interest income				9,361
Manager's fee				(127,723)
Trust and other expenses				(9,426)
Increase in fair value of investment properties				3,962,708
Finance costs				<u>(166,972)</u>
Profit before tax and distribution to unitholders				4,732,305
Income taxes				<u>(131,095)</u>
Profit for the period, before distribution to unitholders				4,601,210
Distribution to unitholders				<u>(681,751)</u>
Profit for the period, after distribution to unitholders				<u>3,919,459</u>
 Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Increase in fair value of investment properties	<u>3,132,920</u>	<u>257,000</u>	<u>572,788</u>	<u>3,962,708</u>

3. SEGMENT INFORMATION - continued

Segment assets and liabilities

For the purpose of performance assessment, the fair values of investment properties are reviewed by the CODM. As at 30 June 2018, the fair values of Three Garden Road, Langham Place Office Tower and Langham Place Mall were HK\$48,527,000,000 (31 December 2017: HK\$46,161,000,000), HK\$9,670,000,000 (31 December 2017: HK\$9,450,000,000) and HK\$22,547,000,000 (31 December 2017: HK\$21,093,000,000), respectively.

Save as abovementioned, no other assets and liabilities are regularly reviewed by the CODM.

Information about major tenants

There were no tenants whose revenue contributed over 10% of the total revenue of the Group for the six months ended 30 June 2018 and 2017.

4. RENTAL INCOME AND BUILDING MANAGEMENT FEE INCOME

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Rental income	1,261,153	1,142,279
Car park income	23,706	22,188
	<u>1,284,859</u>	<u>1,164,467</u>
	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Building management fee income	<u>142,162</u>	<u>134,910</u>

The timing of revenue recognition of building management fee income is over time.

5. PROPERTY OPERATING EXPENSES

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Building management expenses	153,485	144,937
Car park operating expenses	5,526	4,666
Government rent and rates	37,687	34,195
Legal cost and stamp duty	1,575	1,182
Promotion expenses	7,713	6,756
Property and lease management service fee	38,961	35,790
Property miscellaneous expenses	1,251	6,256
Rental commission	20,646	18,083
Repairs and maintenance	1,170	1,462
	<u>268,014</u>	<u>253,327</u>

6. MANAGER'S FEE

Pursuant to the Trust Deed, as the net property income of Champion REIT exceeds HK\$200 million for the six months ended 30 June 2018 and 2017, the Manager is entitled to receive 12% of the net property income for the six months ended 30 June 2018 and 2017 as remuneration.

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Manager's fee:		
In the form of units	70,605	63,861
In the form of cash	70,606	63,862
	<u>141,211</u>	<u>127,723</u>

Based on the election on 30 November 2012, the Manager continued to receive 50% of the Manager's fee for the six months ended 30 June 2018 and 2017 arising from the properties currently owned by Champion REIT to 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 50% in the form of cash.

7. FINANCE COSTS

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Finance costs represent:		
Interest expense on bank borrowings	114,894	98,568
Interest expense on medium term notes	82,278	67,832
Other borrowing costs (note)	762	572
	<u>197,934</u>	<u>166,972</u>

Note: Include loss on interest rate swap designated as fair value hedge of HK\$190,000.

8. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Profit before tax and distribution to unitholders has been arrived at after charging (crediting):		
Auditor's remuneration	1,025	1,005
Trustee's fee	6,847	6,013
Principal valuer's fee	101	95
Other professional fee and charges	8,097	2,840
Roadshow and public relations expenses	889	630
Bank charges	153	132
Exchange difference	(900)	(1,476)
	<u><u> </u></u>	<u><u> </u></u>

9. INCOME TAXES

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Hong Kong Profits Tax:		
Current tax		
- Current year	103,203	91,058
- Overprovision in prior years	(20)	-
	<u><u>103,183</u></u>	<u><u>91,058</u></u>
Deferred tax		
- Current year	39,837	40,037
	<u><u>143,020</u></u>	<u><u>131,095</u></u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

10. TOTAL DISTRIBUTABLE INCOME

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

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Profit for the period, before distribution to unitholders	4,722,327	4,601,210
Adjustments:		
Manager's fees payable in units	70,605	63,861
Increase in fair value of investment properties	(4,033,138)	(3,962,708)
Non-cash finance costs	12,616	15,101
Deferred tax	39,837	40,037
Total distributable income	<u>812,247</u>	<u>757,501</u>

11. DISTRIBUTION STATEMENT

	<u>2018</u> HK\$'000 (unaudited)	<u>2017</u> HK\$'000 (unaudited)
Total distributable income (note 10)	812,247	757,501
Percentage of distributable income for distribution (note (i))	<u>90%</u>	<u>90%</u>
Total distribution amount to be paid	<u>731,022</u>	<u>681,751</u>
Distribution per unit to unitholders (note (ii))	<u>HK\$0.1253</u>	<u>HK\$0.1171</u>

Notes:

- (i) It is the policy of the Manager to distribute 90% (six months ended 30 June 2017: 90%) of available distributable income as the distributions for the six months ended 30 June 2018 (the "Interim Distribution Period").

11. DISTRIBUTION STATEMENT - continued

Notes: - continued

- (ii) The interim distribution per unit of HK\$0.1253 for the six months ended 30 June 2018 is calculated based on the interim distribution to be paid of HK\$731,022,000 for the period and 5,834,898,392 units in issue as at 30 June 2018. Such interim distribution will be subject to further adjustments upon the issuance of units on or before 21 September 2018, which is the record date set for such period. The interim distribution will be paid to unitholders on 5 October 2018.

The interim distribution per unit of HK\$0.1171 for the six months ended 30 June 2017 was calculated based on the interim distribution paid of HK\$681,751,000 for the period and 5,823,028,120 units as of 22 September 2017, which was the record date for the period. The interim distribution was paid to unitholders on 6 October 2017.

12. BASIC EARNINGS PER UNIT

The basic earnings per unit during the six months ended 30 June 2018 is calculated by dividing the profit for the period, before distribution to unitholders of HK\$4,722,327,000 (2017: HK\$4,601,210,000) with the weighted average number of units of 5,837,842,486 (2017: 5,812,984,636) in issue during the period, taking into account the units issuable as manager's fee for its service for each of the six months ended 30 June 2018 and 2017.

There were no diluted potential units during the six months ended 30 June 2018 and 2017, therefore the diluted earnings per unit has not been presented.

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Trade receivables	16,248	24,646
Deferred rent receivables	180,529	183,291
Deposits, prepayments and other receivables	85,425	86,973
	<u>282,202</u>	<u>294,910</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.

13. TRADE AND OTHER RECEIVABLES - continued

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

	At 30 June <u>2018</u> HK\$'000 (unaudited)	At 31 December <u>2017</u> HK\$'000 (audited)
0 - 3 months	<u>16,248</u>	<u>24,646</u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$16,248,000 (31 December 2017: HK\$24,646,000) which are past due within three months at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

14. TRADE AND OTHER PAYABLES

	At 30 June <u>2018</u> HK\$'000 (unaudited)	At 31 December <u>2017</u> HK\$'000 (audited)
Trade payables	93,446	103,854
Rental received in advance	24,356	24,502
Other payables	254,968	246,218
Accrued stamp duty	<u>963,475</u>	<u>963,475</u>
	<u>1,336,245</u>	<u>1,338,049</u>

The accrual of stamp duty is based on the current stamp duty rate of 4.25% (31 December 2017: 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 interests in Three Garden Road upon listing.

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

	At 30 June <u>2018</u> HK\$'000 (unaudited)	At 31 December <u>2017</u> HK\$'000 (audited)
0 - 3 months	<u>93,446</u>	<u>103,854</u>

15. NUMBER OF UNITS IN ISSUE

	<u>Number of units</u>	<u>HK\$'000</u>
As at 1 January 2017 (audited)	5,798,237,327	24,152,429
Units issued for settlement of Manager's fee	<u>24,790,793</u>	<u>125,787</u>
As at 31 December 2017 (audited)	5,823,028,120	24,278,216
Units issued for settlement of Manager's fee	<u>11,870,272</u>	<u>66,118</u>
As at 30 June 2018 (unaudited)	<u><u>5,834,898,392</u></u>	<u><u>24,344,334</u></u>

On 1 March 2018, 11,870,272 units at HK\$5.57 per unit were issued to the Manager as settlement of Manager's fee for the period from 1 July 2017 to 31 December 2017.

16. NET ASSET VALUE PER UNIT

The net asset value per unit is calculated by dividing the net assets attributable to unitholders as at 30 June 2018 of HK\$64,455,513,000 (31 December 2017: HK\$60,351,242,000) by the number of units in issue of 5,834,898,392 units as at 30 June 2018 (31 December 2017: 5,823,028,120 units).

17. NET CURRENT LIABILITIES

At 30 June 2018, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$5,143,949,000 (31 December 2017: HK\$1,268,914,000).

18. TOTAL ASSETS LESS CURRENT LIABILITIES

At 30 June 2018, the Group's total assets less current liabilities amounted to HK\$75,901,502,000 (31 December 2017: HK\$75,692,204,000).

19. CAPITAL COMMITMENT

	At 30 June <u>2018</u> HK\$'000 (unaudited)	At 31 December <u>2017</u> HK\$'000 (audited)
Capital expenditure in respect of the improvement works of investment properties contracted for but not provided in the condensed consolidated financial statements	<u><u>39,101</u></u>	<u><u>-</u></u>