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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

## **2019 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 2019 (“**Period**”).

## FINANCIAL HIGHLIGHTS

	6 Months Ended 30 Jun 2019	6 Months Ended 30 Jun 2018	Change
	HK\$' million	HK\$' million	
Total Rental Income <sup>1</sup>	1,400	1,303	+ 7.5%
Net Property Operating Expenses <sup>1</sup>	137	126	+ 9.0%
Net Property Income	1,263	1,177	+ 7.3%
Distributable Income	869	812	+ 7.0%
Distribution Amount	782	731	+ 7.0%
Distribution per Unit (HK\$)	0.1335	0.1250	+ 6.8%

	As at 30 Jun 2019	As at 31 Dec 2018	Change
	HK\$' million	HK\$' million	
Gross Value of Portfolio	85,616	83,135	+ 3.0%
Net Asset Value per Unit (HK\$)	11.82	11.42	+ 3.5%
Gearing Ratio	17.1%	17.6%	- 0.5pp

*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

The Trust continued to deliver solid results with distributable income increasing by 7.0% to HK\$869 million and distribution per unit (“DPU”) increasing by 6.8% to HK\$0.1335 (2018: HK\$0.1250) compared to last year amid abating momentum of both the office and retail markets. The growth was achieved against the backdrop of geopolitical volatilities and stagnant economic growth of Hong Kong in the first half of 2019.

While the office portfolio continued to enjoy solid rental reversion, the retail performance was impacted by the slowdown of local consumption and the new e-commerce law in China. Among the Trust’s properties, Three Garden Road remained a key contributor to the income growth. Despite sluggish retail performance, Langham Place Mall achieved a moderate growth in total rental income. Total rental income of the Trust increased 7.5% to HK\$1,400 million, mainly driven by the office portfolio. Total net operating expenses increased by HK\$11 million largely due to higher rental commission on higher proportion of lease turnover. Net property income increased by 7.3% to HK\$1,263 million (2018: HK\$1,177 million).

During the first half of 2019, the Trust has drawn new unsecured loan facilities of HK\$5,814 million to refinance the secured bank loan maturing in 2019 and to partially repay the secured bank loan due in 2021. The refinancing would enhance the credit profile, where the secured debt portion was lowered significantly to 24.5% as at 30 June 2019. Cash finance costs increased to HK\$217 million (2018: HK\$185 million) mainly attributable to higher average HIBOR. Recently the Trust has entered into interest rate swap arrangements to mitigate interest rate risks and the fixed rate debt portion has increased to 58.2% currently.

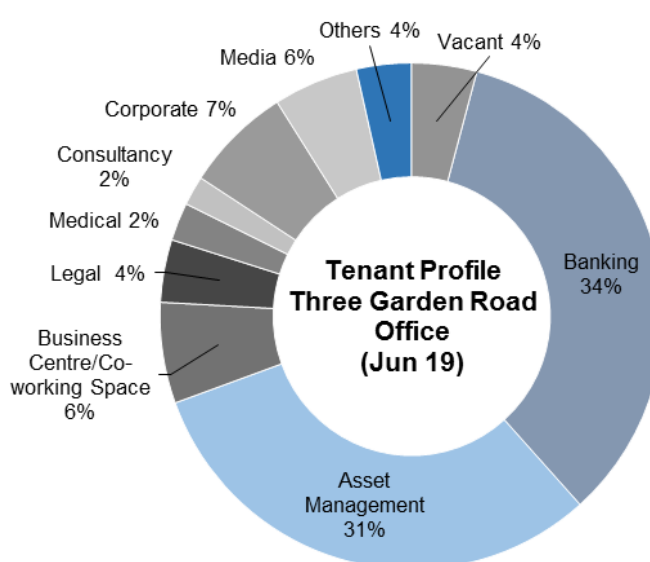
The appraised value of the Trust’s properties was HK\$85.6 billion as at 30 June 2019, up by 3.0% from HK\$83.1 billion as at 31 December 2018. The increase was driven primarily by higher rental rate assumptions. Net asset value per unit as at 30 June 2019 was HK\$11.82, up 3.5% compared with HK\$11.42 as at 31 December 2018. The gearing ratio strengthened to 17.1% as at 30 June 2019 from 17.6% as at 31 December 2018.

## OPERATIONAL REVIEW

### *Three Garden Road*

	6 Months Ended 30 Jun 2019	6 Months Ended 30 Jun 2018	Change
	HK\$'000	HK\$'000	
Rental Income	738,106	671,847	+ 9.9%
Net Property Operating Expenses	72,258	64,877	+ 11.4%
Net Property Income	665,848	606,970	+ 9.7%

While no new supply in Central's office space is foreseen, the overall leasing activities in the district diminished in the first half owing to the uncertain macroeconomic environment. Leasing demand was mainly fueled by business expansion of existing tenants, while some occupiers maintained a cautious approach.



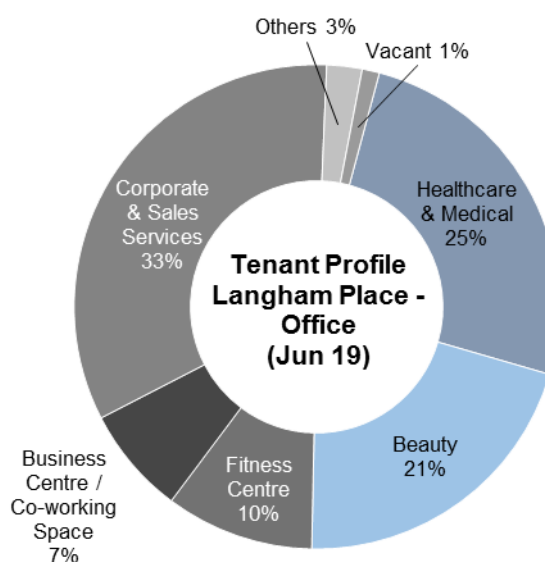
Three Garden Road continued to sustain solid rental income growth in 2019, which went up 9.9% to HK\$738 million (2018: HK\$672 million), primarily due to positive rental reversion. The passing rents of the property further increased to HK\$105.35 per sq. ft. (based on lettable area) as at 30 June 2019, compared with HK\$98.61 per sq. ft. (based on lettable area) as at 31 December 2018. Market rental for leasing transactions concluded this year have remained stable generally. Occupancy maintained at high level of 95.8% as at 30 June 2019.

Net property operating expenses rose HK\$7 million mainly caused by higher rental commission and property and lease management services fees as a result of higher proportion of lease turnover in 2019. Net property income maintained a stable growth of 9.7% to HK\$666 million (2018: HK\$607 million).

### Langham Place Office Tower

	6 Months Ended 30 Jun 2019	6 Months Ended 30 Jun 2018	Change
	HK\$'000	HK\$'000	
Rental Income	185,084	167,085	+ 10.8%
Net Property Operating Expenses	15,055	12,244	+ 23.0%
Net Property Income	170,029	154,841	+ 9.8%

Positioned as a lifestyle hub, demand for Langham Place Office Tower from lifestyle tenants remained solid during the period under review. While existing beauty tenants continued to show interest in expanding their footprint, new healthcare and medical operators also opted to set up their presence in the property. As at 30 June 2019, the proportion of lifestyle-related tenants accounted for 56%.



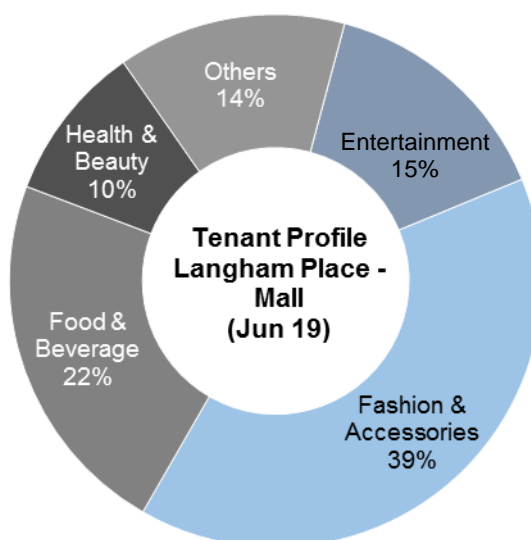
For the first half of 2019, total rental income went up 10.8% to HK\$185 million (2018: HK\$167 million). The growth was mainly attributable to positive rental reversion with passing rents rising to HK\$44.73 per sq. ft. (based on gross floor area) as at 30 June 2019. Targeting a different clientele, the lifestyle positioning has given the property added resilience to cope with new supplies emerging in decentralized districts. Occupancy stood at a high level of 98.8% as at 30 June 2019.

Total net property operating expenses increased by HK\$3 million mainly due to increase in rental commission on higher proportion of lease turnover. Net property income rose 9.8% to HK\$170 million (2018: HK\$155 million).

### **Langham Place Mall**

	6 Months Ended 30 Jun 2019	6 Months Ended 30 Jun 2018	Change
	HK\$'000	HK\$'000	
Rental Income	476,560	463,681	+ 2.8%
Net Property Operating Expenses	49,818	48,731	+ 2.2%
Net Property Income	426,742	414,950	+ 2.8%

The Hong Kong retail sales weakened in the first half of 2019 with a steeper decline in June heightened by a more cautious sentiment in domestic consumption and moderating growth in visitor arrivals. Despite the unfavorable market environment, tenant sales of Langham Place Mall remained resilient and recorded a mild decrease of 0.6%, compared with 2.6% decrease in Hong Kong retail sales.



Total rental income from the Mall went up 2.8% to HK\$477 million (2018: HK\$464 million), mainly driven by the growth in base rents from overall positive rental reversion. The lackluster retail sales has caused the turnover rents to recede to HK\$90 million (2018: HK\$94 million). Turnover rent contributed to 20% of retail rental income. The average passing base rents improved slightly to HK\$186.55 per sq. ft. (based on lettable floor area) as at 30 June 2019, compared with HK\$184.28 per sq. ft. (based on lettable floor area) as at 31 December 2018. The Mall maintained fully let as at 30 June 2019.

Net property operating expenses increased by 2.2% to HK\$50 million, mainly attributable to higher rental commission and more subdivision works. Net property income grew 2.8% to HK\$427 million, compared with HK\$415 million last year.

## **OUTLOOK**

Globally, the macroeconomic environment is expected to remain unclear in the second half of 2019. Underlined by the US-China trade tensions, the recent local protests and other macro factors, leasing demand in Central might be affected. Nevertheless, the leasing strategy for Three Garden Road would focus on maintaining high occupancy. Given the considerable gap between passing rents and market rents, positive rental reversion of the property should continue. Similarly, Langham Place Office should also stand to gain from positive rental reversion with the gradual consolidation of its lifestyle positioning.

The outlook of Hong Kong retail market remains uncertain. With majority of 2019 expiries being concluded, the base rent portion of Langham Place Mall should be stable. However, RMB fluctuation and current social unrest have dampened retail sales and the stalled retail environment would significantly impact the turnover rent portion for the rest of 2019, as seen in July and August 2019 preliminary figures. The Trust will continue to adopt an agile leasing management strategy to bring in new tenants with rental growth potential for the Trust. The basement floors of the Mall are undergoing some tenants remixing. Occupants in the beauty, and food and beverage sectors will commence operation in the latter half of the year.

Following the successful refinancing of the bank loan due in 2019, the Trust will continue its effort in liability management. While the liquidity situation and sizable capital market activities have caused volatilities in HIBOR, the Trust will monitor the market situation closely and seize opportunities to mitigate interest rate risks.

Volatilities in the market may bring viable investment opportunities for the Trust. We will continue to take a prudent and very cautious approach in evaluating potential opportunities globally in the uncertain market environment.

## VALUATION OF PROPERTIES

According to the Property Valuation Reports issued by Colliers International (Hong Kong) Limited on 25 July 2019, the valuation of the properties of Champion REIT, broken down by usage as at 30 June 2019 was:

	Three Garden Road	Langham Place	Sub-total
Jun 2019 Valuation	HK\$ mil	HK\$ mil	HK\$ mil
Office	49,370	10,854	60,224
Retail	681	23,074	23,755
Car Park	614	383	997
Miscellaneous	352	288	640
<b>Total</b>	<b>51,017</b>	<b>34,599</b>	<b>85,616</b>

As at 30 June 2019, the appraised value of the Trust's property portfolio was HK\$85.6 billion, an increase of 3.0% from HK\$83.1 billion as at 31 December 2018. The 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 2019 was HK\$782 million (2018: HK\$731 million), calculated as 90% of Champion REIT's total available distributable income of HK\$869 million (2018: HK\$812 million).

The distribution per unit for the six months ended 30 June 2019 ("**Interim Distribution per Unit**") was HK\$0.1335. This represents an annualized distribution yield of 4.3% based on the closing price of HK\$6.51 as at 28 June 2019. Such distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 July 2019 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, 17 September 2019 to Friday, 20 September 2019 (“**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 2019 will be made on Friday, 4 October 2019 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 2019, 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, 16 September 2019.

## DEBT PROFILE

### Outstanding Debt Facilities <sup>(1) (2)</sup>

As at 30 June 2019

HK\$ million	Utilised facilities	Fixed rate debt <sup>(3)</sup>	Floating rate debt <sup>(3)</sup>
Secured Bank Loans	3,685	3,450	235
Unsecured Bank Loans	5,814	-	5,814
Total Bank Loans	9,499	3,450	6,049
Medium Term Notes	5,541	4,698 <sup>(4)</sup>	843
<b>Total Outstanding Debt Facilities</b>	<b>15,040</b>	<b>8,148</b>	<b>6,892</b>
<b>Percentage</b>		<b>54.2%</b>	<b>45.8%</b>

(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

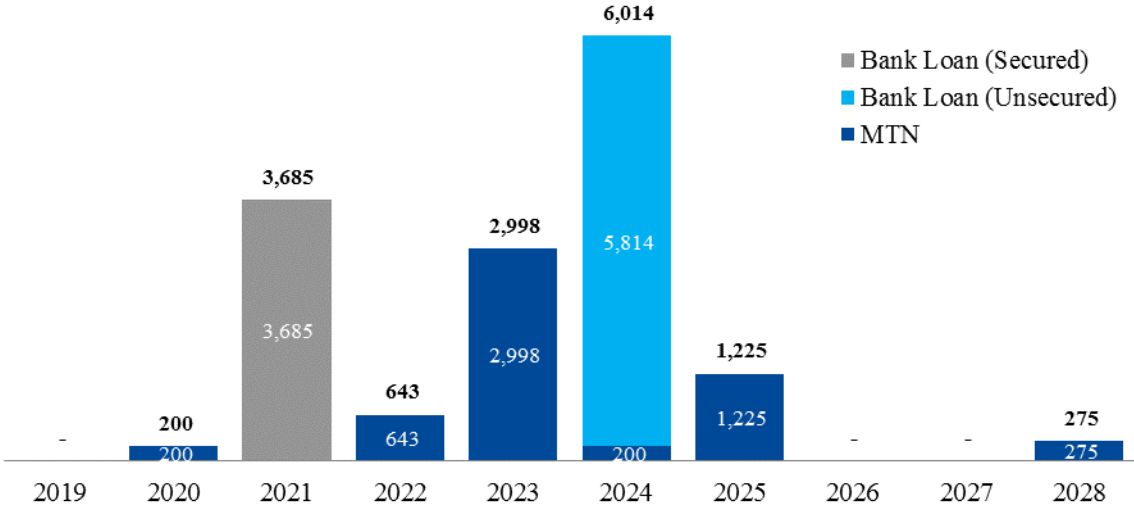
(4) Included notes with outstanding principal amount of US\$386.4 million, fully hedged at an average rate of HK\$7.7595 to US\$1.00

In June 2019, the Trust entered into new unsecured banking facilities in the total amount of HK\$5,814 million with the maturity dates falling in 2024. The proceeds were used to fully refinance the secured bank loan due in 2019 and partially repay the secured bank loan due in 2021. In addition to monitoring the interest rate risks closely and adopting a proactive liability management approach, we have also taken the opportunity to raise the proportion of unsecured debt with an objective to provide more financial flexibility. As at 30 June 2019, 75.5% (31 December 2018: 36.8%) of outstanding debt facilities were unsecured and the fixed-rate debt proportion has increased to 58.2% currently after the recent interest rate swap arrangements. The average effective interest rate for the first half of 2019 was 2.9% and the average life of the Trust’s outstanding debt was 3.7 years as at 30 June 2019.

**Outstanding Debt Maturity Profile <sup>(1)</sup>**

As at 30 June 2019

(HK\$ million)



(1) All amounts are stated at face value  
 (2) After accounting for cross-currency swaps

The Trust’s investment properties as at 30 June 2019 were appraised at a total value of HK\$85.6 billion, representing a 3.0% increase from HK\$83.1 billion as at 31 December 2018. Correspondingly, the Gearing Ratio (or total borrowings as a percentage of gross assets) decreased from 17.6% as at 31 December 2018 to 17.1% as at 30 June 2019. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 21.2% (31 December 2018: 21.7%).

### **Net Asset Value per Unit**

Net Asset Value per Unit as at 30 June 2019 was HK\$11.82. It represented an 81.6% premium to the closing unit price of HK\$6.51 as at 28 June 2019.

### **Cash Position**

As at 30 June 2019, the Trust had total undrawn bank loan facilities of HK\$286 million and a cash balance of HK\$1,807 million. With these financial resources, the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

### **Pledge Assets**

After the refinancing in June 2019, only 24.5% of outstanding debt facilities were left secured by various portions of Three Garden Road with a fair value of HK\$26.2 billion. The Trustee has provided guarantees for all of the debt facilities.

### **Commitments**

As at 30 June 2019, 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\$8 million.

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

### **NEW UNITS ISSUED**

On 8 March 2019, 11,410,795 new Units were issued to the REIT Manager at the price of HK\$6.46 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the Manager's Fee of approximately HK\$73,713,800 for the second half of 2018.

Except for the above, no new Units were issued during the Period. As at 30 June 2019, the total number of issued Units of Champion REIT was 5,858,503,599.

### **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 2019 is set out below:

As at 31 Jul 2019	Type	Primary Listing	Country of Issuer	Currency	Total Cost	Mark-to-market Value	Weighting of GAV (%)	Credit Rating
KERPRO 5 7/8 04/06/21	Bond	Singapore Exchange	BVI	USD	HK\$67,296,000	HK\$62,253,000	0.0737%	N/A
NANFUN 4 1/2 09/20/22 EMTN	Bond	Singapore Exchange	BVI	USD	HK\$9,797,000	HK\$9,756,000	0.0115%	S&P BBB-
NANFUN 4 7/8 05/29/24 EMTN	Bond	Singapore Exchange	BVI	USD	HK\$56,603,000	HK\$57,256,000	0.0678%	S&P BBB-
NWDEVL 5 1/4 02/26/21	Bond	HKEX	BVI	USD	HK\$41,574,000	HK\$40,389,000	0.0478%	N/A
PCCW 3 3/4 03/08/23	Bond	Singapore Exchange	BVI	USD	HK\$49,641,000	HK\$50,598,000	0.0599%	S&P BBB
<b>Total</b>					<b>HK\$224,911,000</b>	<b>HK\$220,253,000</b>	<b>0.2607%</b>	

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.

## **SUSTAINABILITY**

Sustainability constitutes an integral part of our corporate culture, creating long-term values to our stakeholders, as well as enhancing harmony and synergy among our stakeholders and the community. To assimilate sustainability into our business objectives, we take a proactive approach to devising up to-date environmental, social and governance strategies which keep abreast with the fast-changing world. The Trust has established a Sustainability Working Group to further enhance its effort in environmental, social and governance (“ESG”) aspects. Various energy savings projects, such as the demand control ventilation enabled by the Internet of Things (“IoT”) for carpark, have been introduced at our premises. Under the theme of “Champion Our Wellness”, the Trust is also running a broad array of enriching wellness programmes to enhance work-life balance for stakeholders, including mindful eating and healthy diet events.

## **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 30 May 2019. 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](http://www.hkexnews.hk)) and Champion REIT ([www.ChampionReit.com](http://www.ChampionReit.com)) before the end of August 2019.

## 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, 14 August 2019

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

	<u>NOTES</u>	<u>2019</u> <u>HK\$'000</u> <u>(unaudited)</u>	<u>2018</u> <u>HK\$'000</u> <u>(unaudited)</u>
Rental income	4	1,381,528	1,284,859
Building management fee income	4	153,192	142,162
Rental related income		<u>18,222</u>	<u>17,754</u>
<b>Total revenue</b>		<b>1,552,942</b>	1,444,775
Property operating expenses	5	<u>(290,323)</u>	<u>(268,014)</u>
<b>Net property income</b>		<b>1,262,619</b>	1,176,761
Interest income		19,758	10,900
Manager's fee	6	(151,514)	(141,211)
Trust and other expenses		(12,460)	(16,307)
Increase in fair value of investment properties		2,455,700	4,033,138
Finance costs	7	<u>(238,076)</u>	<u>(197,934)</u>
<b>Profit before tax and distribution to unitholders</b>	8	<b>3,336,027</b>	4,865,347
Income taxes	9	<u>(149,500)</u>	<u>(143,020)</u>
<b>Profit for the period, before distribution to unitholders</b>		<b>3,186,527</b>	4,722,327
Distribution to unitholders	11	<u>(782,031)</u>	<u>(731,022)</u>
<b>Profit for the period, after distribution to unitholders</b>		<b><u>2,404,496</u></b>	<b><u>3,991,305</u></b>
<b>Basic earnings per unit</b>	12	<b><u>HK\$0.54</u></b>	<b><u>HK\$0.81</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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	<u>2019</u> <b>HK\$'000</b> <b>(unaudited)</b>	<u>2018</u> <b>HK\$'000</b> <b>(unaudited)</b>
<b>Profit for the period, after distribution to unitholders</b>	<u><b>2,404,496</b></u>	<u>3,991,305</u>
<b>Other comprehensive income:</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Cash flow hedges:		
Fair value adjustments on cross currency swaps and interest rate swaps designated as cash flow hedges	<b>(2,494)</b>	51,173
Reclassification of fair value adjustments to profit or loss	<u><b>4,483</b></u>	<u>(4,325)</u>
	<u><b>1,989</b></u>	<u>46,848</u>
<b>Total comprehensive income for the period</b>	<u><u><b>2,406,485</b></u></u>	<u><u>4,038,153</u></u>

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

	<u>NOTES</u>	At 30 June 2019 HK\$'000 (unaudited)	At 31 December 2018 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment properties		85,616,000	83,135,000
Notes receivables		216,997	218,705
Derivative financial instruments		18,933	39,399
Total non-current assets		<u>85,851,930</u>	<u>83,393,104</u>
<b>Current assets</b>			
Trade and other receivables	13	250,216	296,849
Tax recoverable		589	1,022
Derivative financial instruments		956	-
Time deposit with original maturity over three months		200,000	200,000
Bank balances and cash		1,606,988	1,399,530
Total current assets		<u>2,058,749</u>	<u>1,897,401</u>
<b>Total assets</b>		<u>87,910,679</u>	<u>85,290,505</u>
<b>Current liabilities</b>			
Trade and other payables	14	1,362,835	1,337,168
Deposits received		795,101	761,175
Tax liabilities		138,046	30,363
Distribution payable		782,031	799,023
Bank borrowings		842,787	3,696,715
Medium term notes		199,840	-
Total current liabilities		<u>4,120,640</u>	<u>6,624,444</u>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Bank borrowings		8,589,406	5,771,097
Medium term notes		5,332,622	5,536,292
Derivative financial instruments		5,616	17,860
Deferred tax liabilities		621,268	579,884
Total non-current liabilities, excluding net assets attributable to unitholders		<u>14,548,912</u>	<u>11,905,133</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<u>18,669,552</u>	<u>18,529,577</u>
<b>Net assets attributable to unitholders</b>		<u>69,241,127</u>	<u>66,760,928</u>
<b>Number of units in issue ('000)</b>	15	<u>5,858,504</u>	<u>5,847,093</u>
<b>Net asset value per unit</b>	16	<u>HK\$11.82</u>	<u>HK\$11.42</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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**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.

**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.

The Manager is of the opinion that, taking into account the internal financial resources of the Group, the Group has sufficient working capital for its present requirement within one year from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

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 ("HKFRS"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

## 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 and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

HKFRS 16 superseded HKAS 17 Leases ("HKAS 17") and the related interpretations. Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The application of the new and amendments to HKFRSs and the interpretations in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

## 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 2019

	<b>Three Garden Road HK\$'000 (unaudited)</b>	<b>Langham Place Office Tower HK\$'000 (unaudited)</b>	<b>Langham Place Mall HK\$'000 (unaudited)</b>	<b>Consolidated HK\$'000 (unaudited)</b>
<b>Segment revenue</b>	<b>821,711</b>	<b>211,738</b>	<b>519,493</b>	<b>1,552,942</b>
<b>Segment results - Net property income</b>	<b>665,848</b>	<b>170,029</b>	<b>426,742</b>	<b>1,262,619</b>
Interest income				19,758
Manager's fee				(151,514)
Trust and other expenses				(12,460)
Increase in fair value of investment properties				2,455,700
Finance costs				(238,076)
<b>Profit before tax and distribution to unitholders</b>				<b>3,336,027</b>
Income taxes				(149,500)
<b>Profit for the period, before distribution to unitholders</b>				<b>3,186,527</b>
Distribution to unitholders				(782,031)
<b>Profit for the period, after distribution to unitholders</b>				<b>2,404,496</b>
 <b>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:</b>				
Increase in fair value of investment properties	<b>1,101,700</b>	<b>944,000</b>	<b>410,000</b>	<b>2,455,700</b>

### 3. SEGMENT INFORMATION - continued

#### Segment revenue and results - 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)
<b>Segment revenue</b>	<u>749,703</u>	<u>192,153</u>	<u>502,919</u>	<u>1,444,775</u>
<b>Segment results - Net property income</b>	<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				<u>(197,934)</u>
<b>Profit before tax and distribution to unitholders</b>				<u>4,865,347</u>
Income taxes				<u>(143,020)</u>
<b>Profit for the period, before distribution to unitholders</b>				<u>4,722,327</u>
Distribution to unitholders				<u>(731,022)</u>
<b>Profit for the period, after distribution to unitholders</b>				<u><u>3,991,305</u></u>
<b>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:</b>				
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>

#### 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 2019, the fair values of Three Garden Road, Langham Place Office Tower and Langham Place Mall were HK\$51,017,000,000 (31 December 2018: HK\$49,890,000,000), HK\$10,854,000,000 (31 December 2018: HK\$9,910,000,000) and HK\$23,745,000,000 (31 December 2018: HK\$23,335,000,000), 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 2019 and 2018.

#### 4. RENTAL INCOME AND BUILDING MANAGEMENT FEE INCOME

	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
Property rental income	1,357,932	1,261,153
Car park income	<u>23,596</u>	<u>23,706</u>
Rental income	<u><u>1,381,528</u></u>	<u><u>1,284,859</u></u>
	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
Building management fee income	<u><u>153,192</u></u>	<u><u>142,162</u></u>

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

#### 5. PROPERTY OPERATING EXPENSES

	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
Building management expenses	157,295	153,485
Car park operating expenses	5,254	5,526
Government rent and rates	38,766	37,687
Legal cost and stamp duty	2,991	1,575
Promotion expenses	9,520	7,713
Property and lease management service fee	41,806	38,961
Property miscellaneous expenses	1,577	1,251
Rental commission	30,728	20,646
Repairs and maintenance	<u>2,386</u>	<u>1,170</u>
	<u><u>290,323</u></u>	<u><u>268,014</u></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 2019 and 2018, the Manager is entitled to receive 12% of the net property income for the six months ended 30 June 2019 and 2018 as remuneration.

	<u>2019</u> <b>HK\$'000</b> (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Manager's fee:</b>		
In the form of units	75,757	70,605
In the form of cash	<u>75,757</u>	<u>70,606</u>
	<u><b>151,514</b></u>	<u>141,211</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 2019 and 2018 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>2019</u> <b>HK\$'000</b> (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Finance costs represent:</b>		
Interest expense on bank borrowings	137,239	114,894
Interest expense on medium term notes	100,077	82,278
Other borrowing costs (note)	<u>760</u>	<u>762</u>
	<u><b>238,076</b></u>	<u>197,934</u>

Note: Include loss on interest rate swap designated as fair value hedge of HK\$265,000 (2018: HK\$190,000).

## 8. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Profit before tax and distribution to unitholders has been arrived at after charging (crediting):</b>		
Auditor's remuneration	1,090	1,025
Trustee's fee	7,324	6,847
Principal valuer's fee	88	101
Other professional fee and charges	2,892	8,097
Roadshow and public relations expenses	701	889
Bank charges	152	153
Exchange difference	373	(900)
	<u>          </u>	<u>          </u>

## 9. INCOME TAXES

	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Hong Kong Profits Tax:</b>		
<b>Current tax</b>		
- Current year	108,116	103,203
- Overprovision in prior years	-	(20)
	<u>108,116</u>	<u>103,183</u>
<b>Deferred tax</b>		
- Current year	41,384	39,837
	<u>149,500</u>	<u>143,020</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>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Profit for the period, before distribution to unitholders</b>	<b>3,186,527</b>	4,722,327
Adjustments:		
Manager's fees payable in units	75,757	70,605
Increase in fair value of investment properties	(2,455,700)	(4,033,138)
Non-cash finance costs	20,955	12,616
Deferred tax	41,384	39,837
<b>Total distributable income</b>	<b><u>868,923</u></b>	<u>812,247</u>

## 11. DISTRIBUTION STATEMENT

	<u>2019</u> HK\$'000 (unaudited)	<u>2018</u> HK\$'000 (unaudited)
<b>Total distributable income (note 10)</b>	<b>868,923</b>	812,247
Percentage of distributable income for distribution (note (i))	<u>90%</u>	<u>90%</u>
<b>Total distribution amount to be paid</b>	<b><u>782,031</u></b>	<u>731,022</u>
<b>Distribution per unit to unitholders (note (ii))</b>	<b><u>HK\$0.1335</u></b>	<u>HK\$0.1250</u>

Notes:

- (i) It is the policy of the Manager to distribute 90% (six months ended 30 June 2018: 90%) of available distributable income as the distributions for the six months ended 30 June 2019 (the "Interim Distribution Period").

## 11. DISTRIBUTION STATEMENT - continued

Notes: - continued

- (ii) The interim distribution per unit of HK\$0.1335 for the six months ended 30 June 2019 is calculated based on the interim distribution to be paid of HK\$782,031,000 for the period and 5,858,503,599 units in issue as at 30 June 2019. Such interim distribution will be subject to further adjustments upon the issuance of units on or before 20 September 2019, which is the record date set for such period. The interim distribution will be paid to unitholders on 4 October 2019.

The interim distribution per unit of HK\$0.1250 for the six months ended 30 June 2018 was calculated based on the interim distribution paid of HK\$731,022,000 for the period and 5,847,092,804 units as of 21 September 2018, which was the record date for the period. The interim distribution was paid to unitholders on 5 October 2018.

## 12. BASIC EARNINGS PER UNIT

The basic earnings per unit during the six months ended 30 June 2019 is calculated by dividing the profit for the period, before distribution to unitholders of HK\$3,186,527,000 (2018: HK\$4,722,327,000) with the weighted average number of units of 5,860,193,423 (2018: 5,837,842,486) 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 2019 and 2018.

There were no diluted potential units during the six months ended 30 June 2019 and 2018, therefore the diluted earnings per unit has not been presented.

## 13. TRADE AND OTHER RECEIVABLES

	At 30 June <u>2019</u> HK\$'000 (unaudited)	At 31 December <u>2018</u> HK\$'000 (audited)
Trade receivables	12,213	27,736
Deferred rent receivables	157,479	169,575
Deposits, prepayments and other receivables	<u>80,524</u>	<u>99,538</u>
	<u>250,216</u>	<u>296,849</u>

Trade receivables represent rental and building management fee 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 <b>30 June</b> <u><b>2019</b></u> <b>HK\$'000</b> (unaudited)	At 31 December <u>2018</u> HK\$'000 (audited)
0 - 3 months	<u><b>12,213</b></u>	<u>27,736</u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$12,213,000 (31 December 2018: HK\$27,736,000) 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 <b>30 June</b> <u><b>2019</b></u> <b>HK\$'000</b> (unaudited)	At 31 December <u>2018</u> HK\$'000 (audited)
Trade payables	<b>88,268</b>	79,127
Rental received in advance	<b>32,516</b>	19,852
Other payables	<b>278,576</b>	274,714
Accrued stamp duty	<b>963,475</b>	963,475
	<u><b>1,362,835</b></u>	<u>1,337,168</u>

The accrual of stamp duty is based on the current stamp duty rate of 4.25% (31 December 2018: 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 <b>30 June</b> <u><b>2019</b></u> <b>HK\$'000</b> (unaudited)	At 31 December <u>2018</u> HK\$'000 (audited)
0 - 3 months	<u><b>88,268</b></u>	<u>79,127</u>

**15. NUMBER OF UNITS IN ISSUE**

	<u>Number of units</u>	<u>Amount</u> <u>HK\$'000</u>
As at 1 January 2018 (audited)	5,823,028,120	24,278,216
Units issued for settlement of Manager's fee	24,064,684	136,723
As at 31 December 2018 (audited)	5,847,092,804	24,414,939
Units issued for settlement of Manager's fee	11,410,795	73,714
<b>At 30 June 2019 (unaudited)</b>	<b><u>5,858,503,599</u></b>	<b><u>24,488,653</u></b>

On 8 March 2019, 11,410,795 units at HK\$6.46 per unit were issued to the Manager as settlement of Manager's fee for the period from 1 July 2018 to 31 December 2018.

**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 2019 of HK\$69,241,127,000 (31 December 2018: HK\$66,760,928,000) by the number of units in issue of 5,858,503,599 units as at 30 June 2019 (31 December 2018: 5,847,092,804 units).

**17. NET CURRENT LIABILITIES**

At 30 June 2019, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$2,061,891,000 (31 December 2018: HK\$4,727,043,000).

**18. TOTAL ASSETS LESS CURRENT LIABILITIES**

At 30 June 2019, the Group's total assets less current liabilities amounted to HK\$83,790,039,000 (31 December 2018: HK\$78,666,061,000).

**19. CAPITAL COMMITMENT**

	At <b>30 June</b> <b>2019</b> <b>HK\$'000</b> <b>(unaudited)</b>	At 31 December <b>2018</b> <b>HK\$'000</b> <b>(audited)</b>
Capital expenditure in respect of the improvement works of investment properties contracted for but not provided in the condensed consolidated financial statements	<b><u>8,386</u></b>	<b><u>19,551</u></b>