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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

2020 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 2020 (“**Period**”).

FINANCIAL HIGHLIGHTS

	6 Months Ended 30 Jun 2020	6 Months Ended 30 Jun 2019	Change
	HK\$' million	HK\$' million	
Total Rental Income ¹	1,342	1,400	- 4.1%
Net Property Operating Expenses ¹	148	137	+ 7.9%
Net Property Income	1,194	1,263	- 5.4%
Distributable Income	804	869	- 7.5%
Distribution Amount	724	782	- 7.5%
Distribution per Unit (HK\$)	0.1229	0.1332	- 7.7%

	As at 30 Jun 2020	As at 31 Dec 2019	Change
	HK\$' million	HK\$' million	
Gross Value of Portfolio	71,993	81,178	- 11.3%
Net Asset Value per Unit (HK\$)	9.44	11.04	- 14.5%
Gearing Ratio	22.7%	18.0%	+ 4.7pp

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 COVID-19 pandemic in the first half of 2020 has put the global economy on pause, posing unprecedented challenges to all walks of life. Various social distancing regulations and cross-border controls have resulted in significant slowdown in economic activities and brought tourism to a standstill. We have swiftly reacted to the situation by making determined efforts to embrace the new normal and support our tenants. Amid the sluggish market sentiment, the Trust recorded a 7.5% decline in distributable income to HK\$804 million (2019: HK\$869 million) and a 7.7% decline in distribution per unit (“DPU”) to HK\$0.1229 (2019: HK\$0.1332).

While the office portfolio managed to deliver a stable growth from rental income, it was insufficient to compensate the weak retail performance. The footfall and sales of Langham Place Mall were severely affected by the coronavirus outbreak. The diminished retail turnover rent caused a significant drop in retail rental income, dragging down the overall performance of the Trust. Total rental income of the Trust decreased 4.1% to HK\$1,342 million (2019: HK\$1,400 million) while net property income decreased by 5.4% to HK\$1,194 million (2019: HK\$1,263 million).

The Trust continued to take a proactive approach in liability management. With the uncertainties ahead, we have diversified our funding source and enhanced the financial flexibility of the Trust. A total of USD300 million 10-year medium term notes were issued and standby banking facilities of HK\$2.0 billion have been arranged during the first half of 2020.

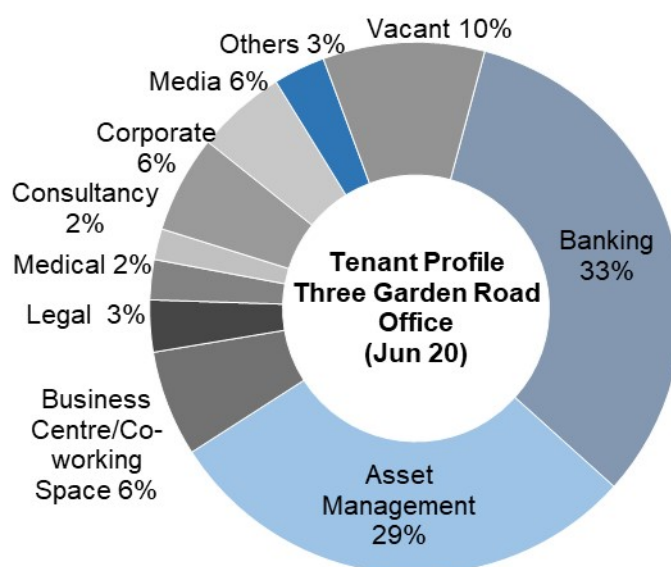
The appraised value of the Trust’s properties was HK\$72.0 billion as at 30 June 2020, sliding by 11.3% from HK\$81.2 billion as at 31 December 2019. The drop was driven by lower rental rate assumptions and marginal expansion of capitalisation rates. As a result of the decline in valuation of properties, net asset value per unit decreased to HK\$9.44 compared with HK\$11.04 as at 31 December 2019. Gearing ratio increased to 22.7% as at 30 June 2020 from 18.0% as at 31 December 2019.

OPERATIONAL REVIEW

Three Garden Road

	6 Months Ended 30 Jun 2020	6 Months Ended 30 Jun 2019	Change
	HK\$'000	HK\$'000	
Rental Income	769,758	738,106	+ 4.3%
Net Property Operating Expenses	82,314	72,258	+ 13.9%
Net Property Income	687,444	665,848	+ 3.2%

Leasing activities and demand of the office market in Central were subdued in the midst of the pandemic. With the social-distancing measures in place, tenants revisited their real estate strategies and became very cost conscious in light of the global economic downturn. Increasing vacancies in Central have caused softening in market rental. The pandemic has also made it difficult for potential tenants to conduct property site visits and inspections. The level of enquiries has slightly improved towards the end of the second quarter but dropped again due to a subsequent fresh wave of COVID-19 infections in Hong Kong.



Despite the precarious market environment, rental reversion for Three Garden Road remained positive in the first half of 2020, bolstering rental income to HK\$770 million (2019: HK\$738 million). Passing rents of the property increased to HK\$109.5 per sq. ft. (based on lettable area) as at 30 June 2020, compared with HK\$107.8 per sq. ft. as at 31 December 2019. The depressed demand has lengthened the downtime for sourcing replacement tenants for vacant spaces. Occupancy was lowered to 90.2% as at 30 June 2020 from 93.0% as at 31 December 2019.

Net property income grew steadily by 3.2% to HK\$687 million (2019: HK\$666 million). Net property operating expenses increased by HK\$10 million mainly due to higher net building management expenses on higher vacancy and a one-time charge of government rent and rates as a result of reassessment.

Langham Place Office Tower

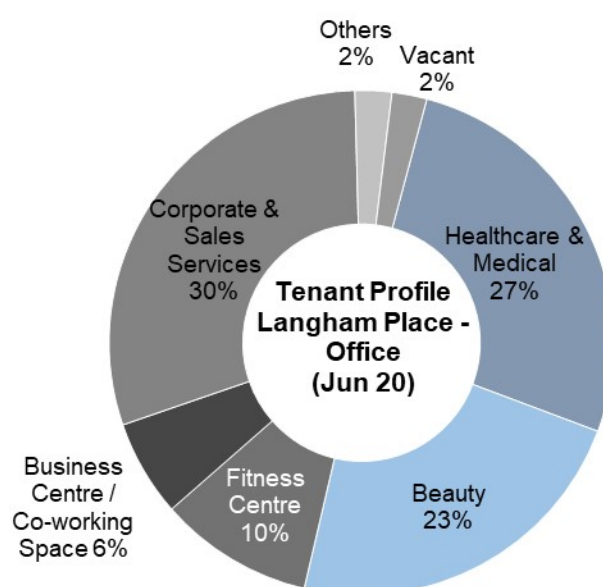
	6 Months Ended 30 Jun 2020	6 Months Ended 30 Jun 2019	Change
	HK\$'000	HK\$'000	
Rental Income	194,045	185,084	+ 4.8%
Net Property Operating Expenses	16,835	15,055	+ 11.8%
Net Property Income	177,210	170,029	+ 4.2%

As 60% of the Office Tower's tenants are in the lifestyle category, their business operations had been suspended intermittently under the social distancing regulations imposed by the government. The temporary closure of beauty parlours and fitness centres from March to May, and again in July have impeded their short-term cash flow and profitability. The remaining traditional office tenants also face pressure from operating costs due to poor economic outlook, giving rising to relocation to the less prime locations in Kowloon.

To mitigate the economic predicament, we devised an innovative method in rental settlement with anchor tenant Union Medical Healthcare ("UMH", stock code: 2138) of the property. The Trust received listed shares of UMH in lieu of cash for their rental payment from March to July 2020 to ease the short-term liquidity of the tenant. The strategic partnership with the tenant is conducive for Langham Place Office Tower to develop and establish itself as a prominent one-stop healthcare, beauty and lifestyle landmark. It will in turn bring impetus to the Trust's revenue once the market recovers. Furthermore, we have collaborated with a number of lifestyle tenants in offering discounted cash vouchers to boost their sales.

Notwithstanding the challenging backdrop, total rental income of the property increased by 4.8% to HK\$194 million (2019: HK\$185 million) mainly due to positive rental reversion as some of the leases were signed before the pandemic outbreak. Passing rents edged up moderately to HK\$47.1 per sq. ft. (based on gross floor area) as at 30 June 2020 compared with HK\$46.5 per sq. ft. as at 31 December 2019. Occupancy remained at a high level of 97.8% as at 30 June 2020.

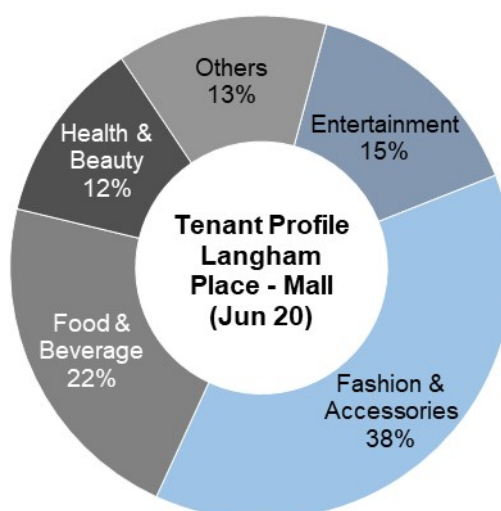
Total net property operating expenses increased by HK\$2 million mainly due to increased promotion expenses to help improve the business of the lifestyle tenants. Net property income increased by 4.2% to HK\$177 million (2019: HK\$170 million).



Langham Place Mall

	6 Months Ended 30 Jun 2020	6 Months Ended 30 Jun 2019	Change
	HK\$'000	HK\$'000	
Rental Income	378,458	476,560	- 20.6%
Net Property Operating Expenses	48,779	49,818	- 2.1%
Net Property Income	329,679	426,742	- 22.7%

The Hong Kong retail market has experienced an extremely detrimental operating environment since the outbreak of COVID-19 in end of January. While the cross border control and quarantine requirements have frozen tourist arrivals, the outbreak has also caused local shoppers to avoid going out. The meager amount of visitors has seriously impacted the business of tenants focusing on tourists. The social distancing regulations imposed since March, such as limiting public gatherings to four people and the forced closure of entertainment venues, have caused business disruptions to operators like cinemas and eateries. As a result, footfall dropped 35.1% in the first six months and tenants sales of Langham Place Mall experienced a severe drop, underperforming the 33.3% decline in Hong Kong's overall retail sales in the first half due to the drastic drop in tourist traffic.



Given the significant reduction in retail sales, many tenants requested for rental relief and lease restructuring. We took great care to evaluate the requests individually. Rental concessions offered to tenants will be amortised over the remaining lease terms. The amount of concession recognised in the first half did not have material impact on the overall rental retail income. We have allocated more resources to promotional activities aiming to lift footfall and consumer sentiment, including setting up e-shop to offer our tenants' cash vouchers, parking discounts, gift redemptions and bonus point rewards.

Our leasing strategy maintains a focus on keeping high occupancy rates rather than sustaining the rent rates and lease terms. As such, the Mall remained fully occupied as at 30 June 2020. Around 6.0% of tenants' leases were restructured to pay turnover rent, and they accounted for only 6.9% of the property area as at 30 June 2020. Total rental income dropped by 20.6% to HK\$378 million (2019: HK\$477 million). The base rent portion declined 2.7% to HK\$347 million (2019: HK\$356 million) whereas the turnover rent dropped by a larger extent of 90.2% to HK\$9 million (2019: HK\$90 million). As a result of lease restructuring and rental concessions, the passing base rents of the Mall decreased to HK\$178.9 per sq. ft. (based on lettable floor area) as at 30 June 2020 (HK\$190.5 per sq. ft. as at 31 December 2019).

Upholding a high standard of hygiene, we have stepped up the preventive measures at our properties. As a result, it has incurred an increase in net property management expenses. Expenses invested in sales-oriented promotional programmes also went up. Nevertheless, lower lease management service expenses and rental commissions have helped offset the risen costs. Total net property operating expenses decreased slightly by HK\$1 million. However, the cost savings cannot compensate the significant drop in rental income, causing the net property income of the Mall to shrink by 22.7% to HK\$330 million (2019: HK\$427 million).

Sustainability

The volatile business environment coupled with the outbreak of COVID-19 have presented tremendous impact on our business. Being able to engage stakeholders proactively is crucial to the sustainability of our business. We are mindful of the expectations of our stakeholders, and have strived to respond to their viewpoints with agility during these trying times. Adjusting to the new normal, we have made determined efforts to innovate and support our tenants, such as introducing the novel method in rental settlement and pioneering the 360° virtual tour of office buildings.

Under our 2030 sustainability targets established in 2019, we have been forging partnerships with our stakeholders proactively to reduce environmental footprint and promote wellness. We do our utmost to integrate sustainable development into our business strategy, creating long-term value not only for our business, but also for the communities we serve.

The Trust is also dedicated to giving back to the community and addressing local needs. Apart from donating sanitising supplies to the community, we have hosted handmade sanitiser and wellness workshops for our employees. In view of the limited internship opportunities available on the market due to the impact of pandemic in the summer of 2020, the Trust rolled out a first-ever entrepreneur programme with an objective to train tertiary students with practical business and marketing skills.

We stay vigilant with our commitment to high legal and compliance standards despite the current arduous circumstances. During the reporting period, the Trust engaged external consultants to review the compliance procedures on anti-money laundering and sanctions with a view to enhance our risk management and corporate governance.

OUTLOOK

The outlook of the second half of the year is bleak. The coronavirus pandemic could continue to affect economic activities amid a persistent spread of COVID-19 globally and locally. Social distancing regulations will plunge traditional businesses into a deeper mire. In addition, geopolitical tensions and deteriorating local economic situation would deal another blow to our tenants. We are worried that the global economic recession triggered by COVID-19 might deepen further on the unemployment and bankruptcies across the globe, resulting in a longer time for recovery.

Grade A office market in Central is expected to continue to face a downward trend over the next few months. Vacancy rates have reached a new record high since global financial crisis with market rent falling sharply. Occupiers opt for relocation and downsizing alternatives in view of the uncertain economic outlook. Demand from Chinese financial institutions which has been supporting Central's rent level, has almost vanished. Furthermore, work-from-home arrangements have prompted office occupiers to review their renting strategies. Nevertheless, physical offices and dedicated workspaces should continue for a majority of businesses. The positive rental reversion achieved for Three Garden Road would not be sustainable in the second half. Interruptions in the business of lifestyle tenants caused by COVID-19, and the trend of traditional office tenants seeking to cut cost would create further downward pressure on the rental market of Langham Place Office Tower. Since our leasing strategy strives to focus on occupancy and tenant retention, the vacancy level of our office portfolio might inevitably increase towards the year end in the existing battered business environment.

Footfall and tenant sales of Langham Place Mall are finding their bottom following the tightened social distancing regulations. The negative outlook of local discretionary spending and absence of tourists will mean a lengthy recovery for the retail industry. Rental income would continue to be under immense pressure in the remainder of 2020. That said, we will continue to strengthen promotional activities to revive consumer sentiment and stimulate tenants sales.

The outbreak has changed the behaviour of both office workers and shoppers, and spurred the usage of online platforms. To adapt to the new normal, we have launched an online shop to sell vouchers of the retail tenants in the mall and lifestyle tenants in the office tower respectively. In addition, we have made available virtual tours for Three Garden Road and Langham Place Office Tower to facilitate potential overseas tenants to view our properties remotely. We are poised to become a pioneer in the deployment of VR technology in Hong Kong office leasing.

Given the unfavourable outlook for all the properties in the portfolio, the Trust is expected to continue to face downside risks in rental income and DPU in the second half. We will continue to enhance liability and treasury management to generate yields and enhance income. With quantitative easing taking place globally and the strong holding power of many sellers, attractive acquisition opportunities are limited. We will continue to adopt a prudent approach on investment opportunities with long-term growth potentials for unitholders. However, we are very cautious amidst the poor global economic conditions.

We are committed to working shoulder to shoulder with tenants and stakeholders to pursue long-term sustainability and ride out difficult times together. We will also continue to integrate sustainable development into our business strategy, creating long-term value for our unitholders and stakeholders.

VALUATION OF PROPERTIES

According to the Property Valuation Reports issued by Colliers International (Hong Kong) Limited on 27 July 2020, the valuation of the properties of Champion REIT, broken down by usage as at 30 June 2020 was:

	Three Garden Road	Langham Place	Sub-total
Jun 2020 Valuation	HK\$ mil	HK\$ mil	HK\$ mil
Office	42,296	9,576	51,872
Retail	630	18,013	18,643
Car Park	596	318	914
Miscellaneous	346	218	564
Total	43,868	28,125	71,993

As at 30 June 2020, the appraised value of the Trust's property portfolio was HK\$72.0 billion, down by 11.3% from HK\$81.2 billion as at 31 December 2019. The decrease was mainly due to lower rental assumptions and increase in capitalisation rates for all the properties. The capitalisation rates used to value Three Garden Road, Langham Place Office and Langham Place Mall were at 3.7%, 4.1% and 4.0% respectively.

FINANCIAL REVIEW

DISTRIBUTIONS

The Distribution Amount of Champion REIT for the six months ended 30 June 2020 was HK\$724 million (2019: HK\$782 million), calculated as 90% of Champion REIT's total available distributable income of HK\$804 million (2019: HK\$869 million).

The distribution per unit for the six months ended 30 June 2020 ("**Interim Distribution per Unit**") was HK\$0.1229. This represents an annualised distribution yield of 6.4% based on the closing price of HK\$4.03 as at 30 June 2020. Such distribution per unit, however, is subject to adjustment upon the issuance of new units between 1 July 2020 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, 22 September 2020 to Friday, 25 September 2020 ("**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 2020 will be made on Friday, 9 October 2020 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 2020, 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, 21 September 2020.

PROACTIVE LIABILITY MANAGEMENT

Committed Debt Facilities ⁽¹⁾

As at 30 June 2020
(HK\$ million)

	Fixed rate debt ⁽²⁾	Floating rate debt	Total debt	Undrawn committed facilities	Total debt and undrawn committed facilities
HK\$ denominated					
Secured bank loans	3,450	235	3,685	-	3,685
Unsecured bank loans	2,900	3,114	6,014	2,086	8,100
Medium Term Notes	1,700	643	2,343	-	2,343
	8,050	3,992	12,042	2,086	14,128
US\$ denominated⁽³⁾					
Medium Term Notes	5,323	-	5,323	-	5,323
	5,323	-	5,323	-	5,323
Total	13,373	3,992	17,365	2,086	19,451

(1) All amounts are stated at face value

(2) After accounting for interest rate swaps

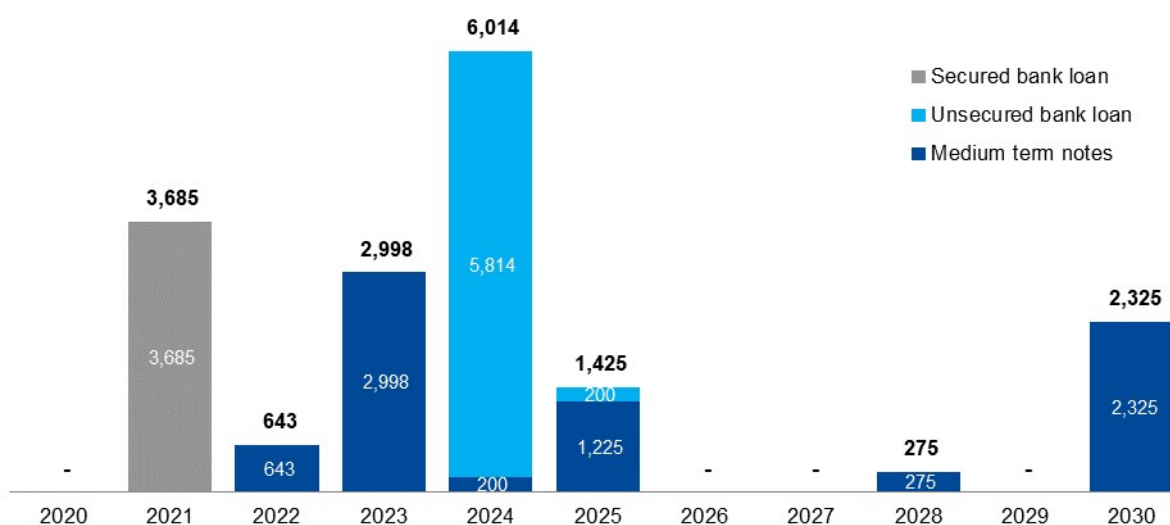
(3) Included notes with outstanding principal amount of US\$386.4 million, fully hedged at an average rate of HK\$7.7595 to US\$1.00 by way of cross currency swaps

The Trust continued to take the initiative to strengthen its liquidity position amid the coronavirus pandemic. During the reporting period, the Trust issued US\$300 million 10-year medium term notes at 2.95% per annum and entered into several committed term and revolving credit facilities with a total amount of HK\$2.0 billion. In order to hedge against its floating-rate unsecured bank loans, the Trust also entered into interest rate swaps with a total notional amount of HK\$1.4 billion.

Outstanding Debt Maturity Profile ⁽¹⁾

As at 30 June 2020

(HK\$ million)



(1) Including committed revolving credit facility of HK\$850 million with final maturity in June 2024

As at 30 June 2020, 78.8% (31 December 2019: 75.5%) of total outstanding debt facilities were unsecured. The remaining 21.2% (31 December 2019: 24.5%) of loan facilities of HK\$3,685 million is secured by certain portions of Three Garden Road, which carried a fair value of HK\$22.5 billion as at 30 June 2020. The Trustee has provided guarantees for all of the debt facilities.

As at 30 June 2020, the fixed-rate debt proportion increased by 12.8% to 77.0% (31 December 2019: 64.2%). But this is expected to drop next year given that 20.0% of total outstanding debt hedged by interest rate swaps will mature in June 2021. After accounting for interest rate swaps and cross currency swaps, the effective interest rate for the reporting period was 2.9% (31 December 2019: 3.0%). The average life of the Trust's outstanding debt was 3.8 years as at 30 June 2020 (31 December 2019: 3.2 years).

The Trust's investment properties as at 30 June 2020 were appraised at a total value of HK\$72.0 billion (31 December 2019: HK\$81.2 billion). Coupled with the increase in total debt to HK\$17.4 billion (31 December 2019: HK\$15.0 billion), the Trust's gearing ratio (or total borrowings as a percentage of gross assets) increased to 22.7% (31 December 2019: 18.0%). The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 27.4% (31 December 2019: 22.5%).

Liquidity position

As at 30 June 2020, HK\$2,886 million term and revolving credit facilities granted to the Trust remained undrawn. Of which, committed and uncommitted facilities are HK\$2,086 million and HK\$800 million respectively. Together with cash and deposits of HK\$3,981 million - including HK\$2,317 million denominated in US\$ - the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

On treasury management, to enhance returns to our Unitholders, the Trust held bonds with aggregate carrying amounts of HK\$252 million (31 December 2019: HK\$215 million) at the end of the reporting period. The Trust intended to hold the bonds until their respective maturities. As at 30 June 2020, the Trust also held listed equities with a fair value of HK\$32 million.

Net Asset Value per Unit

Net asset value per unit as at 30 June 2020 was HK\$9.44. It represented a 134.2% premium to the closing unit price of HK\$4.03 as at 30 June 2020.

Commitments

As at 30 June 2020, the Trust did not have any significant commitments at the end of the reporting period.

NEW UNITS ISSUED

On 4 March 2020, 16,044,212 new Units were issued to the REIT Manager at the price of HK\$4.555 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the Manager's Fee of approximately HK\$73 million for the second half of 2019.

Except for the above, no new Units were issued during the Period. As at 30 June 2020, the total number of issued Units of Champion REIT was 5,888,833,523.

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 2020 is set out below:

As at 31 Jul 2020	Type	Primary Listing	Country of Issuer	Currency	Total Cost (HK\$)	Mark-to-market Value (HK\$)	Weighting of GAV (%)	Credit Rating (S&P's/Moody's/Fitch's)
KERPRO 5 ½ 04/06/21	Bond	Singapore Exchange	BVI	USD	67,296,000	60,855,000	0.0734%	- / - / -
NANFUN 4 ½ 09/20/22 EMTN	Bond	Singapore Exchange	BVI	USD	9,797,000	9,767,000	0.0118%	BBB- / Baa3 / BBB-
NANFUN 4 ¾ 05/29/24 EMTN	Bond	Singapore Exchange	BVI	USD	56,603,000	57,546,000	0.0694%	BBB- / Baa3 / BBB-
NWDEVL 5 ¼ 02/26/21	Bond	Hong Kong Exchange	BVI	USD	41,574,000	39,407,000	0.0475%	- / - / -
PCCW 3 ¾ 03/08/23	Bond	Singapore Exchange	BVI	USD	49,641,000	51,089,000	0.0616%	BBB / Baa2 / -
CAPG 6.35 02/08/24	Bond	Singapore Exchange	Cayman Islands	USD	38,747,000	39,077,000	0.0471%	B / B2 / BB-
MOLAND 11 ½ 11/13/22	Bond	Singapore Exchange	Cayman Islands	USD	3,809,000	3,789,000	0.0046%	- / B3 / B
GRNCH 5.65 07/13/25	Bond	Hong Kong Exchange	Cayman Islands	USD	9,300,000	9,576,000	0.0116%	- / Ba3 / -
CIFIHG 5.95 10/20/25	Bond	Hong Kong Exchange	Cayman Islands	USD	77,488,000	77,729,000	0.0938%	BB- / - / BB
CIFIHG 7 ¾ 03/02/21	Bond	Hong Kong Exchange	Cayman Islands	USD	55,487,000	55,358,000	0.0668%	- / - / BB
CAPG 7 ½ 05/10/21	Bond	Singapore Exchange	Cayman Islands	USD	15,791,000	15,775,000	0.0190%	B / B2 / BB-
TPHL 6 05/05/21 *	Bond	Hong Kong Exchange	Cayman Islands	USD	15,656,000	15,611,000	0.0188%	- / - / -
Union Medical Healthcare Limited (Stock Code: 2138.HK)	Equity	Hong Kong Exchange	Cayman Islands	HKD	33,932,000	33,124,000	0.0400%	N/A
Total					475,121,000	468,703,000	0.5654%	

* Settlement date is 3 August 2020.

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

The volatile business environment coupled with the outbreak of COVID-19 have presented tremendous impact on our business. Being able to engage stakeholders proactively is crucial to the sustainability of our business. We are mindful of the expectations of our stakeholders, and have strived to respond to their viewpoints with agility during these trying times. Adjusting to the new normal, we have made determined efforts to innovate and support our tenants, such as introducing the novel method in rental settlement and pioneering the 360° virtual tour of office buildings.

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The Trust is also dedicated to giving back to the community and addressing local needs. Apart from donating sanitising supplies to the community, we have hosted handmade sanitiser and wellness workshops for our employees. In view of the limited internship opportunities available on the market due to the impact of pandemic in the summer of 2020, the Trust rolled out a first-ever entrepreneur programme with an objective to train tertiary students with practical business and marketing skills.

We stay vigilant with our commitment to high legal and compliance standards despite the current arduous circumstances. During the reporting period, the Trust engaged external consultants to review the compliance procedures on anti-money laundering and sanctions with a view to enhance our risk management and corporate governance.

PURCHASE, 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 28 May 2020. During the Period, neither the REIT Manager nor any of Champion REIT's special purpose vehicles had purchased, 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 HKEXnews (www.hkexnews.hk) and Champion REIT (www.ChampionReit.com) before the end of August 2020.

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, 20 August 2020

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<u>NOTES</u>	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Rental income	5	1,329,479	1,381,528
Building management fee income		145,579	153,192
Rental related income		<u>12,782</u>	<u>18,222</u>
Total revenue		1,487,840	1,552,942
Property operating expenses	6	<u>(293,507)</u>	<u>(290,323)</u>
Net property income		1,194,333	1,262,619
Interest income		21,195	19,758
Manager's fee	7	(143,320)	(151,514)
Trust and other expenses		(17,261)	(12,460)
(Decrease) increase in fair value of investment properties		(9,172,565)	2,455,700
Fair value changes on financial assets at fair value through profit or loss		(1,939)	-
Finance costs	8	<u>(231,993)</u>	<u>(238,076)</u>
(Loss) profit before tax and distribution to unitholders	9	(8,351,550)	3,336,027
Income taxes	10	<u>(140,253)</u>	<u>(149,500)</u>
(Loss) profit for the period, before distribution to unitholders		(8,491,803)	3,186,527
Distribution to unitholders	12	<u>(723,665)</u>	<u>(782,031)</u>
(Loss) profit for the period, after distribution to unitholders		<u>(9,215,468)</u>	<u>2,404,496</u>
Basic (loss) earnings per unit	13	<u>HK\$(1.44)</u>	<u>HK\$0.54</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
(Loss) profit for the period, after distribution to unitholders	<u>(9,215,468)</u>	<u>2,404,496</u>
Other comprehensive (expense) income:		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Cash flow hedges:		
Fair value adjustments on cross currency swaps and interest rate swaps designated as cash flow hedges	(131,125)	(2,494)
Reclassification of fair value adjustments to profit or loss	<u>9,730</u>	<u>4,483</u>
	<u>(121,395)</u>	<u>1,989</u>
Total comprehensive (expense) income for the period	<u><u>(9,336,863)</u></u>	<u><u>2,406,485</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTES	At 30 June 2020 HK\$'000 (unaudited)	At 31 December 2019 HK\$'000 (audited)
Non-current assets			
Investment properties		71,992,780	81,178,000
Notes receivables		152,135	215,093
Derivative financial instruments		25,572	61,007
Total non-current assets		72,170,487	81,454,100
Current assets			
Trade and other receivables	14	302,333	259,364
Notes receivables		99,412	-
Financial assets at fair value through profit or loss		31,993	-
Derivative financial instruments		-	3,419
Tax recoverable		1,126	608
Short-term bank deposits		610,028	200,000
Cash and cash equivalents		3,371,074	1,761,655
Total current assets		4,415,966	2,225,046
Total assets		76,586,453	83,679,146
Current liabilities			
Trade and other payables	15	1,417,886	1,393,805
Deposits received		761,316	799,552
Derivative financial instruments		34,577	-
Tax liabilities		113,636	279,194
Distribution payable		723,665	783,505
Bank borrowings		4,521,923	843,510
Medium term notes		-	199,929
Total current liabilities		7,573,003	4,299,495
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		67,166	-
Bank borrowings		5,114,588	8,597,553
Medium term notes		7,602,380	5,326,277
Deferred tax liabilities		658,776	621,499
Total non-current liabilities, excluding net assets attributable to unitholders		13,442,910	14,545,329
Total liabilities, excluding net assets attributable to unitholders		21,015,913	18,844,824
Net assets attributable to unitholders		55,570,540	64,834,322
Number of units in issue ('000)	16	5,888,834	5,872,789
Net asset value per unit	17	HK\$9.44	HK\$11.04

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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. 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" issued by Hong Kong Institute of Certified Public Accountants and the relevant disclosure requirements set out in Appendix C of the REIT Code.

At 30 June 2020, the Group's net current liabilities amounted to HK\$3,157,037,000. The Manager is of the opinion that, taking into account the internal financial resources and availability of undrawn loan facilities of the Group, the Group has sufficient working capital for its present requirement at least one year from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy and business environment. Office demand and retail sentiments are severely impacted by the outbreak of Covid-19. In addition, there is a negative impact on the valuation of the Group's investment properties. As such, the condensed consolidated results of operations and fair value of the investment properties were significantly impacted.

3. 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 amendments to Hong Kong Financial Reporting Standards ("HKFRS") and application of certain accounting policies which become relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed and presented in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and amendments to HKFRSs in current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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 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.

4. **SEGMENT INFORMATION** - continued

For the six months ended 30 June 2020

	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>847,548</u>	<u>220,421</u>	<u>419,871</u>	<u>1,487,840</u>
Segment results - Net property income	<u>687,444</u>	<u>177,210</u>	<u>329,679</u>	<u>1,194,333</u>
Interest income				21,195
Manager's fee				(143,320)
Trust and other expenses				(17,261)
Decrease in fair value of investment properties				(9,172,565)
Fair value changes on financial assets at fair value through profit or loss				(1,939)
Finance costs				(231,993)
Loss before tax and distribution to unitholders				<u>(8,351,550)</u>
Income taxes				(140,253)
Loss for the period, before distribution to unitholders				<u>(8,491,803)</u>
Distribution to unitholders				(723,665)
Loss for the period, after distribution to unitholders				<u>(9,215,468)</u>
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Decrease in fair value of investment properties	<u>(4,662,220)</u>	<u>(852,000)</u>	<u>(3,658,345)</u>	<u>(9,172,565)</u>

4. SEGMENT INFORMATION - continued

Segment revenue and results - continued

For the six months ended 30 June 2019

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

Other segment information

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 2020, the fair values of Three Garden Road, Langham Place Office Tower and Langham Place Mall were HK\$43,867,780,000 (31 December 2019: HK\$48,530,000,000), HK\$9,576,000,000 (31 December 2019: HK\$10,428,000,000) and HK\$18,549,000,000 (31 December 2019: HK\$22,220,000,000), respectively.

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

Information about major tenants

There was a tenant whose revenue contributed over 10% of the total revenue of the Group for the six months ended 30 June 2020 (30 June 2019: Nil).

5. RENTAL INCOME

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Property rental income	1,308,677	1,357,932
Car park income	20,802	23,596
Rental income	<u>1,329,479</u>	<u>1,381,528</u>

6. PROPERTY OPERATING EXPENSES

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Allowance for credit loss	694	-
Building management expenses	156,745	157,295
Car park operating expenses	5,329	5,254
Government rent and rates	50,586	38,766
Legal cost and stamp duty	1,836	2,991
Promotion expenses	15,754	9,520
Property and lease management service fee	38,999	41,806
Property miscellaneous expenses	1,747	1,577
Rental commission	21,317	30,728
Repairs and maintenance	500	2,386
	<u>293,507</u>	<u>290,323</u>

7. 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 2020 and 2019, the Manager is entitled to receive 12% of the net property income for each of the six months ended 30 June 2020 and 2019 as remuneration.

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Manager's fee:		
In the form of units	71,660	75,757
In the form of cash	71,660	75,757
	<u>143,320</u>	<u>151,514</u>

Based on the election results on 30 November 2012, the Manager continued to receive 50% of the Manager's fee for each of the six months ended 30 June 2020 and 2019 arising from the properties currently owned by Champion REIT 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.

8. FINANCE COSTS

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Finance costs represent:		
Interest expense on bank borrowings	128,303	137,239
Interest expense on medium term notes	102,963	100,077
Other borrowing costs	<u>727</u>	<u>760</u>
	<u>231,993</u>	<u>238,076</u>

9. (LOSS) PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
(Loss) profit before tax and distribution to unitholders has been arrived at after charging:		
Auditor's remuneration	1,226	1,090
Trustee's fee	6,686	7,324
Principal valuer's fee	72	88
Other professional fee and charges	7,425	2,892
Roadshow and public relations expenses	488	701
Bank charges	164	152
Exchange difference	<u>1,146</u>	<u>373</u>

10. INCOME TAXES

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Hong Kong Profits Tax:		
Current tax		
- Current year	102,976	108,116
Deferred tax		
- Current year	<u>37,277</u>	<u>41,384</u>
	<u>140,253</u>	<u>149,500</u>

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

11. TOTAL DISTRIBUTABLE INCOME

Total distributable income is the (loss) 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>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
(Loss) profit for the period, before distribution to unitholders	(8,491,803)	3,186,527
Adjustments:		
Manager's fees payable in units	71,660	75,757
Decrease (increase) in fair value of investment properties	9,172,565	(2,455,700)
Fair value changes on financial assets at fair value through profit or loss	1,939	-
Non-cash finance costs	12,434	20,955
Deferred tax	37,277	41,384
Total distributable income	<u>804,072</u>	<u>868,923</u>

12. DISTRIBUTION STATEMENT

	<u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Total distributable income (note 11)	804,072	868,923
Percentage of distributable income for distribution (note (i))	<u>90%</u>	<u>90%</u>
Total distribution amount to be paid	<u>723,665</u>	<u>782,031</u>
Distribution per unit to unitholders (note (ii))	<u>HK\$0.1229</u>	<u>HK\$0.1332</u>

Notes:

- (i) It is the policy of the Manager to distribute 90% (six months ended 30 June 2019: 90%) of available distributable income as the distributions for the six months ended 30 June 2020 (the "Interim Distribution Period").
- (ii) The interim distribution per unit of HK\$0.1229 for the six months ended 30 June 2020 is calculated based on the interim distribution to be paid of HK\$723,665,000 for the period and 5,888,833,523 units in issue as at 30 June 2020. Such interim distribution will be subject to further adjustments upon the issuance of units on or before 25 September 2020, which is the record date set for such period. The interim distribution will be paid to unitholders on 9 October 2020.

The interim distribution per unit of HK\$0.1332 for the six months ended 30 June 2019 was calculated based on the interim distribution paid of HK\$782,031,000 for the period and 5,872,789,311 units as of 20 September 2019, which was the record date for the period. The interim distribution was paid to unitholders on 4 October 2019.

13. BASIC (LOSS) EARNINGS PER UNIT

The basic (loss) earnings per unit during the six months ended 30 June 2020 is calculated by dividing the loss for the period before distribution to unitholders of HK\$8,491,803,000 (2019: profit for the period before distribution to unitholders of HK\$3,186,527,000) by the weighted average number of units of 5,892,170,575 (2019: 5,860,193,423) 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 2020 and 2019.

There were no diluted potential units in issue during the six months ended 30 June 2020 and 2019, therefore the diluted earnings per unit has not been presented.

14. TRADE AND OTHER RECEIVABLES

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Trade receivables	37,322	10,467
Deferred lease receivables	183,545	166,052
Deposits, prepayments and other receivables	81,466	82,845
	<u>302,333</u>	<u>259,364</u>

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>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
0 - 3 months	30,838	10,467
3 - 6 months	4,179	-
Over 6 months	2,305	-
	<u>37,322</u>	<u>10,467</u>

15. TRADE AND OTHER PAYABLES

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Trade payables	128,733	101,835
Rental received in advance	33,635	50,077
Other payables and accruals	292,043	278,418
Accrued stamp duty	963,475	963,475
	<u>1,417,886</u>	<u>1,393,805</u>

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>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
0 - 3 months	<u>128,733</u>	<u>101,835</u>

16. NUMBER OF UNITS IN ISSUE

	<u>Number of units</u>	<u>Amount HK\$'000</u>
As at 1 January 2019 (audited)	5,847,092,804	24,414,939
Units issued for settlement of Manager's fee	<u>25,696,507</u>	<u>149,471</u>
As at 31 December 2019 (audited)	5,872,789,311	24,564,410
Units issued for settlement of Manager's fee	<u>16,044,212</u>	<u>73,081</u>
As at 30 June 2020 (unaudited)	<u>5,888,833,523</u>	<u>24,637,491</u>

On 4 March 2020, 16,044,212 units at HK\$4.5550 per unit were issued to the Manager as settlement of Manager's fee for the period from 1 July 2019 to 31 December 2019.

17. 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 2020 of HK\$55,570,540,000 (31 December 2019: HK\$64,834,322,000) by the number of units in issue of 5,888,833,523 units as at 30 June 2020 (31 December 2019: 5,872,789,311 units).

18. NET CURRENT LIABILITIES

At 30 June 2020, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$3,157,037,000 (31 December 2019: HK\$2,074,449,000).

19. TOTAL ASSETS LESS CURRENT LIABILITIES

At 30 June 2020, the Group's total assets less current liabilities amounted to HK\$69,013,450,000 (31 December 2019: HK\$79,379,651,000).