

Exploring
New
Horizons



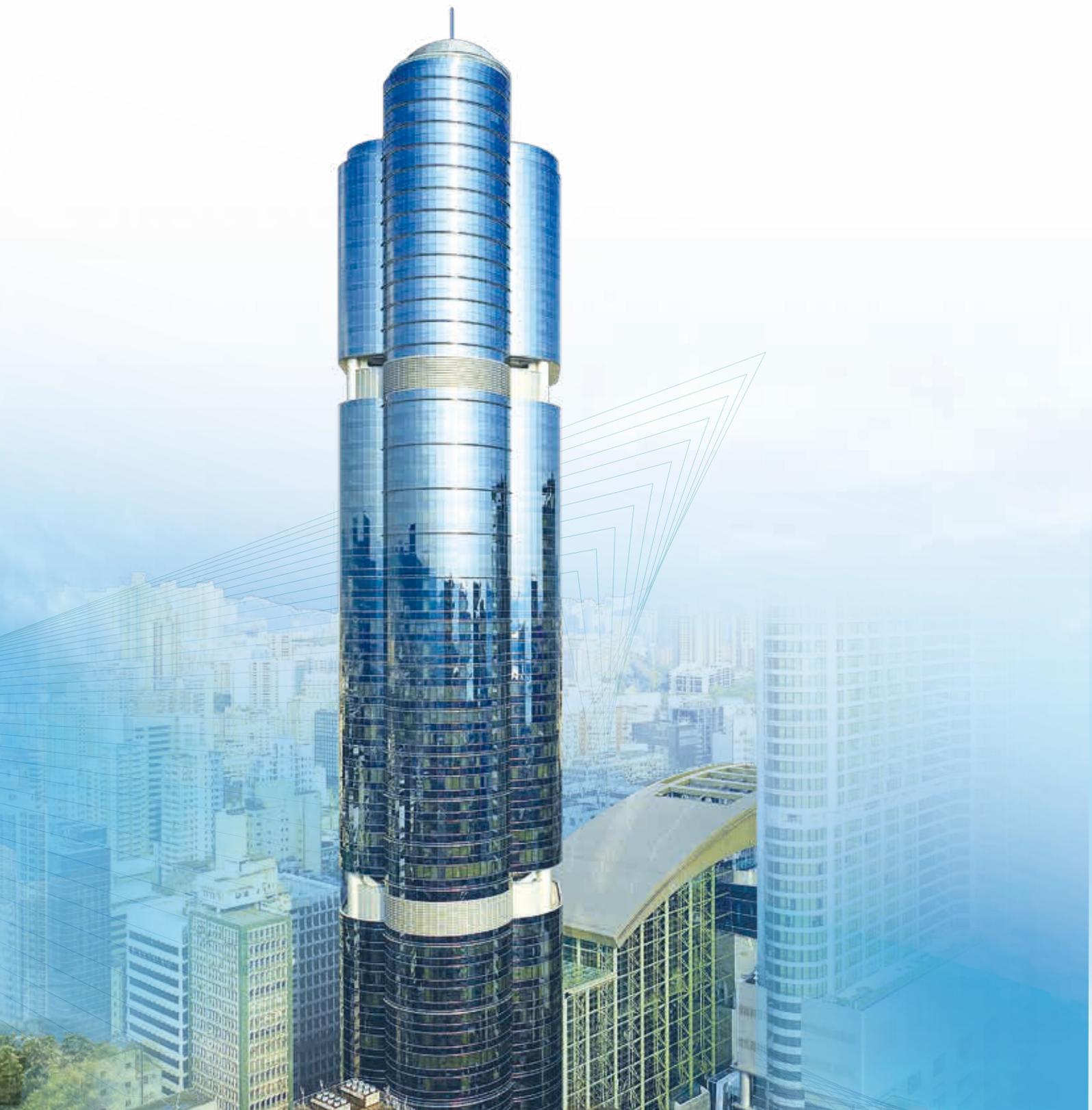
Annual Report 2016

Champion REIT is a real estate investment trust established by the REIT Trust Deed on 26 April 2006 and listed on the Hong Kong Stock Exchange since 24 May 2006.

The Trust initially invested and owned 91.5% stake of Three Garden Road (formerly known as Citibank Plaza), a Grade-A commercial complex with 2 office buildings, a retail podium and a 3 level basement garage located in the Central Business District in Hong Kong. Later in 2013, the Trust acquired the remaining four floors of Three Garden Road, unifying the ownership of the entire commercial complex.



In 2008, the Trust acquired the retail and office components (excluding four floors) of Langham Place in Mongkok. Completed in 2004, Langham Place is one of Hong Kong's busiest public transportation hubs and a popular shopping destination with tourists and locals alike.





Trust Profile

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 (formerly known as Citibank Plaza) and Langham Place, one on each side of the Victoria Harbour.



Trust Objectives

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

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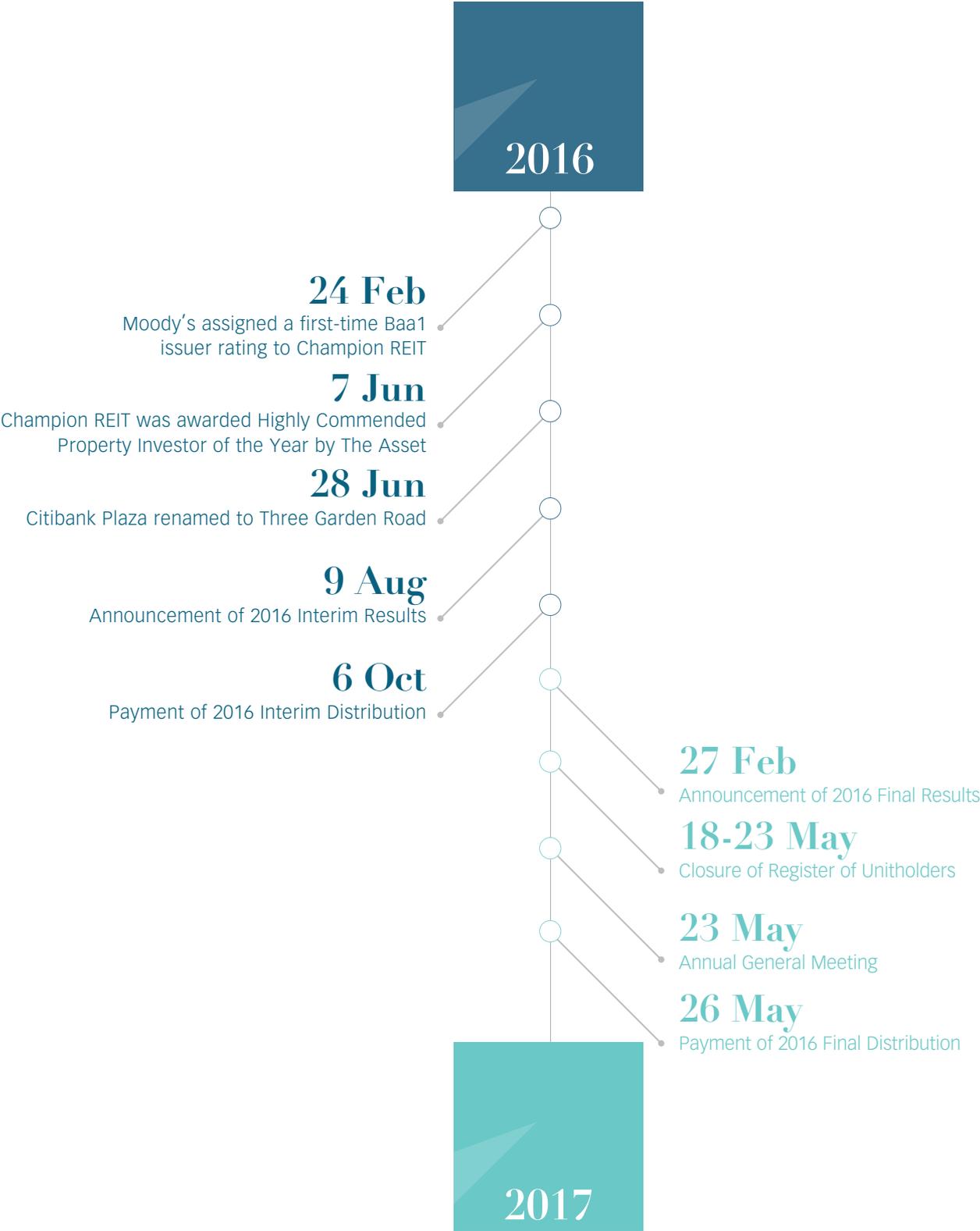
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Corporate Information

Timeline of Significant Events



Five Year Financial Summary

For the year ended 31 December

2012	2013	2014	2015	2016	PROFIT (HK\$ MIL)
\$1,886	\$1,989	\$2,080	\$2,063	\$2,299	Total Rental Income
(\$220)	(\$241)	(\$280)	(\$279)	(\$272)	Net Property Operating Expenses
\$1,666	\$1,748	\$1,800	\$1,784	\$2,027	Net Property Income
\$4,160	\$2,199	\$1,929	\$3,305	\$3,182	Profit After Tax
2012	2013	2014	2015	2016	DISTRIBUTIONS (HK\$)
\$1,254	\$1,271	\$1,234	\$1,212	\$1,408	Distributable Income (mil)
\$1,186	\$1,201	\$1,171	\$1,146	\$1,331	Distribution Amount (mil)
\$0.209	\$0.210	\$0.204	\$0.198	\$0.230	Distribution per Unit
2012	2013	2014	2015	2016	VALUATION (HK\$)
\$58,297	\$61,509	\$62,438	\$64,783	\$66,842	Gross Value of Portfolio (mil)
\$7.80	\$7.94	\$8.06	\$8.40	\$8.72	Net Asset Value per Unit
2012	2013	2014	2015	2016	FINANCIAL RATIOS
11.7%	12.1%	13.5%	13.5%	11.8%	Net Expense Ratio
94.6%	94.5%	94.8%	94.5%	94.5%	Payout Ratio
20.4%	23.4%	23.1%	22.1%	21.7%	Gearing Ratio
2012	2013	2014	2015	2016	OPERATIONAL STATISTICS
88.7%	84.8%	75.4%	91.2%	95.9%	Three Garden Road Office Occupancy
\$85.12	\$84.60	\$77.53	\$75.39	\$78.20	...and Passing Rent (HK\$ psf)
99.2%	99.0%	100.0%	100.0%	100.0%	Langham Place Office Occupancy
\$28.36	\$32.86	\$35.87	\$37.50	\$39.66	...and Passing Rent (HK\$ psf)
100.0%	100.0%	100.0%	100.0%	100.0%	Langham Place Mall Occupancy
\$114.89	\$144.26	\$165.44	\$174.54	\$178.74	...and Passing Rent (HK\$ psf)

As at 31 December

Chairman's Report To Unitholders

“During the year under review, the Trust performed strongly, delivering its expected growth during 2016, and achieving a record high distributable income.

Looking ahead, the market is facing a lot of uncertainties. We will confidently apply all our knowledge, expertise and innovation to meet the challenges of the operating environment and we will seek out any opportunities arising in the current market that will assist us to optimize unitholders' value in the long term. Most importantly, prudence must be observed. ”



Dr. LO Ka Shui
Chairman

During the year under review, the Trust performed strongly, delivering its expected growth during 2016, and achieving a record high distributable income.

In 2016, unexpected events such as the UK's Brexit vote in Europe and the US Presidential Election outcome have raised uncertainties in the global economy, causing volatilities in currency, stock markets and interest rates. Against this background, the Trust's distributable income increased 16.2% to HK\$1,408 million. Distribution per unit ("DPU") achieved a solid growth of 15.7% to HK\$0.2295 (2015: HK\$0.1983), which was driven by rental income increase from Three Garden Road and cost savings due to its improved occupancy.

Total rental income for 2016 was HK\$2,299 million, an increase of 11.5% compared with HK\$2,063 million for 2015. The solid growth was mainly due to higher average occupancy of Three Garden Road. As major leases committed previously started to have a full year impact, occupancy of the property was maintained at above 90% during 2016. Rental income of the property went up by 19.7%. On the other hand, innovative marketing campaigns enabled the Langham Place Mall to show resilience against the retailing downturn and recorded stable growth.

The higher average occupancy in Three Garden Road helped reduce the Trust's overall operating costs and the net property operating expenses ratio thereby improved to

11.8% in 2016, compared with 13.5% in 2015. The higher rental income and lower net property operating expenses resulted in an increase of 13.6% in net property income. Net property income for 2016 was HK\$2,027 million, compared with HK\$1,784 million for 2015.

While the refinancing undertaken in June 2016 has reduced interest margin and removed all refinancing risks over the next few years, the rising interest rate environment will put pressure on funding costs. To mitigate the impact of interest rate rises, a more proactive approach has been taken to increase the fixed rate portion of total debt. The Trust has also tapped the bond market to lock in long-term funding costs via private placement under the Medium Term Note Program. In addition, the Trust has also commenced a hedging program to swap part of the floating-rate loan into fixed-rate. As at 27 February 2017, the Trust has effectively fixed the interest rate of HK\$500 million of our bank loans by entering into interest rate swap contracts at an average interest rate at 1.735%. Our fixed rate portion accounts for 25% of total debt outstanding for the time being, we are watching the market closely for opportunity to fix more.

The appraised value of the Trust's properties was HK\$66.8 billion as at 31 December 2016, an increase of 3.2% compared with HK\$64.8 billion as at 31 December 2015, driven primarily by higher rental rate assumptions. Net asset value per unit was HK\$8.72 as at 31 December 2016, an increase of

3.8% compared with HK\$8.40 as at 31 December 2015. The gearing ratio decreased marginally to 21.7% as at 31 December 2016 from 22.1% as at 31 December 2015.

The world in 2017 would be an uncertain place. Globally, the uncertainty surrounding the new US Administration has the potential to create trade disputes and problems to the worldwide economy, and several elections in Europe later this year may potentially add surprises to the market. Closer to home the uncertain China economic outlook and the control on capital flow will require us to be vigilant and prudent. Strong US dollar might dampen the recovery in tourist numbers and spending in Hong Kong. All these macro factors together with higher interest rates in the interest rate hike cycle could impact DPU.

Looking ahead, the market is facing a lot of uncertainties. An uncertain market presents challenges. However, it also leads to opportunities and the Trust will be looking closely for these. We will confidently apply all our knowledge, expertise and innovation to meet the challenges of the operating environment and we will seek out any opportunities arising in the current market that will assist us to optimize unitholders' value in the long term. Most importantly, prudence must be observed.

LO Ka Shui
Chairman

CEO's Review

“ After achieving a respectable growth and a record high in distributable income in 2016, we expect the rental income growth momentum to moderate in the coming year.

Monitoring interest rate movements will be a major focus of the Trust in addition to optimizing rental income of the properties portfolio. To lessen the vulnerability on interest expense in a rising interest rate environment, we will continue to monitor the market situation and look for opportunities to further increase the fixed rate portion of the outstanding debt in the coming year. ”



Ms. WONG Ka Ki, Ada
Chief Executive Officer and
Chief Investment Officer

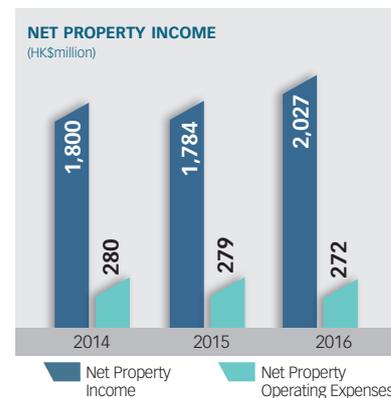
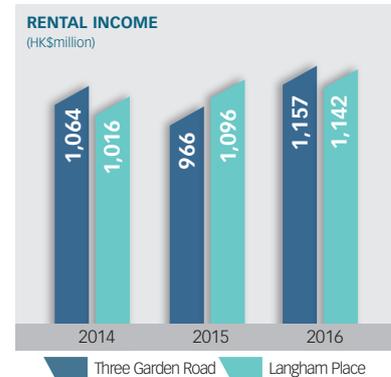
THREE GARDEN ROAD

Central office vacancy remained at historical lows throughout 2016, with no new supply coming onto the market. While some cost-conscious tenants opted for consolidation or relocation to decentralized locations, the space was mostly filled by Chinese financial institutions, including new set-ups and expansion from existing tenants. During 2016, occupancy of Three Garden Road office was maintained at above 90% and stood at 95.9% at the end of 2016, improved from 91.2% as at 31 December 2015.

The growth momentum in rental income continued throughout 2016, with the full year impact of

the significant improvement in occupancy in 2015 being recognized this year. Rental income of the property for 2016 grew by 19.7% to HK\$1,157 million compared with HK\$966 million last year. This considerable growth was mainly due to the improvement in occupancy, as well as moderate growth in passing rents. Compared with HK\$75.39 per lettable sq. ft. as at 31 December 2015, passing rents as at 31 December 2016 improved to HK\$78.20 per lettable sq. ft. and remained substantially below current market rents in Central.

Benefiting from the higher average occupancy, net building management fees (being building management expenses net of



	FY2016 HK\$'000	FY2015 HK\$'000	Change
Three Garden Road			
Rental Income	1,157,217	966,419	+19.7%
Net Property Operating Expenses	117,570	145,744	-19.3%
Net Property Income	1,039,647	820,675	+26.7%
Langham Place Office Tower			
Rental Income	324,743	306,019	+6.1%
Net Property Operating Expenses	29,643	22,585	+31.3%
Net Property Income	295,100	283,434	+4.1%
Langham Place Mall			
Rental Income	816,949	790,227	+3.4%
Net Property Operating Expenses	125,182	110,713	+13.1%
Net Property Income	691,767	679,514	+1.8%

CEO's Review

amounts recovered from tenants) decreased by HK\$7 million. Repair and maintenance costs also reduced by HK\$13 million due to less tenants' works. Additionally, rental commission of the property dropped by HK\$10 million due to higher retention rate and fewer new lettings in consequence of reduced vacancy. As a result of these savings, net property operating expenses declined by 19.3% and the net property operating expenses ratio improved to 10.2% compared with 15.1% last year. Net property income for 2016 recorded a meaningful increase of 26.7% to HK\$1,040 million from HK\$821 million in 2015.

Major asset enhancement initiatives for Three Garden Road were completed in 2016 and the property was revitalized; with a new name, new image and new identity. These initiatives added to not only the image and quality of this iconic Grade A office complex, but also the working environment, which now has an extended range of food and beverage offerings and an enhanced public area.

LANGHAM PLACE OFFICE TOWER

Langham Place Office Tower remains the top choice for location-sensitive segments looking for quality office premises. Occupancy was maintained at 100.0% as at 31 December 2016. Lifestyle-related trades, including healthcare and beauty tenants, continued to be the largest group of tenants which accounted for 46% of the tenant mix.

As well as maintaining full occupancy, the property again achieved positive rental reversion. Total rental income increased by 6.1% to HK\$325 million for 2016, compared with HK\$306 million for last year. Passing rents recorded steady growth to HK\$39.66 per sq. ft. based on gross floor area as at 31 December 2016, compared with HK\$37.50 per sq. ft. as at 31 December 2015.

Due to higher tenancy turnover in 2016, rental commissions for the property increased by HK\$5 million, with net property operating expenses rising by HK\$7 million as a result. Net property income increased by 4.1% to HK\$295 million from HK\$283 million in 2015.

LANGHAM PLACE MALL

The Hong Kong retail market environment remained challenging in 2016 and there is no clear sign of recovery. Langham Place Mall is not immune to the overall environment and yet the level of slowdown in retail sales appeared to stabilize. The Mall has consistently outperformed the market as we target the young and mass-market segments that are seen as being less affected by economic conditions. We have applied active asset management to fine-tune the tenant mix. As a trend-setter, we introduced several "firsts" into Hong Kong. New concept stores were opened in the Mall, such as the first Nene Chicken, a popular Korean fried chicken chain. The initiatives 'went viral' with overwhelming positive comments and achieved enormous success.

Total rental income of the Mall increased by 3.4% to HK\$817 million in 2016, compared with HK\$790 million in 2015. Majority of our tenants valued their footprint in the Mall and were receptive to a moderate reversion in base rents. Passing base rents grew to HK\$178.74 per sq. ft. (based on lettable area) as at 31 December 2016 compared with HK\$174.54 per sq. ft. as at 31 December 2015. Tenants' sales in the Mall reduced 4.9% year-on-year during 2016, narrowing from a 6.4% decline in the first half of the year and again outperforming the HK overall retail sales figures, which declined 8.1% in 2016. However, the slowdown in tenants' retail sales has negatively affected the turnover rent portion. Turnover rent for 2016 declined to HK\$86 million, compared with HK\$92 million for 2015.

Increased corrective maintenance works at the Mall raised net building maintenance expenses, which drove the net property operating expenses up 13.1%. Net property income increased marginally by 1.8% to HK\$692 million, compared with HK\$680 million in 2015.

OUTLOOK

After achieving a respectable growth and a record high in distributable income in 2016, we expect the rental income growth momentum to moderate in the coming year. At the property portfolio level, Three Garden Road and Langham Place Office should continue to deliver growth in 2017, however, Langham Place Mall is expected to encounter downside

risk in rental reversion. The overall rental income from the existing properties portfolio is expected to be stable in the coming year.

Three Garden Road should continue to achieve positive rental reversion in 2017 as spot rents is considerably higher than the passing rents, and this trend is expected to sustain for a while, given lack of new supply in Central in the near future and continued solid demand from Chinese financial institutions.

While Langham Place Office Tower should remain a hub for lifestyle trades and continue to deliver stable rental income growth, we will keep monitoring the market dynamics of decentralized offices for traditional office tenants. In the long-run, location-sensitive trades should still be the targeted group and we aim to maintain a balanced tenant mix.

The slowdown in retail sales at Langham Place Mall has shown some signs of stabilization. The retail market outlook, however, is full of uncertainties, as the domestic economy remains challenging in view of anticipated higher US inflation and interest rates and the slowing China economy. To stay competitive in this ever-changing retail market, we will continue our strategy to bring interesting brands to the Mall, coupled with targeted marketing activities to stimulate footfall and sales.

After a prolonged low interest rate environment, the market is expecting that US interest rates will increase at a faster pace as US economic activity improves. Monitoring interest rate movements will be a major focus of the Trust in addition to optimizing rental income of the properties portfolio. The Trust has taken some steps to raise the fixed rate debt portion since the last quarter of 2016. To lessen the vulnerability on interest expense in a rising interest rate environment, we will continue to monitor the market situation and look for opportunities to further increase the fixed rate portion of the outstanding debt in the coming year.

WONG Ka Ki, Ada

Chief Executive Officer

New Horizon *of* Three Garden Road

We had a clear vision and pathway for turning around our Grade A office complex located in the heart of Central. This plan was executed in conjunction with renaming the property as Three Garden Road. We vigorously implemented a comprehensive asset enhancement program to give this iconic office complex a striking new image and identity.

THE JOURNEY FROM "CITIBANK PLAZA" TO "THREE GARDEN ROAD"

Citibank Plaza became Three Garden Road in June 2016 through an enthusiastic and high profile renaming exercise and publicity campaign. The name "Three Garden Road" was chosen because it highlights the prestigious location and represents a most contemporary, up-market image and identity.



A FULLY-FLEDGED FACELIFT

The range of extensive asset enhancement initiatives included substantial improvements and upgrades in carpark facilities, lift lobby design and the outdoor podium. Also, tasteful and decorative greenery elements were introduced to various locations around the property. This comprehensive facelift for Three Garden Road was completed in 2016. The enhancement program has not only revitalized and greatly consolidated the property's reputation, but has also created a more vibrant and healthier workplace.



ENHANCING THE TENANTS' ENVIRONMENT

We recognized the importance of having a great range of food and beverage ("F&B") varieties for tenants. So, we worked closely with a major F&B tenant on menu expansion and introduction of a bar area. The expanded menu perfectly complements the enhanced outdoor area. Additionally, a new tenant operating an upscale co-working space offers lunch and happy hour drinks, further enriching tenants' F&B options. The same tenant's event space also augments the amenities of the property. At the same time, a stronger branded fitness centre, PURE Fitness, with state-of-the-art facilities, was introduced. All of these enhanced amenities are providing an environment in which our tenants can enjoy a better work-life balance.



Property Makeovers

New Horizon of Langham Place Mall

As part of our innovative initiatives to help our Mall weather the overall Hong Kong retail downturn we have, during 2016, energized the distinctive "Spiral" high zone. The proactive leasing and marketing strategies resulted in a win-win situation for all landlords, tenants and shoppers.



"FIRST" IN HONG KONG

The diligent follow-up leasing efforts persuaded several brands to open their first official Hong Kong stores in Langham Place. Nene Chicken, a Korean fried chicken operator with popular Korean television personality Yoo Jae-suk as spokesperson, likewise chose Langham Place as the destination for its entry into the Hong Kong market in August 2016. The result was spectacular. The high zone was packed with a long queue waiting to enter the new store.



NEW CONCEPTS AND POP-UPS

As a trend-setter, we have brought in more lifestyle elements to create a refreshing shopping environment. An innovative new crossover concept, jointly operated by popular optical store eGG and popular dessert parlour Xiao Tian Gu (小甜谷), was introduced. This allows customers to enjoy refreshments while waiting for their eye-glasses to be prepared. To strengthen the range of product varieties, eight pop-up stores, complementary to the high zone's tenant mix, were introduced.



LIVE STAGE REVAMP REINFORCES MALL'S POSITIONING

LIVE Stage on Level 12 is an incubation centre for up-and-coming local bands and singers. This has in the past included artists such as C Allstar and Kay Tse. After the revamp of the stage in the summer of 2016, there has been a stronger line-up of performers and events. Other than live music, the versatile venue also doubles as a platform for DIY workshops and tenant events.

WIN-WIN RESULTS

In a swift response to our new initiatives, the high zone's overall retail sales and footfall showed significant improvement in the second half of the year.



Awards and Achievements

The superior performance of the Trust received accolades from several renowned financial media in 2016. The Trust was awarded: the Best Real Estate Investment Trust at 16th Capital Outstanding Enterprise Awards, Property Investor of the Year (Highly Commended) at The Asset Triple A Awards 2016, and Top Listed Enterprise Awards 2016 by Bloomberg Businessweek Chinese Edition. At property level, Langham Place ranked number one of the Top 10 Weibo Most Influential HK Corporations in first half of 2016.



Champion REIT

The 16th Capital Outstanding Enterprise Awards
 – The Best Real Estate Investment Trust
Capital Magazine

The Asset Triple A Awards 2016
 – Highly Commended Property Investor of the Year
The Asset

Listed Enterprises of the Year 2016
Bloomberg Businessweek

2016 WebAwards
 – Investment Standard of Excellence
The Web Marketing Association

International ARC Awards
MerComm. Inc.

Three Garden Road

Best Customer Experience Management of the Year 2015 (Property Management)

The Asia Pacific Customer Service Consortium

Outstanding Security Services – Industrial/Commercial Property Award in the Hong Kong Island Best Security Services Awards 2015-2016

Hong Kong Police Force



The Best Landscape Award 2016 – Environmental Efficiency Award (Non-Domestic Property)

Leisure and Cultural Services Department

Caring Company 2016/2017

The Hong Kong Council of Social Service

Wastewi\$e Certificate

– Excellence Level

Hong Kong Green Organisation Certification

EcoChallenger

2016 BOCHK Corporate Environmental Leadership Awards

Certificate of Merit in Green Achievement Award 2016

HSBC Living Business

Hong Kong Green Organization

Environmental Campaign Committee



Langham Place

RICS Awards 2016

– Property / Facility Management Team of the Year

The Royal Institution of Chartered Surveyors

HKMA Award in Excellence in Training and Development 2016

The Hong Kong Management Association

Manpower Developer 2012 to 2016

Employee Retraining Board

My Favourite Shopping Mall Awards 2016-17 Top 25 My Favourite Shopping Mall Events

Hong Kong Economic Times

Security Services Best Training Award 2015

– Gold

Vocational Training Council

Kowloon West Best Security Services Award 2015

Hong Kong Police Force

Hong Kong Green Awards 2016

– Green Management Award – Gold

Green Council

Energyswi\$e Certificate

– Basic Level

Hong Kong Green Organisation Certification

My Favourite Shopping Mall Awards 2016-17 Top 10 My Favourite Shopping Mall Awards

Hong Kong Economic Times

Hong Kong Star Brands Award 2016 (Enterprise)

Hong Kong Small and Medium Enterprises Association

5 Years Plus Caring Company Logo 2016/2017

The Hong Kong Council of Social Service

MARKies Awards 2016

– “Best Idea-Social” Bronze Award

Marketing Magazine

Marketing Excellence Awards 2016

“Excellence in Mass Event” Gold Award

Marketing Magazine

Ranked Number 1 of Top 10 Most Influential HK Corporations in 1H 2016

Sina Weibo

Board of Directors

The Board of Eagle Asset Management (CP) Limited, the REIT Manager, principally oversees the day-to-day management of the REIT Manager's affairs and the conduct of its business and is responsible for the overall governance of the REIT Manager. The Board will also review major financial decisions and the performance of the REIT Manager. The Board currently consists of the Chairman, the Chief Executive Officer, 2 Non-executive Directors and 4 Independent Non-executive Directors.



Dr. LO Ka Shui

Chairman and Non-executive Director

aged 70, was appointed the Chairman, a Non-executive Director and a member of both the Audit Committee and the Disclosures Committee of the REIT Manager in 2006. He is also a Director of all special purpose vehicles of Champion REIT. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited, and the Chairman and Non-executive Director of the Manager of the publicly listed trust, Langham Hospitality Investments. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a Vice Chairman of The Chamber of Hong Kong Listed Companies and a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. During the past two years, Dr. Lo was an Independent Non-executive Director of China Mobile Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited and City e-Solutions Limited.

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



Mr. IP Yuk Keung, Albert

Non-executive Director

aged 64, has been a Director of the REIT Manager since 2011. He was an Independent Non-executive Director of the REIT Manager prior to his re-designation as a Non-executive Director of the REIT Manager in June 2014. Mr. Ip is an international banking executive with over 30 years of experience in the United States, Asia and Hong Kong. He was a Real Estate Senior Credit Officer of Citibank since 1989, providing credit initial for approvals of real estate loans originated in Hong Kong and was also involved in financing the acquisition of various hotel assets internationally. He was North Asia Real Estate Head, Hong Kong Corporate Bank Head, Transaction Banking Head – Hong Kong and Asia Investment Finance Head (Global Wealth Management) of Citigroup. He was formerly a Managing Director of Citigroup and Managing Director of Investments in Merrill Lynch (Asia Pacific). Mr. Ip is the Executive Director and Chief Executive Officer of the Manager of the publicly listed trust, Langham Hospitality Investments. He is also an Independent Non-executive Director of Hopewell Highway Infrastructure Limited, Hopewell Holdings Limited, Lifestyle International Holdings Limited, Power Assets Holdings Limited and TOM Group Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong. During the past two years, Mr. Ip was an Independent Non-executive Director of AEON Credit Service (Asia) Company Limited and New World China Land Limited.

With a passion to serve in education, Mr. Ip is an Adjunct Professor of City University of Hong Kong, Hang Seng Management College, The Hong Kong Polytechnic University and University of Macau. He is an Honorary Professor of Lingnan University and a Council Member of Hong Kong University of Science and Technology. He is also a Member of the International Advisory Committee at University of Macau, an Executive Fellow in Asia and the Chairman of Hong Kong International Regional Cabinet of Washington University in St. Louis, and a Research Fellow of the Institute for Financial Economics of Singapore Management University. Mr. Ip holds a Bachelor of Science degree at Washington University in St. Louis (summa cum laude), and Master of Science degrees at Cornell University and Carnegie-Mellon University. He was an MBA lecturer at University of Pittsburgh, USA. Mr. Ip is an Honorary Fellow of Vocational Training Council and Vice Chairman of World Green Organisation Limited.

Board of Directors



Mr. LO Kai Shui

Non-executive Director

aged 57, was appointed a Non-executive Director of the REIT Manager in 2006. He is also a Director of all special purpose vehicles of Champion REIT. Mr. Lo is the Deputy Managing Director of Great Eagle Holdings Limited, a company whose shares are listed on the Hong Kong Stock Exchange, and the founder of Sun Fook Kong Group Limited. He has more than thirty years of property development, investment and building construction experience and has been involved in numerous construction projects both in public and private sectors.

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



Ms. WONG Ka Ki, Ada

Executive Director, Chief Executive Officer and Chief Investment Officer

aged 36, was appointed the Chief Executive Officer, an Executive Director and the Chairman of Disclosures Committee of the REIT Manager in June 2016. She is also a Director of all special purpose vehicles of Champion REIT. Ms. Wong, as Chief Executive Officer, is responsible for planning the strategic development of Champion REIT and ensuring that Champion REIT is operated in accordance with stated investment strategy, policies and regulations. She also oversees the day-to-day operations.

Ms. Wong joined the REIT Manager as Deputy Chief Executive Officer in March 2014. She was also appointed as the Chief Investment Officer of the REIT Manager in July 2015. As Chief Investment Officer, she is responsible for identifying and evaluating potential acquisitions or investments and for investor relations. She is also responsible for the capital structure of Champion REIT, including the planning and overseeing of capital raising activities from the market. Ms. Wong is also a Responsible Officer as defined under the Securities and Futures Ordinance.

Ms. Wong has acquired almost 15 years of finance industry experience. Prior to joining the REIT Manager, Ms. Wong worked at Citigroup and J.P. Morgan's investment banking division to provide strategic advices to a number of blue chip corporates and Hong Kong real estate companies. She has also executed numbers of landmark IPOs, capital markets fund-raisings and strategic M&A transactions.

Ms. Wong graduated from University of Michigan (Ann Arbor) - Ross School of Business with a Bachelor of Business Administration degree.



Mr. CHA Mou Sing, Payson

Independent Non-executive Director

aged 74, was appointed an Independent Non-executive Director of the REIT Manager in 2006. Mr. Cha is the Chairman of the Board of Directors of HKR International Limited, the Chairman and Non-executive Director of Hanison Construction Holdings Limited and an Independent Non-executive Director of New World Development Company Limited, all of which are listed on the Hong Kong Stock Exchange. He is also an Independent Non-executive Director of Hongkong International Theme Parks Limited and the Executive Chairman of Mingly Corporation. Mr. Cha is a member of One Country Two Systems Research Institute Limited, a governing board member of China-United States Exchange Foundation, a board member of The Real Estate Developers Association of Hong Kong, the chairman of Qiu Shi Science & Technologies Foundation, a trustee of Sang Ma Trust Fund and an honorary trustee of Oregon State University Foundation.

Mr. Cha holds an Honorary Doctorate Degree of Social Science from City University of Hong Kong. He has over forty-five years of experience in property development and investment.



Mr. CHENG Wai Chee, Christopher

Independent Non-executive Director

aged 68, has been a Director of the REIT Manager since 2006. He was a Non-executive Director of the REIT Manager prior to his re-designation as an Independent Non-executive Director of the REIT Manager in May 2014. Mr. Cheng is the Chairman of Wing Tai Properties Limited. He is an Independent Non-executive Director of listed companies including NWS Holdings Limited and Kingboard Chemical Holdings Limited. He is also an Independent Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Cheng plays an active role in public service. He is a member of the board of overseers at Columbia Business School, a member of the President's Council on International Activities of Yale University, a steward of the board of The Hong Kong Jockey Club, the former Chairman of the Hong Kong General Chamber of Commerce and a member of Judicial Officers Recommendation Commission of the Government of the HKSAR.

Mr. Cheng holds a Doctorate in Social Sciences honoris causa from The University of Hong Kong and a Doctorate in Business Administration honoris causa from The Hong Kong Polytechnic University. He graduated from the University of Notre Dame, Indiana with a Bachelor's Degree in Business Administration and from Columbia University, New York with a Master's Degree in Business Administration.

Board of Directors



Mr. HO Shut Kan

Independent Non-executive Director

aged 68, has been a director of the REIT Manager since 2007. He was a Non-executive Director of the REIT Manager prior to his re-designation as an Independent Non-executive Director of the REIT Manager in January 2017. He has over thirty years of experience in the property sector. He is currently serving as an Executive Director and the President of Kerry Properties Limited, a listed company in Hong Kong. He is also a director of Shang Properties, Inc. which is listed in the Philippines.

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



Mr. SHEK Lai Him, Abraham

Independent Non-executive Director

aged 71, was appointed an Independent Non-executive Director in 2006. He is a member of Disclosures Committee and the Chairman of Audit Committee of the REIT Manager. Mr. Shek is a member of the Legislative Council for the HKSAR representing the real estate and construction functional constituency since 2000. Mr. Shek is the Chairman and an Independent Non-executive Director of Chuang's China Investments Limited, the Vice Chairman and an Independent Non-executive Director of ITC Properties Group Limited, and an Independent Non-executive Director of MTR Corporation Limited, Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, NWS Holdings Limited, Chuang's Consortium International Limited, ITC Corporation Limited, Hop Hing Group Holdings Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, China Resources Cement Holdings Limited, Lai Fung Holdings Limited, Cosmopolitan International Holdings Limited and Goldin Financial Holdings Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr. Shek is also an Independent Non-executive Director of Regal Portfolio Management Limited (manager of the publicly listed Regal REIT). He is also a Non-executive Director of the Mandatory Provident Fund Schemes Authority and the Chairman and an Independent Member of the Board of Governors of English Schools Foundation (ESF). Mr. Shek was an Independent Non-executive Director of Dorsett Hospitality International Limited, Hsin Chong Construction Group Limited, Titan Petrochemicals Group Limited and TUS International Limited (formerly Jinheng Automotive Safety Technology Holdings Limited). He is also a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption.

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

Senior Management

The REIT Manager, is charged with the responsibility of managing the assets of Champion REIT for the benefit of Unitholders. It is responsible for ensuring compliance with the applicable provisions of the Code on Real Estate Investment Trusts (“REIT Code”), the Securities and Futures Ordinance and other relevant legislation.

As part of its duties, it will set the strategic direction and risk management policies of Champion REIT, appoint and supervise service providers, and initiate the acquisition, divestment or enhancement of assets. Communication with investors and other stakeholders is another role of the REIT Manager.



Ms. WONG Ka Ki, Ada | *Chief Executive Officer and Chief Investment Officer*

aged 36, as Chief Executive Officer, is responsible for planning the strategic development of Champion REIT and ensuring that Champion REIT is operated in accordance with stated investment strategy, policies and regulations and oversees the day-to-day operations. Additionally, as Chief Investment Officer, she is responsible for identifying and evaluating potential acquisitions or investments and for investor relations. She is also responsible for the capital structure of Champion REIT, including the planning and overseeing of capital raising activities from the market. Ms. Wong is also a Responsible Officer as defined under the Securities and Futures Ordinance.

Biographical information on Ms. Wong can be found on the page highlighting the board of directors, of which she is a member.



Mr. KWONG Chi Kwong | *Chief Operating Officer*

aged 57, is responsible for formulating the business plans of Champion REIT’s properties and supervising the property management team with a view to maximizing rental income via active asset management. Mr. Kwong has more than 25 years of experience in the industry and has held a variety of management and supervisory roles in areas of leasing and sales of properties, formulation and implementation of market plans, market research, site acquisitions, feasibility studies, liaison with government authorities and external professionals and administration. Mr. Kwong is also a Responsible Officer as defined under the Securities and Futures Ordinance.

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



Ms. LUK Ka Ping, Amy | *Investment and Investor Relations Director*

aged 44, is responsible for identifying and evaluating potential investment opportunities, overseeing the capital structure and investor relations of Champion REIT. She has over 15 years of experience in the financial industry. Before joining the Manager, Ms. Luk has been involved in equity research covering the Hong Kong real estate sector for over 10 years at various international financial institutions, making recommendations on equity investments.

Ms. Luk holds a Master of Business Administration from the University of Rochester and a Bachelor of Business Administration from the Hong Kong University of Science and Technology. She is a Chartered Financial Analyst.

Senior Management



Ms. LAU Yee Tong, Yvonne | *Asset Management Director*

aged 50, is responsible for overseeing the management of Champion REIT's properties, including leasing, property management and asset enhancement. She joined the REIT Manager in September 2016 with over 20 years of solid and all-rounded experience in leasing and asset management of commercial properties in Hong Kong and China. Before joining the REIT Manager, Ms. Lau was the Director of Asset Management for ARA Management Pte Ltd. She has also worked at other major property developers in Hong Kong such as Hysan, Sun Hung Kai and Wharf. Ms. Lau is also a Responsible Officer as defined under the Securities and Futures Ordinance.

Ms. Lau holds a Master of Science degree in Real Estate from The University of Hong Kong; a Postgraduate Diploma in Arbitration and Mediation from the HKU School of Professional and Continuing Education ("HKU SPACE") and a Professional Diploma in Real Estate Administration (with Distinction) from HKU SPACE.



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

aged 42, is a Director of all special purpose vehicles of Champion REIT. Ms. Sung is primarily responsible for the financial reporting and general office administration of Champion REIT. Her duties include reviewing management accounts, maintaining profit and cashflow forecasts and the reporting of financial returns to regulators. With more than 15 years of accounting and audit experience, Ms. Sung had previously worked as a senior accountant at a listed company and earlier in her career was employed by a reputable certified public accountants firm to perform audit duties.

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



Ms. FUNG Mei Sin, Pamela | *Compliance Manager*

aged 46, is responsible for formulating internal control procedures and ensuring the management and operational compliance of Champion REIT with statutory requirements and regulations. She has more than 20 years compliance and corporate secretarial experience gained from various reputable listed companies and certified public accountants firms.

Ms. Fung holds a Bachelor of Arts (Hons) Degree in Business Studies from the University of Greenwich.



Mr. YUEN Chi Hang, Tony | *Internal Audit Manager*

aged 42, is responsible for reviewing the accuracy and completeness of records of all operations and transactions of Champion REIT. As part of his duties, he ensures the risk management and internal control systems of the REIT Manager function properly and provides internal audit reports to the Audit Committee of the Board of Directors on a regular basis. Prior to joining the REIT Manager, Mr. Yuen worked as an internal auditor at a well-recognized listed property company and has over 10 years of experience in the field of internal audit. Earlier in his career, he performed external audit duties while working at two reputable certified public accountants firms.

Mr. Yuen holds a Bachelor of Commerce degree in Professional Accounting from Macquarie University. He is also a member of CPA Australia and The Chartered Institute of Management Accountants.

Management Philosophy

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

Asset Management Strategy

The REIT Management Team, working closely with the Property Management Team, will proactively manage its properties to achieve the following:

Maximize Rental Income	Optimize the rental income from each tenancy and, where possible, augment rental income through additional floor area, asset enhancements or turnover rent.
High Occupancy Levels	Keep high occupancy levels through maintaining high quality service and technical standards, and by capitalizing on the requirements of targeted tenant niches and actively managing tenancy expiries.
High Tenancy Renewal Rates	Maintain high tenancy renewal rates through proactive tenant relationship management and anticipation of future tenant needs. This will minimize rental losses due to downtime and lead to lower expenses and agency fees incurred for new tenancies.
A Quality Tenant Base	Retain a quality tenant base built upon high covenant, multi-national office occupiers and well recognized retail tenants in order to maintain a premium image for our properties and to minimize default rates.

Acquisition Strategy

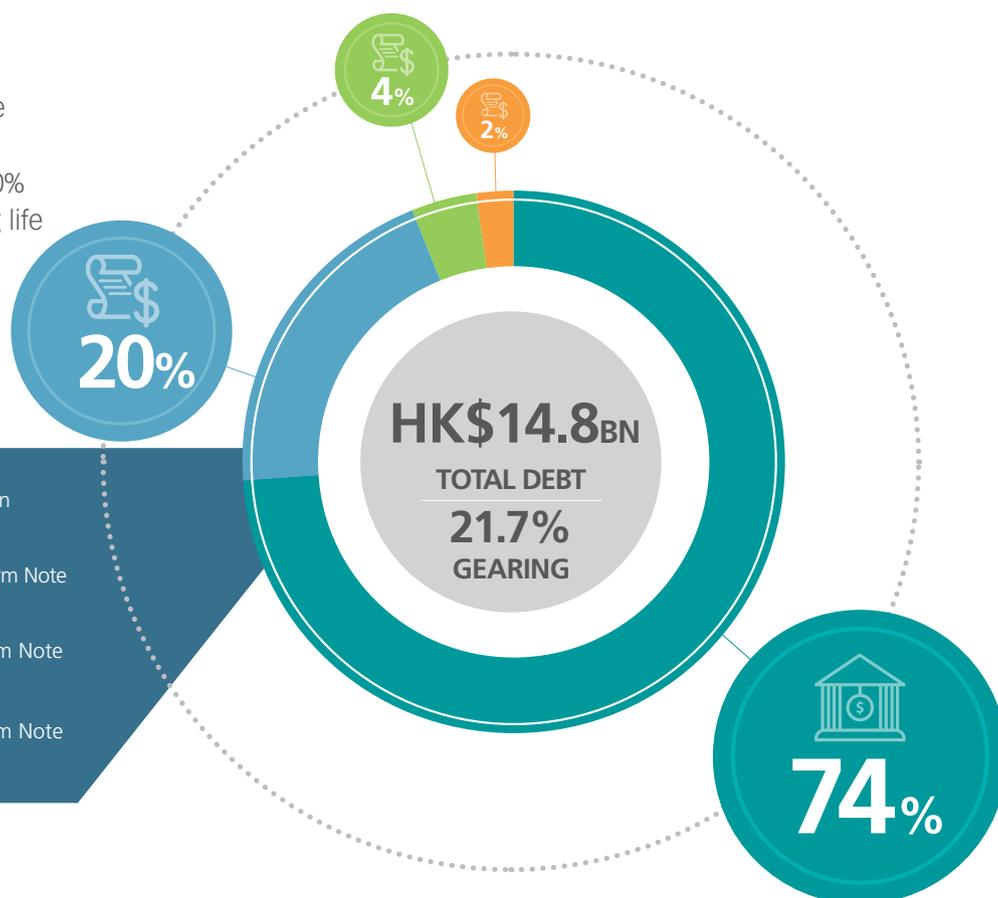
The REIT Manager intends to actively pursue yield enhancing opportunities through the addition of new income producing commercial properties. The following investment criteria will be used in the evaluation of acquisition opportunities:

Yield Accretion	Properties to be acquired should either have strong existing rental income or the potential for higher rental income.
Potential for Net Asset Growth	Macro economic factors and the potential for future changes in asset value will be assessed.
Tenant Characteristics	Rent and occupancy trends will be assessed with emphasis on good tenant retention/default rates.
Location and Accessibility	Properties that have convenient access to the public transportation network, major roads and pedestrian thoroughfares will be favoured.
Value-adding Opportunities	Opportunities to add value through renovation will be scrutinized. Other enhancements and proactive property management will also be assessed.
Building Specifications	The building specifications should be best of class. Other aspects such as building condition and compliance with regulations will also be examined.

Financial Review

As at 31 December 2016, the effective interest cost of the Trust's debt portfolio was 2.0% and the average outstanding life was 4.2 years

- **74%** HK\$11,000mm Bank Loan
HIBOR+0.83% to 0.95%
- **20%** HK\$2,998mm Medium Term Note
3.75% Coupon
- **4%** HK\$643mm Medium Term Note
3-month HIBOR+1.275%
- **2%** HK\$200mm Medium Term Note
2.75% Coupon



DISTRIBUTIONS

The total distribution amount of Champion REIT for the year was HK\$1,331 million (2015: HK\$1,146 million). This total distribution amount was based on 90% (2015: 90%) of Champion REIT's distributable income, but because of the compulsory inclusion of retained distributions from the first half of each year into the distributable income of the second half of each year as required under the Trust Deed, the effective payout ratio for 2016 was 94.5% (2015: 94.5%).

The distribution per unit for the six months ended 31 December 2016 ("Final Distribution per Unit") was HK\$0.1201. This Final Distribution per Unit is subject to adjustment upon the issuance of new units between 1 January 2017 and the record date. A further

announcement will be made to unitholders informing them of any adjustment to the Final Distribution per Unit.

With an interim Distribution per Unit of HK\$0.1094 and a Final Distribution per Unit of HK\$0.1201, the Total Distribution per Unit for the year amounted to HK\$0.2295 (2015: HK\$0.1983). Based on the closing unit price of HK\$4.20 as at 30 December 2016, the Total Distribution per Unit is equivalent to a distribution yield of 5.5%.

CLOSURE OF REGISTER OF UNITHOLDERS

The Register of Unitholders will be closed from Thursday, 18 May 2017 to Tuesday, 23 May 2017 ("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 31 December 2016 ("2016 Final Distribution") will be made on Friday, 26 May 2017 to Unitholders whose names appear on the Register of Unitholders on the Record Date.

In order to qualify for the 2016 Final Distribution and be entitled to attend and vote at the 2017 Annual General Meeting to be held on Tuesday, 23 May 2017, 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 Wednesday, 17 May 2017.

DEBT PROFILE

Committed Debt Facilities⁽¹⁾⁽³⁾

As at 31 December 2016

HK\$ million	Total committed facilities	Undrawn facilities	Utilised facilities	Fixed rate debt	Floating rate debt
Secured Bank Loans	11,300	300	11,000	–	11,000
Medium Term Notes	3,841	–	3,841	3,198 ⁽²⁾	643
Total	15,141	300	14,841	3,198	11,643
Percentage	100.0%	2.0%	98.0%	21.5%	78.5%

(1) All amounts are stated at face value

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

(3) All debt facilities were denominated in Hong Kong Dollars except for (2) above

During the reporting period, the Trust arranged two loan facilities with a total amount of HK\$11,300 million. The two loan facilities comprise a HK\$5,500 million 3-year term loan and revolving credit facilities and a HK\$5,800 million 5-year term loan facility, with interest margins of 83 basis points and 95 basis points over HIBOR respectively. Proceeds were used to refinance the Trust's total banking facilities of HK\$11,250 million.

As a result of the significant reduced interest margins, the Trust managed to keep the effective interest rate at 2.0% as at 31 December 2016 (as at 31 December 2015: 2.0%) notwithstanding the rise in interest rates after the US Presidential election in November and FOMC rate hike in December. Other than the loan market, the Trust also took advantage of the favourable market window in the bond market and

issued a principal amount of HK\$200 million 8-year unsecured note at a fixed rate of 2.75% per annum in October 2016.

The liability management exercise improved the Trust's credit profile by lengthening the debt maturity and removing all refinancing risks until 2019. As at 31 December 2016, the average life of the Trust's outstanding debt was 4.2 years (31 December 2015: 3.3 years).



Loan Signing Ceremony in April 2016

Financial Review

Outstanding Debt Maturity Profile⁽¹⁾

As at 31 December 2016

	HK\$ million	% of total
Due in year 2019	5,200	35.0
Due in year 2021	5,800	39.1
Due in year 2022	643	4.3
Due in year 2023	2,998 ⁽²⁾	20.2
Due in year 2024	200	1.3
Total	14,841	100.0

(1) All amounts are stated at face value

(2) After accounting for cross currency swaps

The Trust's investment properties at 31 December 2016 were appraised at a total value of HK\$66.8 billion, representing a 3.2% increase from HK\$64.8 billion as at 31 December 2015. Correspondingly, the Gearing Ratio (or total borrowings as a percentage of gross assets) decreased slightly from 22.1% as at 31 December 2015 to 21.7% as at 31 December 2016. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 26.1% (31 December 2015: 26.5%).

NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Net assets attributable to Unitholders were HK\$50.5 billion as at 31 December 2016, an increase of 4.3% compared with HK\$48.5 billion as at 31 December 2015.

The Net Asset Value per Unit as at 31 December 2016 was HK\$8.72. It represented a 107.6% premium to the closing unit price of HK\$4.20 as at 30 December 2016.

CASH POSITION

As at 31 December 2016, the Trust had total undrawn bank loan facilities of HK\$300 million and a cash balance of HK\$958 million. With these financial resources, the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

PLEDGE ASSETS

As at 31 December 2016, properties of Champion REIT with a fair value of HK\$39.3 billion were pledged to secure the debt facilities granted to the Trust. Only Three Garden Road was pledged to secure the Trust's bank loans.

COMMITMENTS

As at 31 December 2016, the Trust has authorised capital expenditure for improvement works of investment properties, which was contracted for but not provided in the consolidated financial statements, amounting to HK\$10 million.

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

Environmental and Social Review

For Champion REIT, Corporate Social Responsibility is one of the key principles of management's philosophy. We recognize that Corporate Social Responsibility will create long-term value for our customers, partners, investors, employees and community. Therefore, issues covering ethical operating practices, the workplace, the environment and the community are given serious consideration at the strategic level as well as in the day-to-day operations of the Trust's properties.

HANG SENG SUSTAINABILITY INDEX

In a reflection of Champion REIT's high environmental, social, and corporate governance standards, the Trust has been selected as a constituent member of the Hang Seng Sustainability Benchmark Index, effective from September 2016. The Hang Seng Sustainability Index Series recognizes companies that perform well in corporate sustainability.



WORKPLACE QUALITY

Health and Safety

Champion REIT's properties have all the health and safety features generally expected of modern premium grade properties. These features include computerized automatic fire detection alarm systems and emergency power supply to common areas and essential facilities in the event of a power failure. Regular fire drills are also conducted. The management systems of both Three Garden Road and Langham Place are certified under OHSAS (Occupational Health and Safety Assessment Series) 18001 to ensure health and safety risks are minimized by proper monitoring and operating procedures, combined with regular training and drills. We have appointed Registered Safety officers to oversee and enhance the Safety Management System at both Three Garden Road and Langham Place.

Tenants of grade 'A' properties in particular have high expectations for indoor air quality and circulation. We are pleased to say our properties are classified as 'Excellent' under the Hong Kong Environmental Protection Department's Indoor Air Quality Certification Scheme for common areas. They are also recipients of Certificates from the Hong Kong Water Supplies Department under the Quality Water Supply Scheme for Buildings – Potable Water and Flushing Water.

Working Conditions

Champion REIT is managed by the REIT Manager and does not directly employ any staff. The REIT Manager is dedicated to diversity in the workplace and adheres to Hong Kong's equal opportunity laws. Under our equal opportunity policy, no job applicant or employee is disadvantaged by or receives less favourable treatment because of disability, gender, pregnancy, marital status or sexual orientation.

We recognize that maintaining a healthy work-life balance is an important part of employee productivity. To encourage this, employees of the REIT Manager are given access to various wellness and interest classes offered on a yearly basis, such as basketball club and cooking class.

Environmental and Social Review

An internship programme providing short-term job opportunities for university students has been run by the REIT manager since 2015. The wide range of tasks offered provides the interns with opportunities to put their study into practice and gain valuable real estate industry experience.

Here is how previous interns have described the ways in which the working experience was fruitful and rewarding for them:



I must say the internship experience turned out to be more fruitful than what I expected. Having worked alongside with senior management, not only did I gain insights into the REIT and financial industry, but I also learnt how to be professional at work and strive for excellence. I feel so lucky that I had the chance to work in Eagle Asset Management. The internship has given a big plus to my career development and I strongly recommend my peers to apply for this internship.

DIXON WONG



It is a treasurable experience of working in Eagle Asset Management as an intern during this summer. It broadened my exposure to financial sector as well as real estate industry... The internship not merely provided me a fruitful and productive working experience, but likewise cleared my career direction.

WILSON CHAN

Working as a corporate finance intern in the last summer has been highly rewarding to me... During my internship, I was given a lot of opportunities and responsibilities, which allowed me to put my knowledge into practice... I learnt various aspects of properties such as leasing and operation, and acquired knowledge of corporate finance.

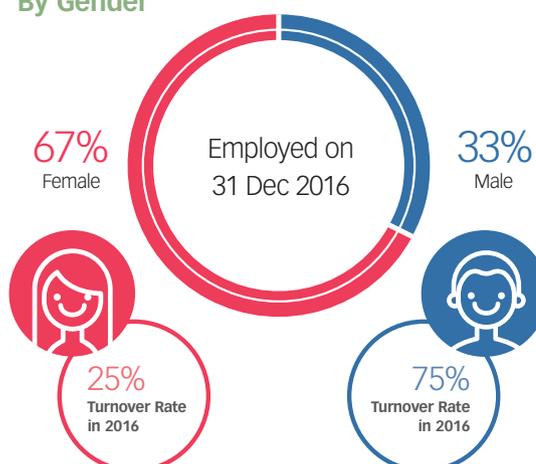
KEN MAK

BREAKDOWN OF EMPLOYEES AND TURNOVER RATE BY AGE GROUP AND GENDER

	By Age Group (years old)					By Gender	
	Under 20	20-29	30-39	40-49	over 49	Male	Female
Employed on 31 Dec 2016	0%	0%	33%	42%	25%	33%	67%
Turnover Rate in 2016	0%	0%	50%	40%	33%	75%	25%

The table above refers to the employees of the REIT Manager (excluding interns). As the REIT Manager delegates the property management, lease management and marketing & promotion functions to various service providers, it has only a relatively small number of employees. This can lead to misleadingly high turnover rates even if just one employee in any one category has to be replaced.

By Gender



Development and Training

We believe availability of training and development opportunities is important in attracting and retaining quality staff. As well as offering competitive compensation and benefits packages, we provide corporate and vocational training to staff at all levels, including such things as Stephen R. Covey's acclaimed self-help work "The 7 Habits of Highly Effective People". We are pleased to say that in recognition of achievements in training and development, Langham Place was granted an 'Excellence Award' under the Skills Training Category of the Hong Kong Management Association's prestigious annual Award for Excellence in Training and Development in 2016.

Our comprehensive performance appraisal system provides a regular dialogue mechanism through which staff can provide feedback to their superiors, establish key objectives for each year and determine their training and development needs. For the reporting year, 100% of eligible employees (those who are employed before August 1st of the year) received performance and career development reviews.

To enhance communication and cohesiveness between employees of the REIT Manager and Property Manager, the first team building workshop was arranged in late 2016 for the teams providing asset management, leasing and marketing services to Champion REIT. This workshop, with facilitated discussions, not only provided participants with an overview of team dynamics, but has also enhanced the Trust and morale of the REIT Manager and Property Manager teams.



Team Building Workshop

Labour Standards

Champion REIT complies with the Hong Kong Employment Ordinance, which covers a comprehensive range of employment protection and benefits for employees. This includes: wage protection, rest days, holidays with pay, paid annual leave, sickness allowance, maternity protection, severance payment, long service payment, employment protection, termination of employment contract and protection against anti-union discrimination. There are no employees that are defined as children or young persons under the ordinance (persons under the age of 18). As Champion REIT is a pure landlord and has no industrial or manufacturing operations, there are no potential issues involving child or forced labour.

ENVIRONMENTAL PROTECTION

Use of Resources

Energy efficiency is both an important means of reducing emissions and of conserving the world's limited resources. Pursuing energy efficiency therefore offers the parallel benefits of

reducing operating expenses and ameliorating global warming. An energy saving feature common to both of Champion REIT's properties is the use of large multi-storey glass curtain walls to provide natural lighting in the atrium and lobby. This feature is particularly noticeable at Langham Place, where people can look through the 9-storey Mall atrium and see the neighbourhood buildings on the other side.



Langham Place Mall Atrium

Both of our properties also boast comprehensive ventilation and air conditioning systems complete with floor-by-floor climate sensors. Air-conditioning can be controlled in incremental areas and turned off for unused areas to minimize unnecessary cooling. Three Garden Road and Langham Place have pledged support

Environmental and Social Review

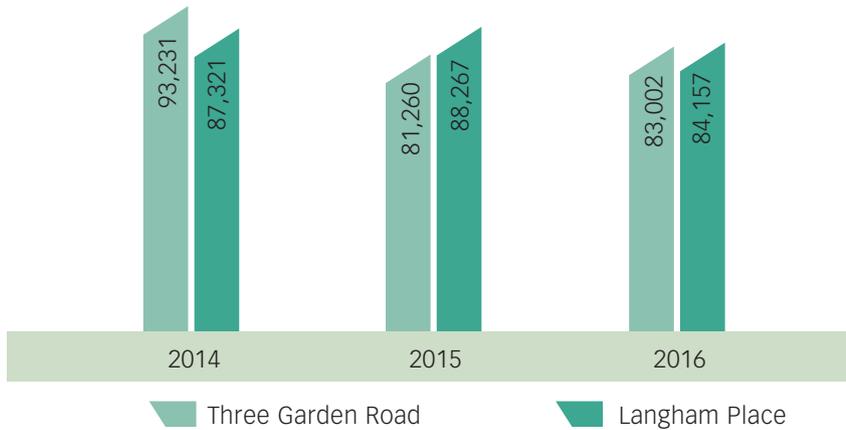
for the Environment Bureau’s “Energy Saving Charter on Indoor Temperature” scheme to promote lower air-conditioning energy consumption. Under this pledge, an average interior temperature of between 24–26 °C will be maintained during the summer months of June to September.

At Langham Place Mall, LED luminaires have been retrofitted at the Digital Sky of the Grand and Mini Atriums, replacing the original Metal Halide Flood Lighting. This is because LED can maintain a longer lifetime with less energy consumption. LED luminaires fitted with motion sensors have

also been installed at staircases, corridors and lavatories of the Mall. To reduce water usage, we have installed low flow water faucets in all our properties, while at Three Garden Road we are reusing water collected in an underground tank for irrigation. To demonstrate our support for the introduction of electric vehicles to Hong Kong, Electric Vehicle Recharging Stations have been added to both of our car parks. The charging facilities at Langham Place were further upgraded in 2016 through installation of semi-quick charging devices and two more charging stations.

There was a 1.4% decrease (to 167,159 gigajoule) in the combined energy consumption at our properties in 2016. Moreover, Langham Place participated in the Power Smart Energy Saving Contest 2016 organised by Friends of the Earth. During the year a breakthrough measure to utilise renewable energy was implemented at Langham Place. Six sets of solar panels were installed on the Mall’s rooftop. These collected and transformed solar energy into electricity, supplementing the Mall’s daily requirements.

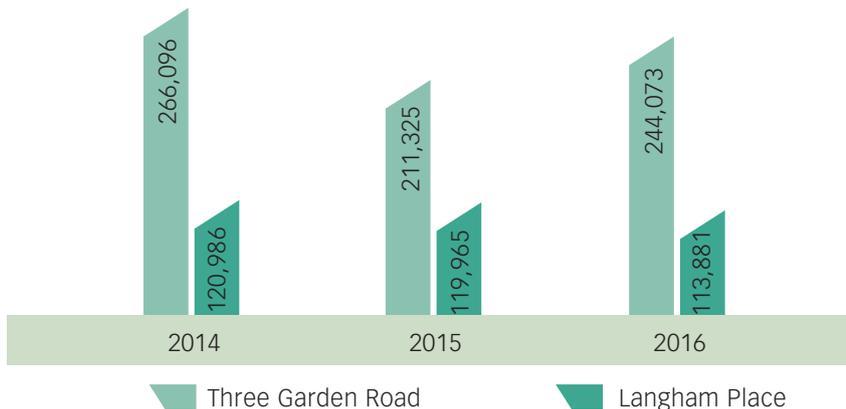
Energy Consumption (gigajoule)



Solar Panels on Langham Place Mall’s Rooftop

Combined water usage recorded an increment of 8.0% to 357,954 cubic meters. The higher average occupancy of Three Garden Road caused increased usage of fresh water and water-cooled chillers.

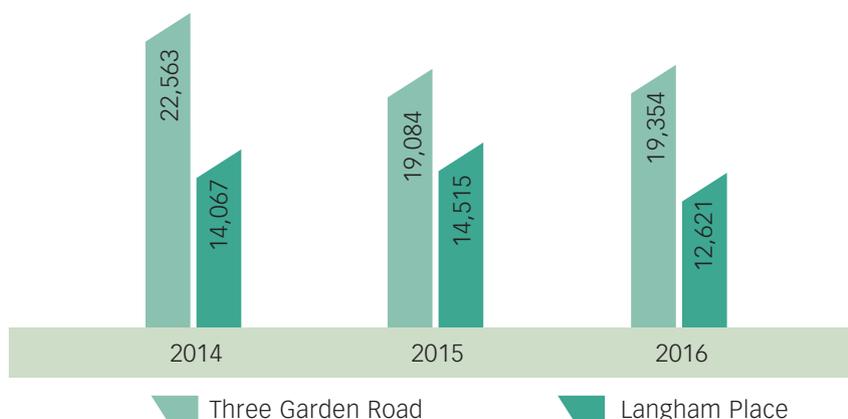
Water Usage (cubic meter)



Emissions

Champion REIT is a pure landlord and has no manufacturing operations, so there are no hazardous byproducts produced or discharged. The only relevant emissions are those generated through day-to-day operations at our properties. In 2016 the estimated combined carbon emissions of our properties decreased by 4.8% to 31,975 tons of carbon dioxide. These statistics include direct emissions as well as indirect emissions, such as those resulting from electricity generated off-site.

Carbon Emissions (ton CO₂ equivalent)



The Environment and Natural Resources

The environmental management systems of both Three Garden Road and Langham Place are certified under ISO 14001. This drives progressive environmental protection policies that strive to reduce the environmental impact of our properties and facilitate recycling. Procedures are in place at our properties to administer and facilitate the separation and collection of office and retail waste for third-party recycling. Tenants are invited as partners to enlarge the scale and efficacy of these recycling initiatives.

Paper is by far the largest category of materials sent for recycling, with 277 tons collected in 2016. Besides typical waste products such as paper and plastic bottles, food waste from our food court tenants is also collected and sent for reprocessing under the “Food Waste Recycling Partnership Scheme” co-organized by the Environmental Protection Department and Green Council.

To reduce paper usage, internally we promote the usage of electronic document copies over hard copies. Externally, Champion REIT allows Unitholders to choose if they wish to

	2014	2015	2016
Waste Paper (kg)	306,150	310,559	276,980
Fluorescent Tubes (kg)	924	981	610
Plastic Bottles (kg)	1,048	968	778
Aluminum Cans (kg)	121	123	171
Reusable Batteries	325	301	390

receive a physical copy of the Trust’s Interim and Annual Reports each year. PDF versions of the Trust’s financial reports have been available at www.championreit.com since Champion REIT’s listing in 2006.

Both Three Garden Road and Langham Place have received multiple recognitions for their efforts in a variety of green measures. Three Garden Road was recognized as Hong Kong Green Organisation by the Environmental Campaign Committee, while Langham Place obtained “Gold” in the Hong Kong Green Awards – Green Management Award 2016. The Environmental Protection Department of the Hong Kong Government issued certificates to both properties certifying the effectiveness of their Programs on Source Separation of Commercial and Industrial Waste and energy saving. Three Garden Road was awarded “Excellence Level” under the Wastewi\$e Certificate Scheme, while Langham Place obtained “Basic Level” under the Energywi\$e Certificate Scheme. On tree conservation, the properties participated in the Hong Kong Environmental Protection Association’s Wood Recycling & Tree Conservation Scheme for recycling Christmas trees, Peach Blossom trees and Chinese New Year plants.

OPERATING PRACTICES

Product Responsibility

We strive for quality service to all the tenants and shoppers who are our customers. Our building management teams operate under the ISO 9001 Quality Management System, which, among other things, requires the monitoring of customer satisfaction.

Environmental and Social Review

The Building Managers regularly send questionnaires to our tenants to obtain their feedback. Tenants can also send suggestions or complaints to the building management through multiple channels and may also directly contact the REIT Manager through our property specific websites. Service quality management at Three Garden Road and Langham Place is certified by the Hong Kong Quality Assurance Agency.

Other measures to further enhance customer services at Langham Place include the "Care for the People in Need System", which provides attentive service to our customers with special needs. For example, caring name cards with a Braille hotline number are provided to shoppers for instant support. The installation of the "Parking Guidance System" enables drivers to easily find the most convenient vacant parking space through intelligent guidance display. The "Lost and Found System" provides related training on handling shoppers' lost and found items efficiently. In 2016, 109 compliments were received from shoppers praising the integrity, professional and efficient handling of lost and found items.



Parking Guidance System

Langham Place property management team was named Property/Facility Team of the Year by the Royal Institution of Chartered Surveyors at the RICS Awards 2016. In addition Langham Place also received an Enterprise Award at the Hong Kong Star Brands Awards in acknowledgment of the widespread recognition of the Langham Place brand and its association with quality.

Anti-Corruption

Champion REIT is committed to the highest ethical standards. All employees are given a Code of Conduct to which they are required to adhere. Employees are explicitly prohibited from soliciting, accepting, or offering bribes or any other form of advantage. The awarding of new project and service contracts valued at HK\$100,000 and above is primarily based on the results of a tendering process, with some exceptions such as in the case of utility providers and the rollover of existing service agreements. Furthermore, multiple quotations must be obtained for transactions of over HK\$5,000. The Code of Conduct also outlines expectations on staff with regards to conflicts of interest. Trading in Units of Champion REIT is strictly prohibited during blackout periods and other times when staff are in possession of financially sensitive information.

Supply Chain Management

Subject to the overall management and supervision of the REIT Manager, the function of managing of the properties of the Trust is delegated to service providers such as Eagle Property Management (CP)

Limited, the Property Manager as well as various Building Managers. All of Champion REIT's main service providers are required to have similar or complementary policies and procedures with regards to operating practices, workplace quality and environmental protection.

COMMUNITY INVOLVEMENT

Community Investment

Champion REIT's community involvement focuses on three thematic areas: the Arts, Children and the Environment. Based on these themes, we often partner with nonprofit organizations, offering our properties as venues for various projects seeking donations or creating awareness of worthy causes.

As a patron of the Arts, Champion REIT sponsors the *Musica del Cuore* (an Italian term for "Music of the Heart") concert series held at Three Garden Road every Friday evening. The upper ground floor lobby is transformed into a "community concert stage", showcasing some of the finest Classical performers. The concert series has provided a platform for a variety of local talents, well-established artists and chamber groups to display their artistry, while visiting guests from other parts of the world have inspired music lovers through cultural exchange.

In terms of the Environment, both properties joined forces to support the WWF (World Wide Fund) "Earth Hour 2016", a global event to fight against climate change by switching off all non-essential lights for one hour.

In the area of children, Three Garden Road offered a roadshow space at the upper ground lobby to World Vision in the summer of 2016 for promoting to the public its work and beneficiaries of the Child Sponsorship programme.



World Vision Roadshow

Throughout the year, Langham Place sponsored free airtime of its giant LED TV at Grand Atrium for broadcasting promotional videos of charitable organizations, including: Médecins Sans Frontières (MSF), The Office of the United Nations High Commissioner for Refugees (UNHCR), Yan Chai Hospital, The Hong Kong Society for the Blind and Ronald McDonald House Charities. In the area of care for animals, Langham Place partnered with Cream Brother Foundation



Canned Food Donation Programme for Stray Cats



“Walking with Lingnanians” Fundraising Walkathon 2016



Collaboration with the Real Estate Investment Club of The Chinese University of Hong Kong

Ltd, a charity foundation under the name of the most famous cat in Hong Kong “Cream Brother” to organize a canned food donation programme for stray cats as part of the Mall’s summer campaign “Share Your #HappyMEOWment”. More than 4,600 cans of cat food were collected from cat lovers and the public. This overwhelmingly exceeded the original target, of 1,000 cans, with the food going to Treasure Life, Be Kind to Animals Association and Tai O Stray Cat Home.

In addition to the three core community themes as outlined, Champion REIT also participated in other civic activities. In 2016 we supported youth development events. The Trust sponsored the “Walking with Lingnanians” Fundraising Walkathon 2016 for the development of Lingnan University. Other than donations, we have collaborated with the Real Estate Investment Club of

The Chinese University of Hong Kong for a case study with an aim for students to learn more about commercial properties. During the process, students were provided with guidance on researching real life information in the real estate industry and feedback on the feasibility.

Portions of both properties are also dedicated to public usage. In service to the community, Three Garden Road provides more than 60,000 sq. ft. of floor space as a public thoroughfare. It also maintains two pedestrian bridges abutting the public thoroughfare, providing sheltered elevated access between Hong Kong Park and Central. Langham Place provides a pedestrian system consisting of a bridge and underground tunnel that allows easy and safe access from the MTR Station to the community centre and minibus depot on Shanghai Street.

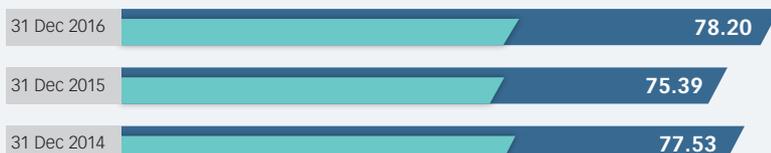
Property Portfolio

At-a-glance

THREE GARDEN ROAD

Three Garden Road is one of the largest Grade A commercial complexes in Hong Kong's Central district with a gross floor area of 1,638,000 sq. ft. It consists of a 47-storey and a 37-storey office tower linked through a podium. Both towers are intelligent buildings capable of meeting the demanding technical specifications of global financial institutions.

OFFICE PASSING RENT (HK\$PSF)



LANGHAM PLACE OFFICE TOWER

Langham Place Office Tower is a 703,000 gross sq. ft. 59-storey office tower located within the Langham Place mixed-use development. It is a Grade A office property in Mongkok, a major transport hub in Kowloon and a busy shopping district. The building focuses on tenants involved in the services and lifestyle industries.

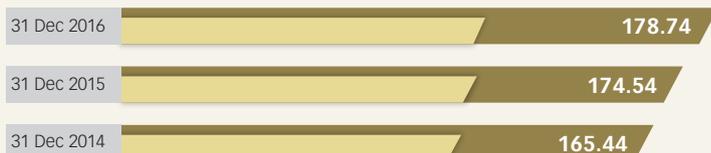
PASSING RENT (HK\$PSF)



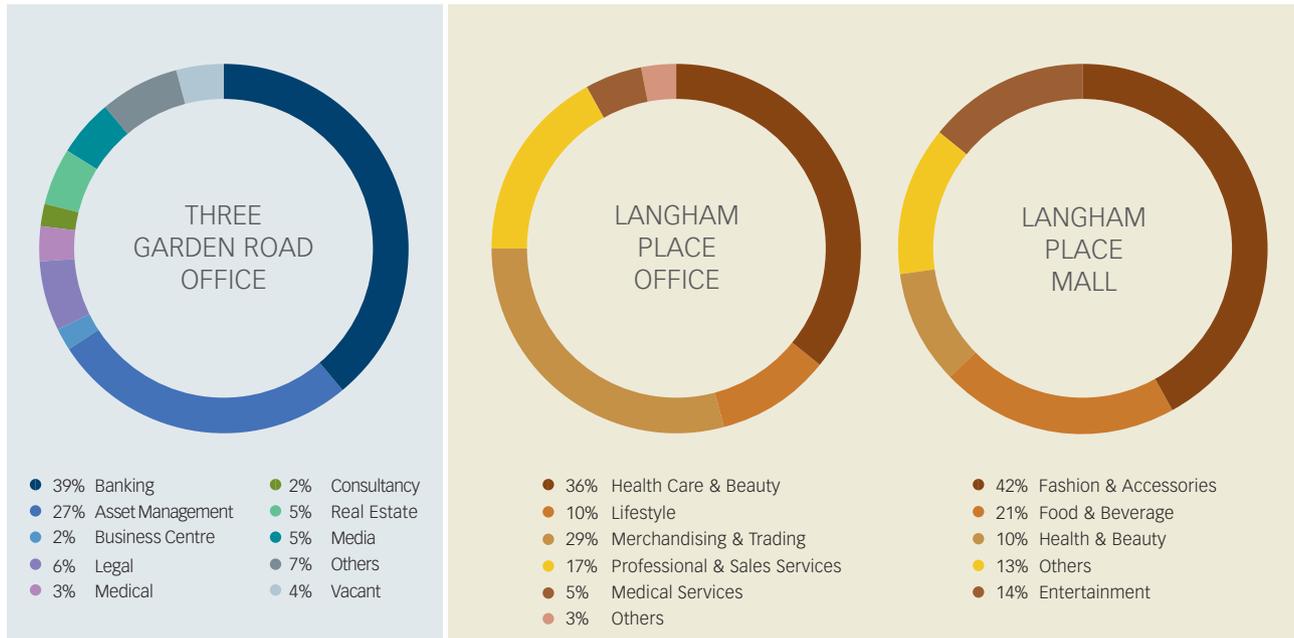
LANGHAM PLACE MALL

Langham Place Mall is a 15-level, 590,000 gross sq. ft. 'vertical' mall focusing on mid-priced fashion, beauty products and food & beverage. It anchors the Langham Place development and offers a unique shopping experience through its distinct architectural features and its novel promotional events. The Mall has built its reputation as a trendy social and retail destination for young and fashion-conscious shoppers, and is popular among tourists.

PASSING RENT (HK\$PSF)



TENANT PROFILE AS AT 31 DECEMBER 2016



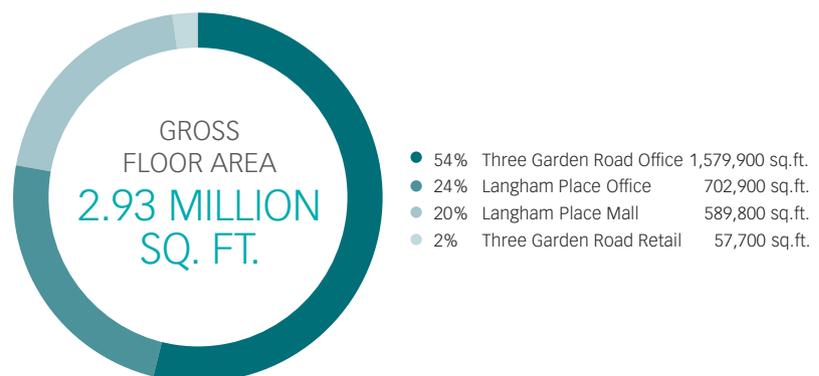
MAJOR TENANTS OF CHAMPION REIT (IN ALPHABETICAL ORDER)

- Allianz Global Investors
- Beauty Avenue
- Blackrock
- Bloomberg
- Cinema City
- Citibank
- Hennes & Mauritz
- Industrial and Commercial Bank of China
- Invesco
- Neo Derm

VALUE AS AT 31 DECEMBER 2016

	Three Garden Road HK\$ mil	Langham Place HK\$ mil	Sub-total HK\$ mil
Office	37,856	8,477	46,333
Retail	587	18,470	19,057
Car Park	535	348	883
Miscellaneous	352	217	569
Total	39,330	27,512	66,842

For additional details, please refer to the valuation report section.



Three Garden Road



With a gross floor area of
over 1.6 million sq. ft.,

Three Garden Road

is one of the biggest office complexes in Hong Kong.

The complex contains many distinct architectural features, such as the flexibility to join 26 floors of both towers to provide an enlarged floor plate of up to 34,000 sq. ft. This is the largest available floor plate in Central.

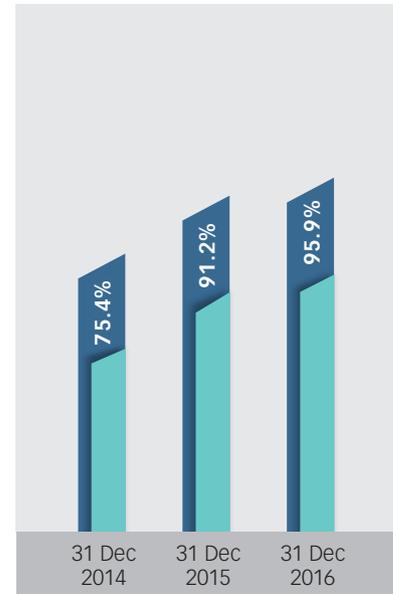
PRIME ASSET

Three Garden Road is a modern glass and steel office complex, which comprises Champion Tower and ICBC Tower, a retail podium, and a 3-level basement garage capable of accommodating 558 vehicles. The complex is located in the Central district of Hong Kong and is well connected by elevated walkway to the rest of Central. It is nestled within the traditional banking hub of Hong Kong, which also contains the headquarters buildings of all three of Hong Kong's currency issuing banks. After acquiring the last four floors it did not own in 2013, Champion REIT has unified the ownership of Three Garden Road.

ARCHITECTURAL EXCELLENCE

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

OCCUPANCY RATE



Three Garden Road

PREMIUM GRADE A SPECIFICATIONS

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

AMENITIES AND SERVICES

In addition to its prime location and premium specifications, the 'tenant experience' also plays an important role in attracting quality tenants to



the property. Three Garden Road places great emphasis on the quality of facility management and level of customer service. The relaxation and cardiovascular needs of the tenants are also an integral part of Three Garden Road's success formula. Three Garden Road is home to a health club occupying almost four floors of one tower. This health club features a gymnasium and a heated swimming pool among other exercise facilities. Another amenity to tenants is the retail area in the lower lobby of the podium where

tenants have access to a variety of food and beverage outlets. This is also the venue for weekly classical musical performances, which are well received by tenants.



Building Statistics

- **HK\$39.3 billion** Assessed Value
- Built in **1992**
- **205m** Tall, Highest Floor is 50
- **558** Vehicle Basement Garage
- **124** Tenants
- **1,638,000** sq. ft. Gross Floor Area
- **1,225,000** sq. ft. Lettable Office Area
- **43,000** sq. ft. Lettable Retail Area
- **34,000** sq. ft. Gross Floorplate

Features & Amenities

- 9 Emergency Generators (12,400kVA)
- 36 passenger lifts in 9 zones
- Security Card Access
- Private Driveway
- Private Taxi Stand
- Electric Vehicle Charging Stations
- Shuttle Bus Service
- Internal Loading Dock
- 10-Storey Lobby Atrium
- HKIAQ Certification
- Heated Swimming Pool
- OHSAS 18001 Certification
- ISO 14001 Certification
- 30,000 sq. ft. Health Club

Langham Place



Langham Place Office Tower

is a modern 59-storey Grade A building, that is the preferred corporate address in Mongkok.

Langham Place Mall

is a lifestyle urban mall with a design that matches the tastes of its target audience – young shoppers interested in the latest fashion trends.

PREMIUM ASSET, PRIME LOCATION

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

FASHION MALL REDEFINING MONGKOK

The Langham Place Mall has several unique modern architectural and design features. Its distinctive multi-faceted façade of Fissured Brazilian Granite is immediately recognizable from the surrounding shopping district. Among its internal features are a Grand Atrium enclosed by 9-storey-high glass curtains showcasing the surrounding street-level activity, two sets of indoor escalators measuring a total of 83 meters and a 'Digital Sky' projected onto the mall's ceiling. In the upper section of the Mall there is the iconic Spiral section leading up to an indoor alfresco bar and restaurant floor. For its innovative design, the Langham Place Mall has received several awards from parties such as the International Council of Shopping Centers and the Institution of Structural Engineers.



Langham Place

Langham Place Mall is a lifestyle urban mall, and its design matches the tastes of its target audience – young shoppers interested in the latest fashion trends. Each day, 200,000 to 300,000 shoppers visit the Mall to look for the latest in hip and trendy apparel, accessories and footwear. As part of the Langham shopping experience, the Mall also offers its shoppers a cineplex, a games arcade and more than 40 food and beverage outlets. Because of its immense popularity among teens and young adults, Langham Place Mall has been the venue of choice for fan and media events by both local and foreign celebrities. The Mall is also popular with tourists from the Mainland as it is well known for its wide selection of cosmetics.

CINEMA CITY

The response to Cinema City Langham Place has been overwhelming since its opening in late 2014. Its innovative design, named “Carmen Futura” by Alexander Wong Architects, appeals to movie lovers and design experts alike. It recently won three major design awards at the International Property Awards Summit 2016–2017



– “World’s Best Interior Design”, “Best International Leisure Interior” and “Best Leisure Interior Asia Pacific”. Both Box-office and admissions of Cinema City Langham Place also continued to outperform the Hong Kong market in 2016, with both ranking No. 1 in Hong Kong.

MONGKOK’S PREFERRED OFFICE ADDRESS

The Langham Place Office Tower is a modern 59-storey Grade A building that is the preferred corporate address in Mongkok. It is covered in distinctive reflective blue glass and topped off with a large colour-changing dome visible from as far away as Hong Kong Island at night. As the building is

conveniently located, it attracts tenants from lifestyle, healthcare and beauty sectors with synergistic connection to the Langham Place Mall. The building contains a 70,000 sq. ft. fitness and wellbeing centre, housing one of the world’s largest yoga studios, as well as many smaller spas.

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



Building Statistics

- **HK\$27.5 billion** Assessed Value*
- Built in **2004**
- **255m** Tall, Highest Floor is 60
- **255** Vehicle Basement Garage
- **51** Office Tenants*
- **164** Retail Tenants
- **1,293,000** sq. ft. Gross Floor Area*
- **703,000** sq. ft. Gross Office Area*
- **17,400** sq. ft. Gross Office Floorplate
- **319,000** sq. ft. Lettable Retail Area

** only Champion REIT's portion*

Features & Amenities

- 15-storey Shopping Mall
- Adjoining 5-star Hotel
- 1,100 Seat Cineplex
- Over 40 F&B Outlets
- Direct MTR Access
- 9-Storey Glass Atrium
- Panoramic View of Kowloon
- Electric Vehicle Charging Stations
- Internal Loading Dock
- HKIAQ Certification
- OHSAS 18001 Certification
- ISO 14001 Certification
- 70,000 sq. ft. Fitness and Well-being Centre
- One of the World's Largest Yoga Studios

Langham Place

What's Been Happening at the Mall



1



2



3



4

1. Monchhichi Lunar New Year Campaign

Originated in Japan, Monchhichi is the most popular monkey character among local, Mainland and other Asian visitors. The character was invited along to celebrate the Year of the Monkey with shoppers at the Mall. In addition to the L4 centerpiece and L1 arch, photo spots were displayed across the Spiral to draw traffic to the high zone. A Monchhichi pop-up store with exclusive merchandise was also opened on L7 to heighten the festive mood.

2. The LIVE Stage Makeover

Since its launch in 2006, LIVE Stage has hosted over 2,700 live shows. In July 2016, LIVE Stage unveiled a fresh new look. In addition to up-and-coming music talents, renowned singer-songwriters and bands entertained fans on a regular basis throughout the year. By collaborating with KKBOX, the most popular

streamlining music application in Hong Kong, monthly highlight concerts held at LIVE Stage were also broadcast live on KKBOX's mobile and social media platforms.

3. K-pop Star Events

The past year saw the Mall partnering with various Korean brands, including Sweet Monster ice cream and beauty brand LANEIGE, to bring the latest trends to the Mall, along with personal appearances from some of the hottest K-pop idols, including iKon (one of the most popular K-pop boy groups).

4. ViuTV Animation Expo

Shoppers were entertained at this 2-day animation expo with interactive game booths, mascot meet-n-greet sessions and celebrity events organized by ViuTV.



6



7



5



8

5. Summer Campaign: Share Your #Happy MEOWment

Summer saw the Mall transformed into a kitty wonderland. Local celebrity cat “Brother Cream” graced one of our photo spots and was a big hit. The campaign generated over 9 million customer visits and more than 300 pieces of coverage on traditional and social media channels. The campaign also won a Gold in the Excellence in Mass Event category of Marketing Magazine’s Marketing Excellence Awards 2016.

6. Coca-Cola Masterbrand Activation Pop-up Event

Coca-Cola promoted its brand new packaging by setting up interactive vending machines exclusively on L7 of the Mall. Participating shoppers were rewarded with a can of Coke for free. A collection of rare, historical, Coke cans was also on display.

7. LINE FRIENDS CHOCO HOUSE Exhibition

To build momentum for the November 2016 opening in the Mall of the LINE FRIENDS store, the Mall partnered with the tenant for the launch of their new character CHOCO in Hong Kong. This included the setting up of a CHOCO HOUSE exhibition and a pop-up store. Both were extremely well received by shoppers and media.

8. LANGHAM PLACE X LEGO®: WHITE CHRISTMAS

Langham Place added a shine to the Christmas season by collaborating with LEGO® Certified Professional Andy Hung to create Hong Kong’s first LEGO® White Christmas building using an incredible one million LEGO® bricks. Together with the limited-edition Box Set and a number of related activities, the event became a regional sensation and hotspot during the year-end holidays.

Valuation Report



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3 February 2017

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

HSBC Institutional Trust Services (Asia) Limited
17/F, Tower 2 & 3, HSBC Centre
1 Sham Mong Road, Kowloon
Hong Kong
(the Trustee for Champion REIT)

Dear Sirs

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

In accordance with the recent instructions of the Manager on behalf of Champion REIT to value the Property, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2016 (referred to as the "Valuation Date") for reporting purposes.

Basis of Valuation

In arriving at our opinion of the market value, we followed “The HKIS Valuation Standards (2012 Edition)” issued by The Hong Kong Institute of Surveyors (“HKIS”) and “The RICS Valuation — Professional Standards” issued by the Royal Institution of Chartered Surveyors (“RICS”). Under the said standards, Market Value is defined as:

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

The market value is also the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation complies with the requirements set out in “The HKIS Valuation Standards (2012 Edition)” issued by HKIS and “The RICS Valuation – Professional Standards” issued by RICS.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts published by The Securities and Futures Commission and “The HKIS Valuation Standards (2012 Edition)” issued by HKIS and “The RICS Valuation – Professional Standards” issued by RICS.

Valuation Methodologies

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

Income capitalization

The existing net rental income, i.e. rent exclusive of rates, management fees, air-conditioning charges and other tenants’ outgoings, of all lettable space of a property, is capitalized in respect of the unexpired term of each contractual tenancy. Upon reversion, i.e. the expiry of the existing tenancy, each of the leased area is assumed to be let at the market rent as at the Valuation Date in turn capitalized at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government lease upon its expiry. Any vacant units are assumed to be let at their respective market rents at the Valuation Date. The market value of a property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred. The capitalization rate adopted is made by reference to the yield achieved in analysed market sales of retail space/office spaces and our knowledge of the market. This expected rate of return reflects implicitly the quality of the investment, the expectation of future rental growth and capital appreciation, risk factor and the like. Our adopted capitalization rate for both the retail and office accommodations is 4.00%.

Valuation Report

Direct comparison

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

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

Valuation Assumptions and Considerations

Our valuation is subject to the following assumptions and considerations.

We have taken reasonable care to investigate the title of the Property by obtaining the sample land search records from the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We however do not accept a liability for any interpretation which we have placed on such information that is more properly the sphere of your legal advisers. We have also assumed in our valuation that the Property was free from encumbrances, restrictions, title defects and outgoings of an onerous nature that could affect its value, unless stated otherwise as at the Valuation Date.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale.

We have relied to a very considerable extent on information given by the Manager and have accepted advice given to us on such matters as, if any, planning approvals or statutory notices, easements, tenure, occupancy, incomes, carpark numbers, floor areas and all other relevant matters. We have not verified the information provided to us and have assumed that they are correct. We do not undertake to certify the authenticity of the information provided to us and we have no reason to doubt the truth and accuracy of this information which is material to the valuation. We were also advised by you that no material facts have been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the Property, identified by the Property address in your instructions, is the Property inspected by us and contained within our valuation report. If there is ambiguity as to the Property address, or the extent of the Property to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

As instructed, we have relied upon carpark numbers as advised by the instructing party. We have not carried out on-site counting to verify the correctness of the carpark numbers of the Property valued.

We have assumed that the Property valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the Property upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

We inspected the exterior and where available, portion of the interior of the Property on 30 December 2016. The inspection of the Property was undertaken by Mr Kenneth Lok, Manager of the General Valuation Department. Nevertheless, we have assumed in our valuation that the Property was in satisfactory exterior and interior decorative order without any unauthorized extensions or structural alterations as at the Valuation Date.

In valuing the Property, we have made reference to the relevant transactions and market conditions as at the Valuation Date. The value of the Property may be affected in a volatile market conditions. Unless otherwise stated, we assumed that the Property is free from encumbrances, restrictions, incidents and outgoings of any onerous nature which could affect its value.

Limiting Conditions

This report is confidential to the addressee for the specific purpose to which it refers. It may be disclosed to other professional advisers assisting the addressee in respect of the purposes, but the addressee shall not disclose the report to any other person. Neither the whole, or any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement nor published in any way whatsoever whether in hard copy or electronically (including on any web site) without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this report and valuation is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents. We do not accept liability to any third party or for any direct or indirect consequential losses or loss of profits as a result of this report.

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

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

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

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

We enclose herewith our valuation and market overview.

Yours faithfully

For and on behalf of

Knight Frank Petty Limited

Thomas Lam

FRICS MHKIS RPS(GP) RICS Registered Valuer

Senior Director, Head of Valuation & Consultancy

Note: Thomas Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region (ex-Japan).

Valuation Report

VALUATION

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2016	Estimated Net Property Yield
(1) High Block (except HB CAF (as defined in the Sub-Deed of Mutual Covenant affecting the High Block dated 8 July 2005) and Suites Nos 01, 02, 03, 05, 06, 07, 08, 09, 10, 11, 12 and 15 on Levels 35, 36, 37 and 55), 8 Argyle Street, (2) Retail Block, Langham Place, 8 Argyle Street, (3) Carpark, 8 Argyle Street and 555 and 557 Shanghai Street, and (4) Reserved Area, 8 Argyle Street and 555 and 557 Shanghai Street, Mong Kok, Kowloon	Langham Place is a retail/office/hotel/carpark complex erected on two rectangular sites, separated by Shanghai Street, having a total registered site area of about 11,976 sq m (128,910 sq ft). The development was completed in 2004. Currently standing on the eastern site is a 59-level tower (comprising 46 levels of office, four levels of shop, five mechanical floors, two refuge floors and two roof floors) and a 15-storey retail building (including two basement levels) erected over three levels of basement carpark. Currently standing on the western site is a hotel built over two levels of basement carpark. In addition, government, institution and community facilities as well as public open space are provided on the site. Two covered footbridges and an underground vehicle tunnel across Shanghai Street are constructed to inter-connect the development between the two separate sites.	The office portion of the Property was let under various tenancies mostly for terms of two or three years with the latest expiry date in March 2022 yielding a total monthly rental of approximately HK\$28.19 million exclusive of rates, management fees and air-conditioning charges. A number of tenancies contain options to renew for further terms at the then prevailing market rents. The retail portion of the Property was let under various tenancies mostly for terms of two or three years with the latest expiry date in July 2024 yielding a total monthly basic rent of approximately HK\$57.75 million exclusive of rates, management fees and air-conditioning charges. Most of the tenancies are subject to turnover rents. The average monthly turnover rent receivable during the period from January 2016 to November 2016 was about HK\$5.86 million. The occupancy rates of the office and retail portions were both approximately 100%.	HK\$27,511,500,000 (Hong Kong Dollars Twenty Seven Billion Five Hundred and Eleven Million Five Hundred Thousand)	4.2%
1,075,082/1,963,066th undivided parts or shares of and in Kowloon Inland Lot No 11099.				

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2016	Estimated Net Property Yield
	<p>The Property comprises the office floors from Level 6 to Level 60 (Levels 13, 14, 24, 34, 44 and 58 are omitted from floor numbering) of the High Block, 8 Argyle Street except HB CAF (as defined in the Sub-Deed of Mutual Covenant affecting the High Block dated 8 July 2005) and Suites Nos 01, 02, 03, 05, 06, 07, 08, 09, 10, 11, 12 and 15 on Levels 35, 36, 37 and 55 with a Gross Rentable Area of approximately 65,302.03 sq m (702,911 sq ft).</p> <p>The Property also comprises the Retail Block, Langham Place, 8 Argyle Street from Basement 2 to Level 13 with a Total Floor Area of approximately 54,797.84 sq m (589,844 sq ft) and a Gross Rentable Area of approximately 29,648.18 sq m (319,133 sq ft).</p> <p>The Property also comprises a carpark at the basement levels, 8 Argyle Street, and 555 and 557 Shanghai Street accommodating a total of 250 car parking spaces.</p> <p>Kowloon Inland Lot No 11099 is held from the Government under Conditions of Exchange No UB12557 for a term from 18 February 2000 to 30 June 2047 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.</p>	<p>The carpark was operated as a fee-paying public carpark let on monthly and hourly bases. The average monthly gross income receivable during the period from December 2015 to November 2016 was approximately HK\$1.96 million.</p> <p>Miscellaneous income was generated from lightboxes, signage spaces and other miscellaneous items yielding an average monthly licence fee of approximately HK\$1.45 million.</p>		

- Notes: (1) The registered owner of the Property was Benington Limited as at the Valuation Date.
- (2) The Property also comprises the Reserved Area defined in the Deed of Mutual Covenant and Management Agreement dated 27 June 2005 as those parts of the Development not specifically included in the Government Accommodation or any Component, the Development CAF or HB/Retail CAF (all terms as defined in the said Deed of Mutual Covenant and Management Agreement) and reserved for the exclusive use and enjoyment of Benington Limited.
- (3) For the office portion of the Property, the Gross Rentable Area is equal to the Total Floor Area.
- (4) The Property lay within an area zoned "Commercial (2)" under the draft Mong Kok (KPA 3) Outline Zoning Plan No S/K3/30 exhibited on 31 May 2013 as at the Valuation Date.

Valuation Report

- (5) The rentals reported herein are the total of the face rentals without taking into account of any rent free periods or the turnover rents received, if any.
- (6) The breakdown market values in respect of different portion of the Property is set out below:

Use	Market Value as at 31 December 2016
Retail :	HK\$18,470,000,000
Office :	HK\$8,477,000,000
Carpark :	HK\$347,500,000
Miscellaneous :	HK\$217,000,000
Total	HK\$27,511,500,000

- (7) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy profile for the office portion of the Property (excluding car parking spaces and the licensed miscellaneous premises) as at 31 December 2016 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	702,911	100
Vacant	0	0
Total	702,911	100

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No of Tenancy	% of total
2012	2,751	0.4	\$90,782	0.3	1	1.5
2013	18,773	2.7	\$760,068	2.7	2	3.0
2014	226,521	32.2	\$8,907,455	31.6	23	34.9
2015	117,943	16.8	\$4,706,374	16.7	16	24.2
2016	336,923	47.9	\$13,724,709	48.7	24	36.4
Total	702,911	100	\$28,189,388	100	66	100

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No of Tenancy	% of total
2016	35,590	5.0	\$1,395,537	5.0	3	4.6
2017	109,491	15.6	\$4,125,674	14.6	17	25.8
2018	100,462	14.3	\$3,984,039	14.1	15	22.7
2019	298,078	42.4	\$12,050,956	42.8	22	33.3
2020	56,029	8.0	\$2,512,368	8.9	3	4.5
2021	33,669	4.8	\$1,406,726	5.0	4	6.1
2022	69,592	9.9	\$2,714,088	9.6	2	3.0
Total	702,911	100	\$28,189,388	100	66	100

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No of Tenancy	% of total
2	36,254	5.1	\$1,404,111	5.0	3	4.6
3	409,535	58.3	\$16,319,923	57.9	46	69.7
4	17,398	2.5	\$704,619	2.5	1	1.5
5	125,995	17.9	\$5,146,830	18.3	12	18.1
6	96,331	13.7	\$3,944,082	14.0	3	4.6
7	17,398	2.5	\$669,823	2.3	1	1.5
Total	702,911	100	\$28,189,388	100	66	100

Note: The above tenancy profile of office portion excludes seven renewal tenancies for terms of approximately one year and seven months to three years commencing in between January 2017 and May 2017 and one committed new letting for term of three years commencing in January 2017.

- (8) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy profile for the retail portion of the Property (excluding the licensed miscellaneous premises) as at 31 December 2016 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	318,866	99.92
Landlord Occupied	267	0.08
Vacant	0	0.00
Total	319,133	100

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Basic Rental (HK\$)	% of total	No of Tenancy	% of total
2012	15,131	4.7	\$4,055,108	7.0	1	0.5
2013	42,559	13.3	\$10,539,681	18.3	9	4.4
2014	101,962	32.0	\$13,358,034	23.1	42	20.7
2015	69,367	21.8	\$11,220,648	19.4	63	31.0
2016	89,847	28.2	\$18,576,766	32.2	88	43.4
Total	318,866	100	\$57,750,237	100	203	100

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Basic Rental (HK\$)	% of Total	No of Tenancy	% of Total
2016	132	0.0 [#]	\$75,900	0.1	1	0.5
2017	67,214	21.1	\$12,856,120	22.3	60	29.5
2018	91,791	28.8	\$20,154,575	34.9	68	33.5
2019	86,274	27.1	\$15,467,161	26.8	63	31.0
2020	18,104	5.7	\$3,190,445	5.5	6	3.0
2021	10,611	3.3	\$977,436	1.7	4	2.0
2024	44,740	14.0	\$5,028,600	8.7	1	0.5
Total	318,866	100	\$57,750,237	100	203	100

[#] The % is minimal

Valuation Report

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Basic Rental (HK\$)	% of total	No of Tenancy	% of total
1	3,038	1.0	\$370,666	0.6	7	3.4
2	20,339	6.4	\$3,514,221	6.1	38	18.7
3	132,254	41.5	\$27,520,998	47.6	129	63.6
4	36,375	11.4	\$5,177,399	9.0	12	5.9
5	76,641	24.0	\$15,570,197	27.0	14	6.9
6	5,479	1.7	\$568,156	1.0	2	1.0
10	44,740	14.0	\$5,028,600	8.7	1	0.5
Total	318,866	100	\$57,750,237	100	203	100

Note: The above tenancy profile of retail portion excludes 16 renewal tenancies for terms of approximately 42 days to three years commencing in between January 2017 and September 2017 and six committed new lettings for terms of approximately one year to five years commencing in between January 2017 and May 2017.

Office Market Overview

OFFICE DEMAND

As one of the major global financial centres, Hong Kong is the preferred location for many international corporations setting up regional offices in Asia. The Central Business District ("CBD") in Hong Kong includes Central on the Hong Kong Island. Other major business districts include Sheung Wan, Wan Chai and Causeway Bay on Hong Kong Island, Tsim Sha Tsui in Kowloon, as well as decentralised areas namely Quarry Bay and North Point on Hong Kong Island. With limited availability in the central areas and the expansion of transport infrastructure, recent years have seen a rapid decentralisation of office space and the growth of new alternative office hubs such as Kowloon East¹ and Yau Ma Tei/Mong Kok in Kowloon as well as Kwai Tsing and Tsuen Wan in the New Territories.

OFFICE STOCK²

Hong Kong has seen a slower growth in office stock over the last five years. According to the Rating and Valuation Department, Hong Kong's total office stock grew 5% between 2011 and 2015. This compares with the 9% growth in total office stock between 2006 and 2010. In particular, the growth in Grade A office space slowed to 5% between 2011 and 2015, compared with the 16% increase between 2006 and 2010.

As of 2015, Grade A office space (77 million sq ft) represented approximately 64% of all office stock, while the remaining 36% was Grades B and C space. Grade A office space is expected to reach about 79 million sq ft by the end of 2016.

Yau Ma Tei/Mong Kok is one of the favourite office locations for trading, consumer goods and insurance companies. Yau Ma Tei/Mong Kok represented approximately 8% of total office stock of all grades (9.1 million sq ft) and 5% of the total stock of Grade A offices (3.6 million sq ft) in 2015. Yau Ma Tei/Mong Kok, together with the other decentralised office areas including North Point, Quarry Bay on the Hong Kong Island, Kowloon East in Kowloon, Kwai Tsing and Tsuen Wan in the New Territories, represented around 37% of total Grade A office stock at the end of 2015, and is expected to remain relatively the same by 2016.

¹ Kowloon East refers to Kwun Tong and Kowloon City.

² All areas are Internal Floor Area (IFA) unless otherwise stated.

RENTAL TRENDS

Hong Kong's Grade A office rents generally on the uptrend in the last five years (2011 to 2015), shrugged off the negative effects from the global financial crisis in late 2008 to 2009. According to the Rating and Valuation Department, the average Grade A office rent rose by around 30% from 2011 to 2015, representing a 7% Compound Annual Growth Rate (CAGR) in the period³. A rise of around 10% was noted in Yau Ma Tei/Mong Kok from 2011 to 2015, representing a CAGR of about 2.5%⁴.

Grade A office rents continue to trend up in 2016. The average Grade A office rent rose a further 3% from the end of 2015, while rents in Yau Ma Tei/Mong Kok edged up about 1% in the same period on the back of a steady office demand in the corporate sector⁴.

PRICE TRENDS

In line with the office rental trend, office price was generally on an uptrend in the last five years (2011 to 2015). According to the Rating and Valuation Department, average Grade A office price in Hong Kong rose 25% from 2011 to 2013. In 2014, on the back of slowed Grade A office sales due to a series of cooling measures including the Double Stamp Duty (DSD) and the lowering of the maximum mortgage loan-to-value ratio for commercial properties, average Grade A office price in Hong Kong drop 1% in the year.

As Mainland Chinese financial institutions push on plans to establish their physical footprint in Hong Kong's prime business districts, while Grade A office rental resumed positive growth, these in turn support capital appreciation and increases investors' focus on the office sales market. Grade A office price grew 7% in 2015, according to Rating and Valuation Department. Price rose another 11% in 2016⁵.

SUPPLY⁶

Hong Kong's Grade A office supply trend down over the last ten years (2006 to 2015), due to a general lack of sites in core office locations. Grade A office supply averaged about 1.2 million sq ft per annum in the last five years (2011 to 2015), 42% lower than the average 2.1 million sq ft supply per annum in the period of 2006 to 2010. Meanwhile, Grade A office supply in Yau Ma Tei/Mong Kok area saw no significant supply during the period of 2011 to 2015 after the period between 2006 to 2010 when annual average supply stood at 340,400 sq ft. No new supply in expected in the area in 2016.

Hong Kong is likely to see an increase in office supply from 2017 to 2020. New Grade A office supply is projected to reach a total of about 8 million sq ft, representing an annual average of approximately 2 million sq ft. This compares with the average supply of 1.2 million sq ft per annum from 2011 to 2015. While office take-up varies with market conditions and business environment every year, the future office supply level from 2017 to 2020 is still expected to be slightly above the annual average take-up of about 1.8 million sq ft per annum over the past 20 years (1996 to 2015), but still lower than the average supply level between 2006 and 2010.

Analysing the future supply by districts, it is worth noting that most of the future supply will be located outside the core business districts in Hong Kong, namely Central, Sheung Wan, Wan Chai/Causeway Bay and Tsim Sha Tsui districts. These districts will only represent less than 20% of the total supply in the coming five years (2016 to 2020).

³ Rating and Valuation Department figures

⁴ Knight Frank estimates

⁵ Knight Frank estimates

⁶ All areas are Internal Floor Area (IFA) unless otherwise stated.

Valuation Report

Earmarked by the Government as the new Central Business District (“CBD2”), the Kowloon East area, which covers Kwun Tong and Kowloon City, will be the area with the largest office supply. The area is expected to add about 4.0 million sq ft or 50% to the total new office supply of Hong Kong between 2017 and 2020. Notably, no new supply will be in Yau Ma Tei/Mong Kok.

VACANCY⁷

Demand for office space in Hong Kong has remained resilient in the past despite a number of economic downturns. While net office take-up continued to remain positive in 2014 and 2015, average Grade A office vacancy rate in Hong Kong was stable in 2014 and further edged down in 2015, showing no major signs of downturn in office space absorption.

The average Grade A office vacancy rate dropped to about 2.4% in 2015 from 3.4% in 2014. Due to the increase in vacant space in Kowloon East amid a surge in supply, vacancy rate was pushed up to about 3.8% in 2016.

Driven by decentralisation trend, Grade A office vacancy rate generally remained at relatively low levels in decentralised areas. In 2016, Grade A office the vacancy rates in North Point/Quarry Bay remained stable at about 1.8%, while Kowloon East reached about 9% driven by a supply surge. Meanwhile in Yau Ma Tei/Mong Kok, Grade A office vacancy rate remained at approximately 2% in 2016.

OUTLOOK

In general, office demand in Hong Kong is likely to remain firm, notwithstanding any major economic downturn. Demand from Chinese firms is set to remain strong as they continue to seek quality office space in Hong Kong. The lack of available office space and the high rentals in core business districts are expected to drive the decentralisation trend in the next few years.

The slowing expansion of international retail brands in the city on the back of a softening retail market means their demand for office spaces will be relatively limited in the short term.

Meanwhile, the growth in China’s trade will serve to lift external demand, bolstering exports and supporting Hong Kong’s economy. Despite its slowing rate of economic expansion, China’s rising imports of services will provide support to the territory’s economic growth. The demand for office space from the trading sector is expected to remain steady.

Therefore, in view of the limited future office supply particularly in the core business districts, an expected decentralisation trend and an improving trading sector, coupled with no upcoming new office supply in the Mong Kok area, both rents and values should be well supported.

⁷ Knight Frank estimates

Retail Market Overview

RETAIL STOCK

Attracting some 50 million visitors a year, Hong Kong is one of the world's top shopping destinations, housing a high representation of luxury and mid-end retailers. As of the end of 2015, Hong Kong had a total of approximately 118 million sq ft of private commercial stock⁸. 41% of private commercial stock is located in Kowloon while Hong Kong Island and the New Territories each represented around 30% of the total commercial stock in the city. Private commercial stock is expected to increase to about 119 million sq ft by 2016.

The total stock of private commercial premises in Hong Kong saw only small increase in the past five years. While stock went up by 3% between 2006 and 2010, the increase slowed to a mere 2% in the period of 2011 to 2015. Per capita stock⁹ therefore fell to about 16.2 sq ft per person in 2015 from 16.4 sq ft per person in 2011, compares with 14.8 sq ft per person in 2005. Per capita stock is expected to remain at the same level in 2016.

As one of the most popular shopping and entertainment spot for both visitors and locals in Hong Kong, Yau Tsim Mong (which includes Tsim Sha Tsui, Yau Ma Tei and Mong Kok Districts) concentrates a number of major shopping malls, including Harbour City in Tsim Sha Tsui and Langham Place in Mong Kok. In addition, Mong Kok is a retail spot particularly popular among local youngsters, characterised by a balanced mix of street shop clusters catering for both visitors and locals. In 2015, total private commercial stock in the Yau Tsim Mong area amounted to 22.3 million sq ft, representing 46% of total stock in Kowloon and 19% of the total in Hong Kong. Total stock is expected to edge up to about 22.4 million sq ft in 2016.

RENTAL TRENDS¹⁰

Hong Kong's average retail rents largely maintained a steady growth from 2011 to 2013 on the back of strong retail sales growth in the city. Average retail rents recorded a 11% CAGR growth in the period, while retail sales saw a 10% CAGR growth.

Retail rental growth slowed in 2014 amid a softened retail sales growth. Retail sales witnessed a 0.2% decline in the year, dragged by a fall of 13.7% in sales of jewellery, watches, clocks and valuable gift. The growth in average retail rents slowed to 4.6% in 2014, reflecting the softened retail demand from luxury retailers for prime street shop locations.

Despite the continual slowdown in retail sales in 2015, average retail rent in Hong Kong remained firm and saw an approximately 5% growth in the year from 2014. In the first ten months of 2016, while retail sales contracted by 9% year on year, rental rates only softened by 2% from the end of 2015. Rental trend is generally resilient in view of the steady domestic spending in Hong Kong on the back of a stable employment market.

⁸ According to the Rating and Valuation Department, private commercial premises include retail premises such as shopping malls and street shops, as well as other premises designed or adopted for commercial use, with the exception of purpose-built offices.

⁹ The figure derives from total year-end private commercial stock divided by total year-end population.

¹⁰ Rating and Valuation Department figures

Valuation Report

PRICE TRENDS¹⁰

Average retail price in Hong Kong saw a surge after the Global Financial Crisis amid a positive retail market sentiment and an influx of mainland visitors. Private retail prices rose by a CAGR of 24% from 2011 to 2013, a rate much faster than the growth in average private retail rents over the same period.

Investment sentiment in the private retail properties was cooled in 2014 in light of the softened retail market and the resulting slowed retail rental growth. Average private retail price rose by 3% in 2014, and a further 7% in 2015. In the first ten months of 2016, the price saw a slight edge down of 3.5%.

SUPPLY¹¹

Hong Kong's supply of private retail stock has fallen behind the long-term average take-up rate in the last five years (2011 to 2015). Completion averaged about 637,400 sq ft per annum, compared with the 748,000 sq ft average take-up per annum in the period of 2006 to 2015. This had helped in pushing up retail rentals in the city. Completion is expected to reach about 1.3 million sq ft in 2016.

Looking forward, supply is expected to increase in the coming years (2017 to 2020). About 720,000 sq ft of private retail supply is expected per year between 2017 and 2020, with the highest proportion of new centres located in New Territories, representing approximately 67% of total future supply¹².

Major private retail properties that are to be completed in 2017 are located in New Territories and are generally not large in scale with Gross Floor Area (GFA) less than 400,000 sq ft, compared with the major shopping centres completed in the recent years such as Hysan Place (400,000 sq ft) in Causeway Bay and Popcorn (431,000 sq ft) in Tseung Kwan O which were completed in 2012, as well as Domain (484,000 sq ft) in 2011.

Notable private retail project in the pipeline include the New World Centre redevelopment and 15 Middle Road development in Tsim Sha Tsui, which is expected to be completed by 2017 and 2019 respectively. However, the retail scales in these two projects are not yet determined. Meanwhile, the first phase of the 2-million-sq-ft GFA retail mall in the North Commercial District of Hong Kong International Airport is expected to be completed by 2020 or beyond.

TAKE-UP AND VACANCY¹⁰

Take-up was largely positive over the last ten years (2006 to 2015), averaging 748,000 sq ft per annum. Meanwhile, the vacancy rate averaged approximately 8% over the same period. Average take-up showed a downward trend in recent years, dropping from an average 1.1 million sq ft per annum in the period of 2006 to 2010 to an average 366,000 sq ft in the period of 2011 to 2015. This could be attributed to the falling supply levels in the city.

Meanwhile, amid a steady retail demand, average vacancy rate of private retail premises generally showed a downward trend over the last ten years (2006 to 2015), dropping from an average 9% in the period of 2006 to 2010 to an average 7% in the period of 2011 to 2015. A softened retail market sentiment had slightly pushed up vacancy rate to 8% in 2015 from 7% in 2014. Vacancy rate is likely to slightly edge up in 2016.

¹¹ All areas are Internal Floor Area (IFA) unless otherwise stated.

¹² Knight Frank estimates

OUTLOOK

The retail market in Hong Kong remains challenging in the short term, which in turn will post negative effects on retail rental growth. A lower Chinese visitor arrivals and spending will continue to pressurise luxury retail sales. Meanwhile, mid-end positioned retail premises are expected to be resilient as domestic spending remains steady on the back of stable employment market, which will support mid-end retail as well as necessities spending.

In a longer term, improvements in the city's infrastructure will continue, highlighted by the completion of MTR South Island Line and Kwun Tong Line Extension. This will couple with a steady economic growth of both Hong Kong and China should support the overall retail sales in Hong Kong. Meanwhile, the increasing trend of middle-class Mainland tourists and stable consumption of the local population will result in higher retail sales of mid-range products and F&B consumption. It is therefore expected to benefit overall retail property demand.

Valuation Report



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3 February 2017

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(the Trustee for Champion REIT)

Dear Sirs

Three Garden Road, Central, Hong Kong (the "Property")

In accordance with the recent instructions of the Manager on behalf of Champion REIT to value the Property, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2016 (referred to as the "Valuation Date") for reporting purposes.

Basis of Valuation

In arriving at our opinion of the market value, we followed “The HKIS Valuation Standards (2012 Edition)” issued by The Hong Kong Institute of Surveyors (“HKIS”) and “The RICS Valuation — Professional Standards” issued by the Royal Institution of Chartered Surveyors (“RICS”). Under the said standards, Market Value is defined as:

“the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

The market value is also the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation complies with the requirements set out in “The HKIS Valuation Standards (2012 Edition)” issued by HKIS and “The RICS Valuation — Professional Standards” issued by RICS.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts published by The Securities and Futures Commission and “The HKIS Valuation Standards (2012 Edition)” issued by HKIS and “The RICS Valuation — Professional Standards” issued by RICS.

Valuation Methodologies

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

Income capitalization

The existing net rental income, i.e. rent exclusive of rates, management fees, air-conditioning charges and other tenants’ outgoings, of all lettable space of a property, is capitalized in respect of the unexpired term of each contractual tenancy. Upon reversion, i.e. the expiry of the existing tenancy, each of the leased area is assumed to be let at the market rent as at the Valuation Date which is in turn capitalized at the market yield as expected by investors for each type of property. Due consideration has been given to expectations of the renewal of Government lease upon its expiry. Any vacant units are assumed to be let at their respective market rents at the Valuation Date. The market value of a property is the total of the capitalized value of the term income and the capitalized value of the reversion income, as appropriately deferred. The capitalization rate adopted is made by reference to the yield achieved in analysed market sales of retail space/office spaces and our knowledge of the market. This expected rate of return reflects implicitly the quality of the investment, the expectation of future rental growth and capital appreciation, risk factor and the like. Our adopted capitalization rate for the retail and office accommodation is 4.25% and 3.6% respectively.

Valuation Report

Direct comparison

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

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

Valuation Assumptions and Considerations

Our valuation is subject to the following assumptions and considerations.

We have taken reasonable care to investigate the title of the Property by obtaining the sample land search records from the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We however do not accept a liability for any interpretation which we have placed on such information that is more properly the sphere of your legal advisers. We have also assumed in our valuation that the Property was free from encumbrances, restrictions, title defects and outgoings of an onerous nature that could affect its value, unless stated otherwise as at the Valuation Date.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale.

We have relied to a very considerable extent on information given by the Manager and have accepted advice given to us on such matters as, if any, planning approvals or statutory notices, easements, tenure, occupancy, incomes, carpark numbers, floor areas and all other relevant matters. We have not verified the information provided to us and have assumed that they are correct. We do not undertake to certify the authenticity of the information provided to us and we have no reason to doubt the truth and accuracy of this information which is material to the valuation. We were also advised by you that no material facts have been omitted from the information provided. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the Property, identified by the Property address in your instructions, is the Property inspected by us and contained within our valuation report. If there is ambiguity as to the Property address, or the extent of the Property to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our report.

As instructed, we have relied upon carpark numbers as advised by the instructing party. We have not carried out on-site counting to verify the correctness of the carpark numbers of the Property valued.

We have assumed that the Property valued had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the Property upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorization have been obtained, except only where otherwise stated.

We inspected the exterior and where available, portion of the interior of the Property on 30 December 2016. The inspection of the Property was undertaken by Mr Kenneth Lok, Manager of the General Valuation Department. Nevertheless, we have assumed in our valuation that the Property was in satisfactory exterior and interior decorative order without any unauthorized extensions or structural alterations as at the Valuation Date.

In valuing the Property, we have made reference to the relevant transactions and market conditions as at the Valuation Date. The value of the Property may be affected in a volatile market conditions. Unless otherwise stated, we assumed that the Property is free from encumbrances, restrictions, incidents and outgoings of any onerous nature which could affect its value.

Limiting Conditions

This report is confidential to the addressee for the specific purpose to which it refers. It may be disclosed to other professional advisers assisting the addressee in respect of the purposes, but the addressee shall not disclose the report to any other person. Neither the whole, or any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement nor published in any way whatsoever whether in hard copy or electronically (including on any web site) without our written approval of the form and context in which it will appear.

In accordance with our standard practice, we must state that this report and valuation is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents. We do not accept liability to any third party or for any direct or indirect consequential losses or loss of profits as a result of this report.

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

Valuation Report

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

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

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

We enclose herewith our valuation and market overview.

Yours faithfully

For and on behalf of

Knight Frank Petty Limited

Thomas Lam

FRICS MHKIS RPS(GP) RICS Registered Valuer

Senior Director, Head of Valuation & Consultancy

Note: Thomas Lam is a Chartered Surveyor who has extensive experiences in market research, valuation and consultancy in China, Hong Kong, Macau and Asia Pacific region (ex-Japan).

VALUATION

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2016	Estimated Net Property Yield															
Three Garden Road, Central, Hong Kong (See Note 1) 1,449,936/1,650,000th undivided parts or shares of and in Inland Lot No 8888.	<p>Three Garden Road is an office/commercial/carparking development situated in Central district. It comprises one 47-storey office block, known as Champion Tower, and one 37-storey office block, known as ICBC Tower surmounting a 6-level podium (including 4 basement levels) with retail accommodation on the lower ground floor and carparking spaces in the basements. The development was completed in 1992.</p> <p>The Property comprises the whole of the retail accommodation and the whole office units of the development. The total floor area and the gross rentable area of the retail and office portions of the Property are approximately as follows:</p>	<p>Except Shop No 5 with an area of approximately 382 sq ft which was together let under a single tenancy with office units Portion A of 40/F and 43/F to 50/F of Champion Tower, the retail portion of the Property was let under six tenancies for various terms with the latest expiry date in October 2025, yielding a total monthly rental income of approximately HK\$2.79 million exclusive of rates, management and air-conditioning charges. The retail tenancies, except the said Shop No 5, were subject to turnover rents. The average monthly turnover rent receivable during the period from November 2015 to October 2016 was approximately HK\$42,800.</p> <p>The office portion of the Property (including Shop No 5) was let under various tenancies for various terms with the latest expiry date in April 2022, yielding a total monthly rental income of approximately HK\$97.21 million exclusive of rates, management and air conditioning charges. A number of tenancies contain rent review clauses and/or options to renew for further terms at the then prevailing market rents.</p>	HK\$39,330,000,000 (Hong Kong Dollars Thirty Nine Billion Three Hundred and Thirty Million)	3.2%															
<table border="1"> <thead> <tr> <th colspan="3">Total Floor Area</th> </tr> <tr> <th>Use</th> <th>sq m</th> <th>sq ft</th> </tr> </thead> <tbody> <tr> <td>Retail</td> <td>5,362.41</td> <td>57,721</td> </tr> <tr> <td>Office</td> <td>146,773.78</td> <td>1,579,873</td> </tr> <tr> <td>Total</td> <td>152,136.19</td> <td>1,637,594</td> </tr> </tbody> </table>		Total Floor Area			Use	sq m	sq ft	Retail	5,362.41	57,721	Office	146,773.78	1,579,873	Total	152,136.19	1,637,594			
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Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2016	Estimated Net Property Yield
	<p>The Property also includes 58 private car parking spaces and a fee paying public carpark comprising 500 car parking spaces and 50 motorcycle parking spaces in the basements.</p> <p>Inland Lot No. 8888 is held from the Government for the residue of the terms of years commencing from 3 August 1989 and expiring on 30 June 2047 under a Government lease deemed to have been issued under and by virtue of Section 14(3) of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) upon compliance with the conditions precedent contained in the Conditions of Sale No 12063 at an annual Government rent equivalent to 3% of the rateable value for the time being of the lot.</p>	<p>The occupancy rates of the retail and office portions were approximately 100% and 95.9% respectively.</p> <p>A total of 500 carparks and 50 motorcycle parking spaces were being operated as a fee-paying public carpark and the remaining 58 carparks were occupied as private carparks and let under various licences. The total average monthly gross income receivable during the period from December 2015 to November 2016 was approximately HK\$1.80 million inclusive of rates and management fees.</p> <p>Various spaces for cellular phone systems were let under four licences for various terms with the latest expiry date in December 2018, yielding a total monthly licence fee of approximately HK\$75,000 exclusive of rates and management fees.</p> <p>A satellite phone antenna, various advertising spaces, the naming right of ICBC Tower and a storeroom on 36th Floor of ICBC Tower were let under four licences with the latest expiry date in May 2020, yielding a total monthly licence fee of approximately HK\$1.54 million exclusive of rates and management fees.</p>		

Notes: (1) The Property comprises the following portions:

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

(2) The registered owners of the respective portions of the Property as at the Valuation Date are set out below:

Registered Owner

Portion of the Property

Shine Hill Development Limited

Whole of ICBC Tower including 2nd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 40th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st and 19th Floors are mechanical floors).

Various portions of Champion Tower, including 3rd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 28th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st, 2nd, 19th and 35th Floors are mechanical floors).

Restaurant Space and Shops 1 to 4 on Lower Ground Floor of the development.

Private car parking space nos 5 to 20, 26 to 33, 45 to 51, 121 to 122 and 166 and 167 on Basement 2 and public carpark comprising 500 private car parking spaces and 50 motor cycle parking spaces within the development.

All those Reserved Areas as defined in the Deed of Mutual Covenant and Management Agreement in respect of Three Garden Road registered in the Land Registry by Memorial No UB5511011 (being those parts of the buildings (not specifically assigned for the exclusive use of any Owner and not being part of the common areas) reserved for the exclusive use and occupation of Shine Hill (including without limitation to the generality of the foregoing, the Main Roofs, the flat roof, the External Walls, the loading/unloading areas on the First Basement and three (3) flag poles at or above Level +14.668 facing the transverse road).

Maple Court Limited

29th to 30th Floors and Portion B on 31st Floor of Champion Tower.

Private car parking space nos 21 to 22 on Basement 2 of the development.

Panhy Limited

Portion A on 31st Floor and 32nd to 33rd Floors of Champion Tower.

Private car parking space nos 42 to 44 on Basement 2 of the development.

Well Charm Development Limited

38th Floor of Champion Tower.

Valuation Report

<u>Registered Owner</u>	<u>Portion of the Property</u>
CP (Portion A) Limited	Portion A on 40th Floor, 41st to 50th Floors of Champion Tower. Shop 5 on Lower Ground Floor of the development. Private car parking space nos 118 to 120 and 123 to 131 on Basement 2 of the development.
CP (Portion B) Limited	39th Floor and Portion B on 40th Floor of Champion Tower. Private parking space nos 23 to 25 on Basement 2 of the development.
Elegant Wealth Limited	34th, 36th and 37th Floors of Champion Tower. Private parking space nos 39 to 41 on Basement 2 of the development.

(3) The Property was subject to, inter alia, the following encumbrances as registered in the Land Registry as at the Valuation Date:

- (i) The portion of the Property held by Shine Hill Development Limited (see Note 2), except a portion of 3rd Floor and whole of 4th to 6th Floors of Champion Tower, is subject to an Agreement for Sale and Purchase in favour of CP (SH) Limited at a consideration of HK\$16,117,000,000 dated 26 April 2006.
- (ii) The portion of the Property held by Maple Court Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (MC) Limited at a consideration of HK\$860,000,000 dated 26 April 2006.
- (iii) The portion of the Property held by Panhy Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (PH) Limited at a consideration of HK\$885,000,000 dated 26 April 2006.
- (iv) The portion of the Property held by Well Charm Development Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (WC) Limited at a consideration of HK\$363,000,000 dated 26 April 2006.
- (v) The portion of the Property held by CP (Portion A) Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (A1) Limited at a consideration of HK\$3,841,000,000 dated 26 April 2006.
- (vi) The portion of the Property held by CP (Portion B) Limited (see Note 2) is subject to an Agreement for Sale and Purchase in favour of CP (B1) Limited at a consideration of HK\$604,000,000 dated 26 April 2006.
- (vii) The Property is subject to a memorandum on change of buildings names registered in the Land Registry vide memorial no 16072202320206 dated 28 June 2016.
- (viii) The following portions of the Property are subject to a legal charge in favour of Hang Seng Bank Limited registered in the Land Registry vide memorial no 16072802200056 dated 28 June 2016:
 - (a) All those portions of 5th to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 40th Floors of ICBC Tower held by Shine Hill Development Limited;
 - (b) All those Portion A on 31st Floor and 32nd and 33rd Floors of Champion Tower and all those three private car parking space nos 42 to 44 on Basement 2 of the Property held by Panhy Limited;
 - (c) All that the whole of 38th Floor of Champion Tower held by Well Charm Development Limited;
 - (d) All those the whole of 39th Floor and Portion B on 40th Floor of Champion Tower and all those three private parking space nos 23 to 25 on Basement 2 of the Property held by CP (Portion B) Limited; and

- (e) All those the whole of the 34th, 36th and 37th Floors of Champion Tower and all those three private parking space nos 39 to 41 on Basement 2 of the Property held by Elegant Wealth Limited.
- (ix) The following portions of the Property are subject to a legal charge in favour of Hang Seng Bank Limited registered in the Land Registry vide memorial no 16072802200061 dated 28 June 2016:
- (a) All those portions of 3rd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors and 25th to 28th Floors of Champion Tower, 2nd to 4th Floors of ICBC Tower, all those Retail Shops Nos 1 to 4 and Restaurant Space on Lower Ground Floor of the Property, all those 35 private car parking space nos 5 to 20, 26 to 33, 45 to 51, 121, 122, 166 and 167 on Basement 2 and all that the public carpark comprising 500 private car parking spaces and 50 motor cycle parking spaces within the Property and all those the Reserved Areas the loading and unloading spaces and others of the Property as defined in Deed of Mutual Covenant and Management Agreement held by Shine Hill Development Limited;
- (b) All those Portion A on 40th Floor and 41st to 50th Floors of Champion Tower, Shop 5 on Lower Ground Floor of the Property and all those 12 private car parking space nos 118 to 120 and 123 to 131 on Basement 2 of the Property held by CP (Portion A) Limited; and
- (c) All those the whole of 29th to 30th Floors and Portion B on 31st Floor of Champion Tower and all those two private car parking space nos 21 and 22 on Basement 2 of the Property held by Maple Court Limited.
- (4) The Property lay within an area zoned "Commercial" under the Central District (HPA 4) Outline Zoning Plan No S/H4/16 approved on 1 November 2016 as at the Valuation Date.
- (5) Pursuant to Occupation Permit No H63/92 and the approved building plan of Three Garden Road, each of the 3rd Floor and the 4th Floor of Champion Tower is mainly designated as a restaurant with kitchen. Nevertheless, we have valued the aforesaid portions of the Property on office use basis that all necessary approvals have been obtained from the relevant Government authorities for office use.
- (6) The rentals reported herein are the total of the face rentals without taking into account of any rent free periods or the turnover rents received, if any.
- (7) The breakdown market values in respect of different portions of the Property is set out below:

Use	Market Value as at 31 December 2016
Retail	HK\$587,000,000
Office	HK\$37,856,000,000
Carpark	HK\$535,000,000
Miscellaneous	HK\$352,000,000
Total:	HK\$39,330,000,000

- (8) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy/licence profile for the office portion of the Property (including Shop No 5 but excluding car parking spaces and the licensed miscellaneous premises) as at 31 December 2016 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	1,175,170	95.9
Vacant	50,397	4.1
Total	1,225,567	100

Valuation Report

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2011	84,431	7.2	\$6,509,442	6.7	4	2.8
2013	136,671	11.6	\$11,070,555	11.4	4	2.8
2014	227,032	19.3	\$17,992,916	18.5	33	23.4
2015	306,630	26.1	\$25,512,086	26.2	45	32.0
2016	420,406	35.8	\$36,126,569	37.2	55	39.0
Total	1,175,170	100	\$97,211,568	100	141	100

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2017	247,223	21.0	\$19,653,067	20.2	41	29.1
2018	164,425	14.0	\$15,133,669	15.6	47	33.3
2019	196,109	16.7	\$18,161,377	18.7	31	22.0
2020	159,699	13.6	\$12,395,899	12.8	7	5.0
2021	393,340	33.5	\$30,576,885	31.4	14	9.9
2022	14,374	1.2	\$1,290,671	1.3	1	0.7
Total	1,175,170	100	\$97,211,568	100	141	100

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
1	1,967	0.2	\$220,035	0.2	2	1.4
2	66,809	5.7	\$6,201,413	6.4	25	17.7
3	338,739	28.8	\$30,138,682	31.0	80	56.7
4	72,845	6.2	\$6,049,157	6.2	7	5.0
5	270,933	23.1	\$21,066,924	21.7	8	5.7
6	291,858	24.8	\$23,392,637	24.1	16	11.4
7	132,019	11.2	\$10,142,720	10.4	3	2.1
Total	1,175,170	100	\$97,211,568	100	141	100

Note: The above tenancy profile includes a shop with area 382 sq ft which was let under a single tenancy with office units Portion A of 40/F and 43/F to 50/F of Champion Tower but excludes nine renewal tenancies for terms of approximately one year five months to three years commencing in between January 2017 and January 2018.

- (9) Based on the tenancy information provided by the Manager, our analysis of the existing tenancy/licence profile for the retail portion of the Property (excluding Shop No 5 and the licensed miscellaneous premises) as at 31 December 2016 is set out below:

Type	Gross Rentable Area (sq ft)	% of total
Leased	42,211	100
Vacant	0	0
Total	42,211	100

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2015	31,999	75.8	\$2,044,775	73.3	2	33.3
2016	10,212	24.2	\$744,957	26.7	4	66.7
Total	42,211	100	\$2,789,732	100	6	100

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2017	2,202	5.2	\$340,800	12.2	2	33.2
2018	1,798	4.3	\$145,640	5.2	1	16.7
2019	787	1.9	\$62,252	2.2	1	16.7
2023	6,907	16.3	\$418,565	15.1	1	16.7
2025	30,517	72.3	\$1,822,475	65.3	1	16.7
Total	42,211	100	\$2,789,732	100	6	100

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
1	720	1.7	\$118,500	4.3	1	16.7
2	3,280	7.8	\$367,940	13.2	2	33.2
3	787	1.9	\$62,252	2.2	1	16.7
7	6,907	16.3	\$418,565	15.0	1	16.7
10	30,517	72.3	\$1,822,475	65.3	1	16.7
Total	42,211	100	\$2,789,732	100	6	100

Note: The above tenancy profile excludes a shop with area 382 sq ft which was let under a single tenancy with office units Portion A of 40/F and 43/F to 50/F of Champion Tower.

Valuation Report

Office Market Overview

OFFICE DEMAND

As one of the major global financial centres, Hong Kong is the preferred location for many international corporations setting up regional offices in Asia. The Central Business District (“CBD”) in Hong Kong includes Central on Hong Kong Island. Other major business districts include Sheung Wan, Wan Chai and Causeway Bay on Hong Kong Island, Tsim Sha Tsui in Kowloon, as well as decentralised areas namely Quarry Bay and North Point on Hong Kong Island. With limited availability in the central areas and the expansion of transport infrastructure, recent years have seen a rapid decentralisation of office space and the growth of new alternative office hubs such as Kowloon East¹ and Yau Ma Tei/Mong Kok in Kowloon as well as Kwai Tsing and Tsuen Wan in the New Territories.

OFFICE STOCK

Hong Kong has seen a slower growth in office stock over the last five years. According to the Rating and Valuation Department, Hong Kong’s total office stock grew 5% between 2011 and 2015. This compares with the 9% growth in total office stock between 2006 and 2010. In particular, the growth in Grade A office space slowed to 5% between 2011 and 2015, compared with the 16% increase between 2006 and 2010.

As of 2015, Grade A office space (77 million sq ft) represented approximately 64% of all office stock, while the remaining 36% was Grades B and C space. Grade A office space is expected to reach about 79 million sq ft by the end of 2016.

Central, being the Central Business District (CBD) of Hong Kong, is one of the key office locations for international financial institutions and regional headquarters of multinational corporations. Central represented approximately 19% of total office stock (23 million sq ft) and about 23% of the total stock of Grade A offices (17 million sq ft) in 2015². Central, together with the other major office areas including Sheung Wan, Wan Chai and Causeway Bay on Hong Kong Island, as well as Tsim Sha Tsui in Kowloon, represented around 50% of total Grade A office stock at the end of 2015, and is expected to remain relatively the same by 2016.

RENTAL TRENDS

Hong Kong’s Grade A office rents generally on the uptrend in the last five years (2011 to 2015), after falling during the global financial crisis in late 2008 to 2009. According to the Rating and Valuation Department, the average Grade A office rent rose by around 30% from 2011 to 2015, representing a 7% Compound Annual Growth Rate (CAGR) in the period. During the period, Grade A office rental in Central saw a negative growth in 2013 and in early 2014 following an intensified European debt crisis in late 2012. Average Grade A office rents in Hong Kong therefore decreased by 4% in 2013, and increased less than 1% in 2014³.

However, following a recovered office demand from the financial sector, particularly Chinese financial companies after the launch of Shanghai-Hong Kong Stock Connect, Grade A office rents in Central recovered in 2015. The average Grade A office rent in the district rose about 13% in 2015⁴. Rents edged up a further 6% year on year in 2016⁴.

¹ Kowloon East refers to Kwun Tong and Kowloon City.

² All areas are Internal Floor Area (IFA) unless otherwise stated.

³ Rating and Valuation Department figures

⁴ Knight Frank estimates

PRICE TRENDS

In line with the office rental trend, office price was generally on an uptrend since 2011. According to the Rating and Valuation Department, average Grade A office price in Hong Kong rose 25% from 2011 to 2013. In 2014, on the back of slowed Grade A office sales due to a series of cooling measures including the Double Stamp Duty (DSD) and the lowering of the maximum mortgage loan-to-value ratio for commercial properties, average Grade A office price in Hong Kong drop 1% in the year.

Amid an accelerated office sales activity, average Grade A office price increased 7% in 2015, according to Rating and Valuation Department. Grade A office rental growth in the period also helped supporting capital appreciation and increasing investors' focus on the office sales market. Price rose another 11% in 2016⁵.

In Central, average Grade A office price in the district saw a 61% growth from 2010 to 2013, followed by a 1% decline amid a softened commercial investment market sentiment in Hong Kong in 2014, according to Rating and Valuation Department figures. The district saw a recovery in price growth in 2015, recording a 4% growth from 2014 based on Knight Frank estimates. Price grew about 12% in 2016.

SUPPLY⁶

Hong Kong's Grade A office supply trend down over the last ten years (2006 to 2015), due to a general lack of sites in core office locations. Grade A office supply averaged about 1.2 million sq ft per annum in the last five years (2011 to 2015), 42% lower than the average 2.1 million sq ft supply per annum in the period of 2006 to 2010. Grade A office supply is expected to increase to about 1.9 million sq ft in 2016. Meanwhile, Grade A office supply in Central remained at a low level of an average 34,200 sq ft per annum in the period of 2011 to 2015. No new supply is expected in 2016.

Hong Kong is likely to see an increase in office supply from 2017 to 2020. New Grade A office supply is projected to reach a total of about 8 million sq ft, representing an annual average of approximately 2 million sq ft. This compares with the average supply of 1.2 million sq ft per annum from 2011 to 2015. While office take-up varies with market conditions and business environment every year, the future office supply level from 2017 to 2020 is still expected to be slightly above the annual average take-up of about 1.8 million sq ft per annum over the past 20 years (1996 to 2015), but still lower than the average supply level between 2006 and 2010.

Analysing the future supply by districts, it is worth noting that most of the future supply will be located outside the core business districts in Hong Kong, namely Central, Sheung Wan, Wan Chai/Causeway Bay and Tsim Sha Tsui districts. These districts will only represent less than 20% of the total supply in the coming five years (2016 to 2020). Notably, none of the new Grade A supply will be in Central in the period.

Earmarked by the Government as the new Central Business District ("CBD2"), the Kowloon East area, which covers Kwun Tong and Kowloon City, will be the area with the largest office supply. The area is expected to add about 4.0 million sq ft or 50% to the total new office supply of Hong Kong between 2017 and 2020.

⁵ Knight Frank estimates

⁶ All areas are Internal Floor Area (IFA) unless otherwise stated.

Valuation Report

VACANCY⁷

Demand for office space in Hong Kong has remained resilient in the past despite a number of economic downturns. While net office take-up continued to remain positive in 2014 and 2015, average Grade A office vacancy rate in Hong Kong was stable in 2014 and further edged down in 2015, showing no major signs of downturn in office space absorption.

The average Grade A office vacancy rate dropped to about 2.4% in 2015 from 3.4% in 2014. Due to the increase in vacant space in Kowloon East amid a surge in supply, vacancy rate was pushed up to about 3.8% in 2016.

In light of recovered office demand from the financial sector, particularly from Chinese financial institutions, Grade A office vacancy rates in Central and Admiralty were about 2.5% and 2.7% respectively in 2015. The two districts saw their average vacancy rate edged down to less than 2% in 2016.

OUTLOOK

In general, office demand in Hong Kong is likely to remain firm, notwithstanding any major economic downturn. Demand from Chinese firms is set to remain strong as they continue to seek quality office space in Hong Kong. This will help boosting demand for Grade A office in core business districts such as Central.

Meanwhile, the growth in China's trade will serve to lift external demand, bolstering exports and supporting Hong Kong's economy. Despite its slowing rate of economic expansion, China's rising imports of services will provide support to the territory's economic growth. Hence the demand for office space is expected to remain firm.

Therefore, in view of the limited future office supply particularly in Central, as well as a recovered office demand in the district, both rents and values should be well supported in the area.

⁷ Knight Frank estimates

Trustee's Report

TO THE UNITHOLDERS OF CHAMPION REAL ESTATE INVESTMENT TRUST

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

We hereby confirm that, in our opinion, the Manager of Champion Real Estate Investment Trust has, in all material respects, managed Champion Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 26 April 2006, as amended by the first supplemental deed dated 5 December 2006, the second supplemental deed dated 4 February 2008, the third supplemental deed dated 9 March 2009, the fourth supplemental deed dated 23 July 2010, the fifth supplemental deed dated 13 March 2012 and the sixth supplemental deed dated 23 January 2015 for the financial year ended 31 December 2016.

HSBC Institutional Trust Services (Asia) Limited

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

Hong Kong, 27 February 2017

Corporate Governance Report

Champion REIT is committed to attaining global best practices and standards for all activities and transactions conducted in relation to the Trust and any matters arising out of its listing or trading on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The current corporate governance framework adopted by the REIT Manager emphasizes accountability to all Unitholders, resolution of conflict of interest issues, transparency in reporting, compliance with relevant regulations and sound operating and investing procedures. The REIT Manager has in place a comprehensive set of compliance procedures and guidelines which set out the key processes, systems and measures used to implement this corporate governance framework. The major activities since 2016 are set out below:

- **Re-designation of Director of the REIT Manager**

Mr. Ho Shut Kan, who being a Non-executive Director of the REIT Manager since 2007, has been re-designated as an Independent Non-executive Director of the REIT Manager with effect from 16 January 2017. Mr. Ho did not have any executive or management role or functions in the REIT Manager, Champion REIT and any of its special purpose vehicles, nor had he throughout such period been under the employment of any operating entities (including the REIT Manager) that managed the properties of Champion REIT. He had only attended meetings of the Board in his capacity as a Non-executive Director. The Board and the Audit Committee of the REIT Manager considered that Mr. Ho was independent and had satisfied the independence criteria contained in the REIT Manager’s corporate governance policy as set out in the Compliance Manual of Champion REIT and Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). Announcement in relation to the re-designation has been made on 16 January 2017.

- **Extension and Modification of Existing Connected Party Transaction Waiver and New Annual Caps for Certain Connected Party Transactions**

The Ordinary Resolution in relation to the extension and modification of existing waiver and new annual caps in respect of the Continuing Connected Party Transactions between Champion REIT and Great Eagle Holdings Limited (“Great Eagle”), SFK Construction Holdings Limited and their respective associates was approved by the independent Unitholders at an Extraordinary General Meeting held on 13 December 2016. An approximately 99.97% of the votes were cast in favour of the Ordinary Resolution. Details of the transactions were set out in the circular to Unitholders dated 25 November 2016.

- **Succession Arrangement of Executive Director and Chief Executive Officer of the REIT Manager**

On 30 June 2016, Ms. Wong Ka Ki, Ada succeeded Mr. Lee Ching Ming, Adrian as Executive Director and Chief Executive Officer of the REIT Manager. Ms. Wong was also appointed as a member and the Chairman of the Disclosures Committee of the REIT Manager. Announcements in relation thereto were made on 25 February 2016 and 30 June 2016 respectively.

- **General Mandate to Buy-back Units**

A general mandate for buy-back no more than 10% of Units in the open market was granted by Unitholders at the annual general meeting of Champion REIT held on 25 May 2016.

The Board of Directors of the REIT Manager plays a central support and supervisory role in the corporate governance duties and bear primary responsibility for ensuring the maintenance of appropriate standards of conduct and adherence to proper procedures. It regularly reviews the Compliance Manual and other policies and procedures on corporate governance and on legal and regulatory compliance, approving changes to governance policies in light of the latest statutory regime and international best practices, and reviewing corporate governance disclosures.

AUTHORISATION STRUCTURE

Champion REIT is a collective investment scheme constituted as a unit trust and authorised by the Securities and Futures Commission (“SFC”) under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”) and regulated by the SFC pursuant to the provisions of the SFO, the REIT Code and the Listing Rules.

The REIT Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Ms. Wong Ka Ki, Ada, the Executive Director, Chief Executive Officer and Chief Investment Officer, Mr. Kwong Chi Kwong, the Chief Operating Officer and Ms. Lau Yee Tong, Yvonne, the Asset Management Director are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and paragraph 5.4 of the REIT Code. The Responsible Officers have completed the Continuous Professional Training as required by the SFO for each calendar year.

HSBC Institutional Trust Services (Asia) Limited (“Trustee”) is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) and is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

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

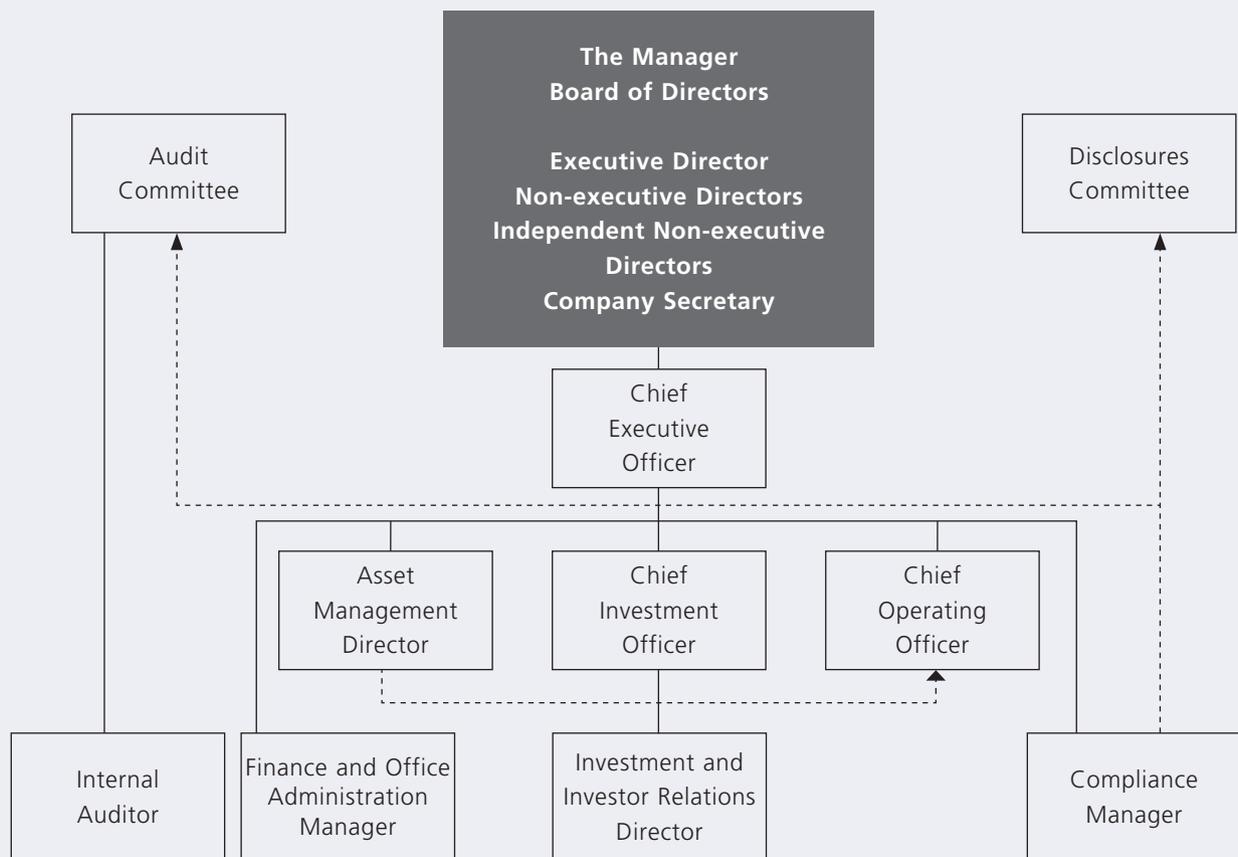
Corporate Governance Report

GOVERNANCE PRACTICES

Roles of the Trustee and the REIT Manager

The Trustee and the REIT Manager are independent of each other. The Trustee is responsible for the safe custody of the assets of Champion REIT on behalf of Unitholders, and to oversee the activities of the REIT Manager in accordance with and for compliance with the Deed of Trust constituting Champion REIT (“Trust Deed”), other relevant constitutive documents and the regulatory requirements applicable to Champion REIT. Whereas the REIT Manager is responsible for managing Champion REIT in accordance with the Trust Deed and ensuring that the financial and economic aspects of Champion REIT’s assets are professionally managed in the sole interest of Unitholders. The relationship between the Trustee, the REIT Manager and the Unitholders is set out in the Trust Deed entered into between the REIT Manager and the Trustee on 26 April 2006 as amended from time to time.

Organisation and Reporting Structure of the REIT Manager



Board Composition

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of 5 Directors and a maximum of 13 Directors. The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties.

In June 2016, Ms. Wong Ka Ki, Ada succeeded Mr. Lee Ching Ming, Adrian, as the Executive Director and the Chief Executive Officer of the REIT Manager. In January 2017, Mr. Ho Shut Kan was re-designated as an Independent Non-executive Director of the REIT Manager. The Board currently comprises 8 members, with 1 Executive Director and 7 Non-executive Directors (including 4 Independent Non-executive Directors).

Non-executive Directors

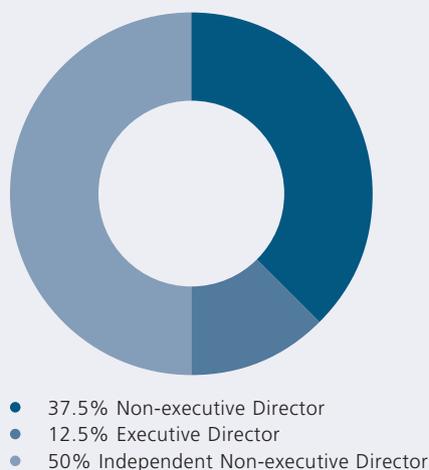
LO Ka Shui (*Chairman*)
IP Yuk Keung, Albert
LO Kai Shui

Executive Director

WONG Ka Ki, Ada (*Chief Executive Officer*)¹

Independent Non-executive Directors

CHA Mou Sing, Payson
CHENG Wai Chee, Christopher
HO Shut Kan²
SHEK Lai Him, Abraham



¹ Succeeded Mr. Lee Ching Ming, Adrian on 30 June 2016.

² Re-designated as an Independent Non-executive Director with effect from 16 January 2017.

Biographical details of the Directors are set out in this Annual Report on pages 16 to 20 and published on the Trust's website at www.ChampionReit.com.

In accordance with the articles of association of the REIT Manager, one-third of the Directors shall retire from office at every annual general meeting of the REIT Manager, or if their number is not a multiple of three, then number nearest to one-third shall retire from office. A retiring Director shall be eligible for re-election provided that if the retiring Director is an Independent Non-executive Director who serves the Board for more than 9 years, his further appointment shall be subject to the approval of the Unitholders at the Annual General Meeting of Champion REIT by way of an Ordinary Resolution.

Corporate Governance Report

Dr. Lo Ka Shui, the Chairman and Non-executive Director of the REIT Manager, is an elder brother of Mr. Lo Kai Shui, a Non-executive Director of the REIT Manager. Mr. Ip Yuk Keung, Albert is the executive director and chief executive officer and Dr. Lo Ka Shui is the chairman and non-executive director of the manager of the publicly listed trust, Langham Hospitality Investments, of which Great Eagle has a 61.9% interests. Save as disclosed above, there are no other financial, business, family or other material or relevant relationships between board members.

Set out below is a summary of expertise and responsibilities of each Board Member.

	Expertise	Responsibilities
<i>Non-executive Directors</i>		
LO Ka Shui (<i>Chairman</i>)	Property and hotel development and investment both in Hong Kong and overseas	Ensuring effective operation of the Board and all key and appropriate issues are discussed and considered by the Board in a timely manner; and leading the Board to establish good corporate governance practices and procedures of the REIT Manager
IP Yuk Keung, Albert	International banking, investment and financing	Formulation of strategic directions and high level oversight of the management and operations of the Trust
LO Kai Shui	Property development, investment and building construction	Formulation of strategic directions and high level oversight of the management and operations of the Trust
<i>Executive Director</i>		
WONG Ka Ki, Ada (<i>Chief Executive Officer and Chief Investment Officer</i>)	Investment and financing	Responsible for all day-to-day operations; supervising the management team to ensure that the Trust is operated in accordance with the stated strategy, policies and regulations; implementing the corporate governance practices adopted by the REIT Manager; and chairing the Disclosures Committee

	Expertise	Responsibilities
<i>Independent Non-executive Directors</i>		
CHA Mou Sing, Payson	Property development and investment	Scrutinizing and monitoring the Trust's performance; giving independent judgment, strategic advice and guidance on the business and operations; and ensuring the REIT Manager follows good corporate governance practices
CHENG Wai Chee, Christopher	Property development	Scrutinizing and monitoring the Trust's performance; giving independent judgment, strategic advice and guidance on the business and operations; reviewing the financial control and system of risk management and compliance; and ensuring the REIT Manager follows good corporate governance practices
HO Shut Kan	Property development	Scrutinizing and monitoring the Trust's performance; giving independent judgment, strategic advice and guidance on the business and operations; and ensuring the REIT Manager follows good corporate governance practices
SHEK Lai Him, Abraham	Property development, real estate and construction	Chairing the Audit Committee; scrutinizing and monitoring the Trust's performance; giving independent judgment, strategic advice and guidance on the business and operations; reviewing the financial control and system of risk management and compliance; and ensuring the REIT Manager follows good corporate governance practices

Board Diversity

Our Directors are drawn from a broad range of commercial background and experience including expertise in property and financial services. In reviewing the Board composition, the REIT Manager will take into account the Company's strategic priorities to determine the appropriate range and balance of skills, experience, knowledge and independence. Appointments to the Board are on merit and against objective criteria and with due regard for the benefits of diversity. Considerations that factor into the candidate short-listing process include but not limited to legal requirements, best practices, skills required to complement the Board's skill set and the number of Directors needed to discharge the duties of the Board and its Committees. Restrictions like gender, age, cultural or educational background will not be set when short-listing candidates. The Chairman of the Board should be a Non-executive Director of the REIT Manager and at least one-third, and a minimum of three members of the Board should be Independent Non-executive Directors.

Corporate Governance Report

Board Responsibilities

The Board of the REIT Manager is responsible for ensuring that the REIT Manager discharges its duties under the Trust Deed, which include but not limited to managing the Trust in accordance with the Trust Deed in the sole interest of the Unitholders, ensuring sufficient oversight of the daily operations and financial conditions of the Trust when managing the Trust, and ensuring compliance with the licensing and authorisation conditions of the REIT Manager and the Trust and with any applicable laws, rules, codes or guidelines issued by government departments, regulatory bodies, exchanges or any other organisations regarding the activities of the Trust or its administration. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to the Board committees. The Board also has appointed experienced and well-qualified management to handle the day-to-day operations of the REIT Manager and Champion REIT.

Key Reserved Matters to the Board

- treasury, taxes, financial risk management and capital policies and significant changes in accounting policy
- sale and acquisition of properties
- issue of new Units
- changes to the Corporate Governance Policy
- distributions of Champion REIT to Unitholders
- annual, interim reports and circulars to Unitholders
- appointment and removal of Directors to the REIT Manager
- changes to the provisions in the Trust Deed
- appointment and removal of auditors of Champion REIT and approval of the audit fee
- material contracts not in the ordinary course of business
- potential areas of possible conflict

Independence

Pursuant to the REIT Manager's corporate governance policy, Independent Non-executive Directors must be individuals who fulfill the independence criteria set out in the Compliance Manual that are no less exacting than those set out in rule 3.13 of the Listing Rules for assessing the independence of an Independent Non-executive Director. Each of the Independent Non-executive Directors of the REIT Manager has provided a written annual confirmation of independence to the REIT Manager. The Audit Committee of the REIT Manager has also assessed the independence of the Independent Non-executive Directors.

All Independent Non-executive Directors of the REIT Manager have served the Board for more than 9 years. Notwithstanding their length of service, the Board is of the view that they demonstrate complete independence in character and judgment both as Board members and in their designated roles. The Board also believes that they continue to bring independent view of the affairs of Champion REIT to the Board and their in-depth knowledge of the Trust's business and their extensive experience continue to provide invaluable contribution to the Board.

Continuing Professional Development

To keep Directors abreast of their responsibilities and infuse them with new knowledge relevant to the Trust's business and operating environment, information packages comprising the latest developments in the legislations, industry news and materials relevant to the roles, functions and duties as a director are provided to each Director by the Company Secretary of the REIT Manager periodically to foster the refreshing and ongoing updating of Board members' skills and knowledge.

During the year ended 31 December 2016, the Directors received information packages with focus on the topics of the asset management and monitor on real estate sector, consumer behavior, global economics environment and latest update of statutory and regulatory requirements relevant to the Directors. Each of the Directors participated in no less than 10 training hours during the year ended 31 December 2016, and all the Directors had provided confirmation on their respective training records to the REIT Manager.

Supply of and Access to Information

In addition to the monthly reports covering operating highlights of the Trust's business, thorough and comprehensive management and financial updates are provided to all Board members on a quarterly basis to ensure each member is informed of the state of the business and enable them to make proper response and follow up. If there are material matters worth the immediate attention of the Board members, the REIT Manager will provide the Directors with the necessary information in the form of exceptional reports. Also, additional information will always be provided to the Directors upon request.

Induction

Each newly appointed Director will receive an induction pack to familiarise himself/herself with the business, operations of Champion REIT and the legal framework under which Champion REIT is governed and the internal control procedures and policies of the Trust. The induction pack includes but not limited to the Trust Deed, REIT Code, Compliance Manual, Operations Manual, articles of association of the REIT Manager, and recent publications of Champion REIT. The Company Secretary of the REIT Manager also provides all Directors with materials from time to time to keep them abreast of the latest developments in the industry and the legal framework that are relevant to the affairs of Champion REIT.

Independent Professional Advice

For the purposes of discharging their duties and responsibilities, the Board members may obtain independent professional advice at the REIT Manager's expense upon reasonable request. The Company Secretary of the REIT Manager is responsible for making all necessary arrangement.

Insurance

During the year ended 31 December 2016, appropriate directors' and officers' liabilities insurance and professional indemnity insurance have been arranged in respect of legal action against the Directors and officers of the REIT Manager and the provision of professional services by the REIT Manager to the Trust.

Corporate Governance Report

Disclosure on Remuneration

According to the Trust Deed, the REIT Manager shall be entitled to a Manager's Fee of 12% of the net property income and be payable semi-annually in arrears after the publication of the semi-annual financial statements of the Trust provided that the net property income as shown in the published semi-annual financial statements is equal to or more than HK\$200 million.

Pursuant to the announcement of Champion REIT dated 30 November 2012 and according to Clause 11.1.2 of the Trust Deed in relation to the notification from the REIT Manager to the Trustee in writing, the REIT Manager elected to receive 50% of the Manager's Fee arising from the real estate owned by Champion REIT for the financial year 2016 in the form of Units and the remaining 50% in cash. The Manager's Fee for the year ended 31 December 2016 amounted to approximately HK\$243 million, being 12% of the net property income of Champion REIT for such services rendered during the year.

The payment of the Manager's Fee by way of Units is in accordance with the terms of the Trust Deed and does not require specific prior approval of the Unitholders pursuant to a waiver granted by the SFC.

The remuneration of Directors and staff of the REIT Manager is paid by the REIT Manager, and not by Champion REIT. The REIT Manager adopts the remuneration policies and practices of its holding company, which has a remuneration committee that determines policy and structure for all remuneration of senior executives of the REIT Manager, which include the Chief Executive Officer of the REIT Manager and members of its senior management team. None of the Directors has a service contract with the REIT Manager which is not terminable by the employer within one year without payment of compensation (other than statutory compensations). Since Champion REIT does not bear the remuneration of the REIT Manager's Board and staff, the REIT Manager does not consider it necessary to include the information about the remuneration of its Directors and its key executives in this report.

Delegation

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

Audit Committee

The REIT Manager established an Audit Committee and adopted the terms of reference in 2006. The written terms of reference of the Audit Committee are available upon request. The role of the Audit Committee is to monitor and evaluate the effectiveness of the REIT Manager's risk management and internal control systems. The Audit Committee also reviews the quality and reliability of information prepared for inclusion in financial reports issued by the REIT Manager. The Audit Committee is responsible for the nomination of external auditors and reviewing the adequacy of external audits in respect of cost, scope and performance.

Audit Committee's Principal Responsibilities

- reviewing external audit reports to ensure that, where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- monitoring the procedures in place to ensure compliance with applicable legislation, the REIT Code and the Listing Rules;
- reviewing all financial statements and all internal audit reports;
- monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Champion REIT and a "connected person" (as defined in the REIT Code);
- assisting the Board in its monitoring of the REIT Manager's overall risk management profile and setting guidelines and policies to govern risk assessment and risk management;
- making recommendations to the Board on persons for appointment and re-appointment as Directors to, and persons for removal as Directors from, the full Board; and
- assessing the independence of the Independent Non-executive Directors.

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

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

Corporate Governance Report

Summary of Major Work Done of the Audit Committee in 2016

During the year 2016, two physical meetings of the Audit Committee were held. The following is a summary of the major work done of the Audit Committee during the year 2016:

- reviewed the Reports of the Internal Auditor;
- reviewed the audited financial statements for the year ended 31 December 2015 and the unaudited financial statements for the six months ended 30 June 2016, with particular regard to the qualitative aspects of Champion REIT's accounting practices including the following major judgmental issues:
 - (1) the intention and ability to hold the held-to-maturity investments in light of the capital maintenance and liquidity requirements of Champion REIT;
 - (2) the treatment of deferred taxation on changes in fair value of the investment properties of Champion REIT situated in Hong Kong;
 - (3) the processes and method of valuation of the investment properties and the non-quoted derivative financial instruments of Champion REIT;
- reviewed the Annual Report and the Final Results Announcement for the year ended 31 December 2015;
- reviewed the Interim Report and the Interim Results Announcement for the six months ended 30 June 2016;
- reviewed the Reports from the External Auditor;
- considered and recommended to the Board on the re-appointment of External Auditor and approved the terms of engagement;
- reviewed the legal and regulatory compliance matters for the year ended 31 December 2015 and for the six months ended 30 June 2016, which included, among others, the Reports on Connected Party Transactions;
- reviewed and approved the 2016 annual budget/forecasts and annual business plan prepared by the REIT Manager; and
- reviewed the effectiveness of risk management and internal control systems.

Disclosures Committee

The REIT Manager established a Disclosures Committee and adopted the terms of reference in 2006. The written terms of reference of the Disclosures Committee are available upon request. The role of the Disclosures Committee is to review matters relating to the disclosure of information to Unitholders and public announcements. It works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete.

Disclosures Committee's Principal Responsibilities

- reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, financial reporting, connected party transactions, and potential areas of conflict of interests;
- overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Champion REIT to the public and applicable regulatory agencies;
- reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Champion REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable; and
- reviewing periodic and current reports, proxy statements, information statements, registration statements and any other information filed with regulatory bodies.

The members of the Disclosures Committee are appointed by the Board of Directors from among the Directors. It currently comprises a Non-executive Director (namely, Dr. Lo Ka Shui), an Independent Non-executive Director (namely, Mr. Shek Lai Him, Abraham) and an Executive Director (namely, Ms. Wong Ka Ki, Ada). Ms. Wong is the Chairman of the Disclosures Committee.

Summary of Major Work done of the Disclosures Committee in 2016

During the year 2016, two physical meetings of the Disclosures Committee were held, and one written resolutions was passed by all members of the Disclosures Committee. The following is a summary of the major work done of the Disclosures Committee during the year 2016:

- reviewed and approved the 2015 Annual Report of Champion REIT and announcements in relation to the final results for the year ended 31 December 2015, the payment of Manager's fee in cash and Units and the final distribution;
- reviewed and approved the draft Circular to Unitholders in relation to the General Mandate to Buy-back Units of Champion REIT and the Notice convening the 2016 Annual General Meeting;
- reviewed and approved the draft Announcement in relation to the Succession Arrangement of Executive Director and Chief Executive Officer of the REIT Manager;
- reviewed and approved the 2016 Interim Report of Champion REIT and announcements in relation to the 2016 interim results, the payment of Manager's fee in cash and Units and the interim distribution; and
- reviewed and approved the draft Announcements and Circular to Unitholders in relation to the extension and modification of existing connected party transaction waiver and proposed new annual caps for certain connected party transactions and the Notice convening the Extraordinary General Meeting held on 13 December 2016.

Corporate Governance Report

Board and Board Committee Meetings

Directors make fruitful contribution by attending meetings and sharing views, advice and experience on matters material to the Trust's affairs, with the common goal of further enhancing the interests of the Trust and the Unitholders. Board meetings of the REIT Manager are held regularly at least four times a year at approximately quarterly intervals. Proposed dates of the regular Board and Board Committee meetings for each new calendar year are set out in a schedule and notified to all Board members before the beginning of the year concerned with a view to facilitating their attendance. Additional meetings are convened as and when circumstances warrant.

Proceedings of the Board and Board Committees

- At least 14 days' formal notice of regular Board and Board Committee meetings will be given by the Company Secretary to all Directors, and all Directors are given the opportunity to include any matters for discussion in the agenda. For special Board and Board Committee meetings, reasonable notice will be given.
- An agenda and accompanying Board papers will be sent to all Directors at least 3 days in advance of every regular Board meeting or Board Committee meeting.
- The Company Secretary assists the Chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations regarding the meetings are followed.
- If a substantial unitholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will not be dealt with by way of resolution in writing or by a Committee (except an appropriate Board Committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a full Board meeting will be held.
- Minutes of all Board and Board Committee meetings are kept by the Company Secretary and are available for Directors' inspection. Draft and final versions of minutes are sent to all Directors in a timely manner for their comment and record.

The attendance of individual Directors and committee members in 2016 is set out in the table below:

Name of Directors	Number of Meeting(s) Attended/ Eligible to Attend in 2016		
	Board Meeting	Audit Committee Meeting	Disclosures Committee Meeting
<i>Non-executive Directors</i>			
LO Ka Shui (<i>Chairman</i>)	4/4	2/2	2/2
HO Shut Kan ¹	4/4	–	–
IP Yuk Keung, Albert	4/4	–	–
LO Kai Shui	3/4	–	–
Attendance Rate	94%	100%	100%
<i>Executive Director</i>			
LEE Ching Ming, Adrian (<i>Chief Executive Officer</i>) ²	2/2	–	1/1
WONG Ka Ki, Ada (<i>Chief Executive Officer</i>) ³	2/2	–	1/1
Attendance Rate	100%	–	100%
<i>Independent Non-executive Directors</i>			
CHA Mou Sing, Payson	4/4	–	–
CHENG Wai Chee, Christopher	3/4	2/2	–
SHEK Lai Him, Abraham	4/4	2/2	2/2
Attendance Rate	92%	100%	100%
Overall Attendance Rate	94%	100%	100%

¹ Re-designated as an Independent Non-executive Director with effect from 16 January 2017.

² Retired as Executive Director and Chief Executive Officer on 30 June 2016.

³ Succeeded Mr. Lee Ching Ming, Adrian as Executive Director and Chief Executive Officer on 30 June 2016.

Company Secretary

The REIT Manager has engaged G. E. Secretaries Limited as its Company Secretary. The primary contact person of the Company Secretary is Ms. Wong Mei Ling, Marina who is a fellow of The Hong Kong Institute of Chartered Secretaries. The Company Secretary of the REIT Manager comprises a team of qualified company secretarial professionals who provide a full range of company secretarial support to the REIT Manager and its Directors. Members of the senior management of the REIT Manager maintain day-to-day contact with the Company Secretary to ensure the Company Secretary has knowledge of the affairs of the Trust. The Company Secretary reports to the Chairman of the Board and the Chief Executive Officer. All directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

Corporate Governance Report

Management of Business Risk

The Board of the REIT Manager will meet quarterly or more often if necessary and will review the financial performance of the REIT Manager and Champion REIT against a previously approved budget. The Board will also review any risks to assets of Champion REIT, examine liability management and act upon any recommendations from the auditors of Champion REIT. In assessing business risk, the Board will consider the economic environment and the property industry risk. It will review management reports and feasibility studies on individual development projects prior to approving major transactions.

The REIT Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the REIT Manager and Champion REIT. The management team comprises the Chief Executive Officer and Chief Investment Officer, the Chief Operating Officer, the Investment and Investor Relations Director, the Asset Management Director, the Senior Finance and Office Administration Manager, the Compliance Manager and the Internal Audit Manager. Apart from the day-to-day interactions, the management team, chaired by the Chief Executive Officer, meets regularly for operation updates and sharing among the team members. In 2016, twelve meetings were held by the management team.

Whistle-blowing

The REIT Manager has put in place procedures to ensure well defined and accessible channels to report on suspected fraud, corruption, dishonest practices, and for the independent investigation of any reports and appropriate follow up action. The aim of the whistle-blowing policy is to encourage the reporting of such matters in good faith, with the confidence that persons making such reports will be treated fairly, and to the extent possible, be protected from reprisal.

Conflicts of Interests and Business Competition with Great Eagle

As mentioned hereinbefore, the REIT Manager and the Property Manager are providing the management and operating services to Champion REIT respectively. Whereas Longworth Management Limited ("Longworth") and The Great Eagle Properties Management Company, Limited ("GEPM") are acting as the respective DMC managers, CAF manager and estate manager of Three Garden Road, Langham Place Office Tower and Langham Place Mall (as the case may be). Each of the above companies is a wholly-owned subsidiary of Great Eagle. Moreover, Dr. Lo Ka Shui, Mr. Lo Kai Shui and Mr. Ip Yuk Keung, Albert are directors of Great Eagle and/or its affiliated companies. There may be potential conflicts of interests between Great Eagle and Champion REIT in respect of the performance of estate management services in relation to Three Garden Road and Langham Place or other properties.

Business Competition

The Great Eagle Group is one of Hong Kong's leading property companies; the Group also owns and manages an extensive international hotel portfolio branded under "Langham" and its affiliate brands. Headquartered in Hong Kong, the Group develops, invests in and manages high quality residential, office, retail and hotel properties in Asia, Australasia, North America and Europe. There may be circumstances where Champion REIT competes directly with Great Eagle and/or its subsidiaries or associates for acquisitions or disposals of properties as well as for tenants within the Hong Kong market as Great Eagle, its subsidiaries and associates are engaged in and/or may engage in, amongst other things, the development, investment in and management of, properties in the residential, office, retail, and hotel sectors in Hong Kong and overseas.

Conflict of Interest

In respect of matters in which a Director has an interest, direct or indirect, in any contract or arrangement to which Champion REIT (whether through the REIT Manager or the Trustee) is a party, such interested Director shall disclose his/her interest to the Board and abstain from voting at a meeting of the Directors at which the relevant matters are to be decided.

Estate Management Services

With respect to estate management services, Longworth and GEPM together have established a team of more than 200 full-time staff exclusively dedicated to carrying out property management services in respect of Three Garden Road and Langham Place with a separate office location and IT system. Given the extensive experience of Longworth and GEPM in the estate management of Three Garden Road and Langham Place, the REIT Manager considers that it is in the interest of Champion REIT for the existing estate management arrangements to continue and the REIT Manager does not anticipate any significant likelihood of conflicts of interests arising between Great Eagle and Champion REIT.

Leasing & Marketing

With respect to leasing and marketing functions, the REIT Manager does not anticipate any significant likelihood of conflicts of interests arising between Great Eagle and Champion REIT because the Property Manager provides property management services (including leasing and marketing functions) in respect of Three Garden Road and Langham Place exclusively whereas Great Eagle has its independent and separate leasing team to perform the property management functions for its own properties. The Property Manager has an office location that is separate from the other Great Eagle entities that perform leasing and marketing functions in respect of other properties held by Great Eagle. To ensure that there is segregation of information between the Property Manager and other Great Eagle entities, the Property Manager has its own database with access and security codes different from those of Great Eagle.

Corporate Governance Report

Procedures to deal with Conflicts of Interests

The REIT Manager has instituted various procedures to deal with potential conflicts of interests issues, including but not limited to:

- In respect of matters in which a Director has an interest, direct or indirect, in any contract or arrangement to which Champion REIT (whether through the REIT Manager or the Trustee) is a party, such interested Director shall disclose his/her interest to the Board and abstain from voting at a meeting of the Directors at which the relevant matters are to be decided.
- The REIT Manager is a dedicated manager to Champion REIT and will not manage any other real estate investment trust or be involved in any other real property business.
- The majority of the Board is not related to Great Eagle and the Independent Non-executive Directors will act independently for the interests of Champion REIT.
- The management structure of the REIT Manager includes the Audit Committee and the Disclosures Committee to promote a high level of corporate governance and address any potential conflicts of interests with Great Eagle.
- The REIT Manager has adopted the Compliance Manual and Operations Manual which set out detailed compliance procedures in connection with its operations.
- The REIT Manager has a team of full-time senior management and employees that operates independently of Great Eagle.
- All connected party transactions are managed in accordance with the requirements set out in the REIT Code, the Compliance Manual and other relevant policies and guidelines issued for and adopted by Champion REIT.

Reporting and Transparency

Champion REIT will prepare its accounts in accordance with Hong Kong GAAP with a financial year end of 31 December and a financial half-year end of 30 June. While it is a requirement under the REIT Code that the annual report and accounts for Champion REIT shall be published and sent to Unitholders no later than four months following each financial year end and the interim report no later than two months following each financial half-year end, in accordance with the Listing Rules, full-year financial results shall be released by the Trust not later than three months after the end of the financial year.

The REIT Manager will furnish Unitholders with notices of meetings of Unitholders, announcements relating to Champion REIT, circulars in respect of transactions that require Unitholders' approval or information that is material in relation to Champion REIT (such as connected party transactions, transactions that exceed a stated percentage threshold, a material change in Champion REIT's financial forecasts, an issue of new Units or a valuation of real estate held by Champion REIT). Under the Trust Deed, the REIT Manager is required to keep Unitholders informed of any material information pertaining to Champion REIT in a timely and transparent manner as required by the REIT Code.

Champion REIT appoints Deloitte Touche Tohmatsu as its external auditor. The responsibilities of the external auditor with respect to the financial reporting are set out in the Independent Auditor's Report. During the year, the fees payable to the external auditor of Champion REIT amounted to HK\$2,010,000 (2015: HK\$2,010,000) for audit and audit related services, and HK\$852,000 (2015: HK\$580,000) for non-audit services.

General Meetings

Attendance

Champion REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The 2016 annual general meeting of Champion REIT was held on 25 May 2016; Dr. Lo Ka Shui, Mr. Lee Ching Ming, Adrian, Mr. Ip Yuk Keung, Albert, Mr. Cheng Wai Chee, Christopher and Mr. Shek Lai Him, Abraham attended the meeting and the external auditor was also available at the meeting to answer any questions raised by the Unitholders in respect of the audit.

For the purpose of considering the extension and modification of existing waiver and new annual caps in respect of the Continuing Connected Party Transactions between Champion REIT and Great Eagle, SFK Construction Holdings Limited and their respective associates, an extraordinary general meeting was held on 13 December 2016; Dr. Lo Ka Shui, Ms. Wong Ka Ki, Ada, Mr. Ip Yuk Keung, Albert, Mr. Cheng Wai Chee, Christopher and Mr. Shek Lai Him, Abraham attended the meeting.

Notice

The Trustee or the REIT Manager may at any time convene a meeting of Unitholders. The REIT Manager will also convene a meeting of Unitholders if requested in writing by not less than two Unitholders registered as holding together not less than 10% of the Units for the time being in issue and outstanding. While it is a requirement under the Trust Deed that at least 14 days' notice of the meeting shall be given to Unitholders where an ordinary resolution is proposed for consideration at such meeting, and at least 21 days' notice shall be given to Unitholders where a special resolution is proposed for consideration at such meeting, the REIT Manager has adopted the requirement under the Corporate Governance Code of the Listing Rules that notice of annual general meeting should be sent at least 20 clear business days before the meeting and notice of all other general meetings should be sent at least 10 clear business days before the meetings.

Quorum

Two or more Unitholders present in person or by proxy registered as holding together not less than 10% of the Units for the time being in issue and outstanding will form a quorum for the transaction of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more Unitholders present in person or by proxy registered as holding together not less than 25% of the Units for the time being in issue and outstanding.

Corporate Governance Report

Voting

For a meeting at which Unitholders have a material interest in the business to be conducted and that interest is different from the interests of other Unitholders (as determined by the REIT Manager (where the Unitholder(s) concerned is (are) not connected persons related to the REIT Manager) or the Trustee (where the Unitholder(s) concerned is (are) connected persons related to the REIT Manager), if appropriate, in its absolute opinion), which includes but not limited to an issue of new Units where a Unitholder may increase his holdings of Units by more than his pro rata share, such Unitholders shall be prohibited from voting their own Units at such meeting or being counted in the quorum for such meeting.

Poll Vote

At any meeting, a resolution put to the meeting shall be decided on a poll, except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, and the result of the poll shall be deemed to be the resolution of the meeting. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he is the Unitholder provided that such Units are fully paid up. Votes cast by a Unitholder in contravention of the REIT Code or Listing Rules shall not be counted.

On a poll, votes may be given either personally or by proxy. The form of the instrument of proxy used shall be in accordance with the form illustrated in the Trust Deed or in any other form which the Trustee shall approve. Any Unitholder being a corporation may by resolution of its directors (or other governing body) authorise any person to act as its representative at any meeting of Unitholders. A person so authorised shall have the same rights and powers as if he were an individual Unitholder.

Proceedings of General Meetings

- At each general meeting, each substantially separate issue will be considered by a separate resolution.
- Copies of the corporate communications including circulars, explanatory statements and related documents will be despatched to Unitholders no less than 14 days for ordinary resolution and no less than 21 days for special resolution prior to the meeting. Detailed information on each resolution to be proposed will also be provided.
- The external auditor will attend annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence and any other related questions as may be raised by the Unitholders.
- All votes of Unitholders at general meeting will be taken by poll. The procedures for conducting a poll will be explained at the meeting.
- Independent scrutineer will be engaged to ensure all votes at general meeting are properly counted.
- Poll vote results will be posted on the websites of Champion REIT and the Stock Exchange on the same day after the meeting.

Communication with Unitholders

Maintaining timely, mutual and effective communication with Unitholders and the investment community about corporate strategy, business development and prospects is an important priority for Champion REIT. A timeline of significant events setting out the important dates for Champion REIT and the Unitholders is provided in this Annual Report on page 2 as a quick reference. The REIT Manager meets existing and potential investors, financial analysts and media at one-on-one group meetings, local and overseas conference and roadshows regularly. Analyst briefings and investor meetings were held during the year.

To ensure efficient communication, all corporate communications of Champion REIT, including but not limited to annual reports, interim reports, notices of meetings, announcements, circulars and other relevant information, are available on the website of Champion REIT at www.ChampionReit.com. Investors and Unitholders may visit the website for details of the recent press release and results announcement presentation.

In order to reduce paper consumption for environmental reasons and to save printing and mailing costs for the benefit of Unitholders, Champion REIT has provided Unitholders with a choice of receiving corporate communications (including documents issued or to be issued by or on behalf of Champion REIT for the information or action of Unitholders as defined in Rule 1.01 of the Listing Rules) by electronic means through Champion REIT's website or in printed form.

In accordance with the Operations Manual, it is an on-going responsibility of the Chief Investment Officer and Investment and Investor Relations Director to receive and handle investor comments/feedback. All comments/feedback and complaints about Champion REIT from an investor's perspective must be recorded in a register. Sufficient details of the person who made the comments/feedback and the measures to deal with the request must be recorded. When recording the comments/feedback, the next critical date in the comments/feedback handling procedure must be noted and adhered to, until the relevant matter has been resolved. The Directors will be kept informed at the Board meetings of the complaints being made (if any), the procedures being used to handle the complaints, and any remedial action taken or proposed to be taken. Any trends will be identified.

Investors and Unitholders may at any time direct their enquiries about the Trust to the Board by writing to the REIT Manager's office in Hong Kong at Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong or by email to info@eam.com.hk.

Distribution

Unitholders will be entitled to receive distributions when declared by the REIT Manager out of assets legally available for the payment of distributions. Under the REIT Code, the Trust shall distribute to Unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. The effective payout ratio for the year ended 31 December 2016 is 94.5%.

Corporate Governance Report

Matters to be decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of special resolution. Such matters include, among other things:

- (a) change in the REIT Manager's investment policies/strategies for Champion REIT;
- (b) disposal of any real estate investment of Champion REIT or shares in any special purpose vehicles holding such real estate investment within two years of acquisition;
- (c) any increase in the rate of the REIT Manager's fees above the permitted limit or changing the structure of the REIT Manager's fees;
- (d) any increase in the rate of the Trustee's fees above the permitted limit or change in the structure of the Trustee's fees;
- (e) certain modifications of the Trust Deed;
- (f) termination of Champion REIT;
- (g) merger of Champion REIT;
- (h) removal of Champion REIT's auditors and appointment of new auditors; and
- (i) removal of the Trustee.

As stated above, the quorum for passing a special resolution is two or more Unitholders present in person or by proxy registered as holding not less than 25% of the Units in issue and outstanding. A special resolution may only be passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at duly convened meeting and the votes shall be taken by way of poll.

Issue of Further Units

To minimise the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the Trust Deed and the REIT Code. Such provisions require that further issues of Units be first offered on a pro rata pre-emptive basis to existing Unitholders except that Units may be issued: (i) free of such pre-emption rights in certain circumstances up to an aggregate maximum in any financial year of 20% of the number of Units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of Unitholders by way of an ordinary resolution is obtained. Subject thereto, Units may be issued as consideration for the acquisition of additional real estate.

The REIT Manager and Champion REIT may issue Units or convertible instruments to a connected person, without the requirement of obtaining Unitholders approval under certain circumstances, including where: (i) the connected person receives a pro rata entitlement in its capacity as a Unitholder; or (ii) Units are issued to the connected person to satisfy part or all of the REIT Manager's remuneration; or (iii) Units are issued to the connected person pursuant to a reinvestment of distribution in accordance with the Trust Deed, subject to certain conditions.

Where the issue of Units would give rise to a conflict of interest on the part of the REIT Manager or its Connected Persons, the REIT Manager and its Connected Persons shall abstain from voting in relation to any issuance of Units.

As at 31 December 2016, the total number of issued Units of Champion REIT was 5,798,237,327. As compared with the position of 31 December 2015, a total of 26,555,566 new Units were issued during the year.

Date	Particulars	No. of Units
1 January 2016	Number of issued Units	5,771,681,761
11 March 2016	Issue of new Units to the REIT Manager at the price of HK\$3.830 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the manager's fee in respect of the real estate held by Champion REIT of approximately HK\$54,336,646 payable by Champion REIT for the six months ended 31 December 2015	14,187,113
24 August 2016	Issue of new Units to the REIT Manager at the price of HK\$4.824 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the manager's fee in respect of the real estate held by Champion REIT of approximately HK\$59,665,419 payable by Champion REIT for the six months ended 30 June 2016	12,368,453
31 December 2016	Number of issued Units	5,798,237,327

Corporate Governance Report

Risk Management and Internal Control Systems

The Board is entrusted with the overall responsibility on an ongoing basis for ensuring that appropriate and effective risk management and internal control systems are established and maintained for the REIT Manager. The systems are designed to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risk of failure to meet the business objectives. The following have been established and executed to ensure there are appropriate and effective risk management and internal control systems for the REIT Manager:

- (a) A good control environment including well defined organizational structure, limit of authority, reporting lines and responsibilities;
- (b) Risk Management Self-Assessment and Internal Control Self-Assessment conducted annually by the REIT Manager;
- (c) Appropriate risk mitigating activities including clear and written policies and procedures that can manage risks to an acceptable level for the achievement of the business objectives of the REIT;
- (d) Effective information platforms to facilitate internal and external information flow; and
- (e) Structured Internal Audit function to perform independent appraisal of major operations on an ongoing basis.

Through the Audit Committee and the Internal Audit function, the Board has conducted an annual review on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

With adoption of a risk-based approach, Internal Audit takes the lead to evaluate the risk management and internal control systems of the REIT Manager by reviewing all its major operations on a cyclical basis. The audit reviews cover all material controls including financial, operational and compliance controls. The 2-year audit plan of the Internal Audit function is approved by the Audit Committee. Internal Audit reports directly to the Audit Committee. Results of the audit reviews in the form of internal audit reports are submitted to the members of the Audit Committee for discussion at the Audit Committee meetings. The internal audit reports are also followed up by Internal Audit to ensure that findings previously identified have been properly resolved.

Based on the results of the internal audit reviews for the year ended 31 December 2016 and the assessment of the Audit Committee thereon, no significant irregularity or deficiency in risk management and internal control systems has drawn the attention of the Audit Committee.

The Board therefore is satisfied that the REIT Manager has maintained appropriate and effective risk management and internal control systems for the year ended 31 December 2016.

INTEREST OF, AND DEALINGS IN UNITS BY, DIRECTORS, THE REIT MANAGER OR THE SIGNIFICANT UNITHOLDERS

To monitor and supervise any dealings of Units, the REIT Manager has adopted a code (the “Governing Code”) governing dealings in the securities of Champion REIT by the Directors of the REIT Manager on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules. Pursuant to the Governing Code, any Directors wishing to deal in the Units must first have regard to provisions analogous to those set out in Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct. In addition, a Director must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of himself/herself or others. The Governing Code also extends to senior executives and officers of the REIT Manager. Specific enquiry has been made with the REIT Manager’s Directors, senior executives and officers and they have confirmed that they complied with the required standard set out in the Governing Code throughout the year ended 31 December 2016.

Directors who are in possession of, aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any unpublished inside information must refrain from dealing in the Units as soon as they possess, become aware of or privy to such information until proper disclosure of the information in accordance with the REIT Code and any applicable provisions of the Listing Rules. Directors who are privy to relevant negotiations or agreements or any inside information should caution those Directors who are not so privy that there may be unpublished inside information and that they must not deal in Champion REIT’s securities until proper disclosure of information has been made.

The REIT Manager has also adopted procedures for the monitoring of disclosure of interests by the Directors, the Chief Executive Officer of the REIT Manager, and the REIT Manager, to whom the provisions of Part XV of the SFO shall apply.

Under the Trust Deed and by virtue of Part XV of the SFO, Unitholders will have a notifiable interest if their holdings of Units reach or exceed the notifiable percentage level (as defined in the SFO for the purposes of Part XV of the SFO), i.e. 5% of the Units then in issue, and will be required to notify the Stock Exchange and the REIT Manager of their holdings in Champion REIT. The REIT Manager keeps a register for these purposes and records in the register, against a person’s name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection by the Trustee and any Unitholder at any time during business hours upon reasonable notice to the REIT Manager.

BUY-BACK, SALE OR REDEMPTION OF CHAMPION REIT’S SECURITIES

A general mandate for buy-back of Units in the open market was given by Unitholders at the annual general meeting held on 25 May 2016. During the year ended 31 December 2016, 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.

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 year ended 31 December 2016.

Corporate Governance Report

RELEVANT INVESTMENTS

The full investment portfolio of the Relevant Investments (as defined in the Trust Deed) of Champion REIT as at 28 February 2017 is set out below:

As at 28 February 2017	Type	Primary Listing	Country of Issuer	Currency	Total Cost (HK\$)	Mark-to-market Value (HK\$)	Weighting of GAV	Credit Rating
KERPRO 5 ⁷ / ₈ 04/06/21	Bond	Singapore Exchange	BVI	USD	67,296,000	64,411,000	0.0952%	N/A
NANFUN 4 ¹ / ₂ 09/20/22 EMTN	Bond	Singapore Exchange	BVI	USD	9,797,000	9,861,000	0.0146%	S&P BBB-
NANFUN 4 ⁷ / ₈ 05/29/24 EMTN	Bond	Singapore Exchange	BVI	USD	56,603,000	56,689,000	0.0838%	S&P BBB-
NWDEVL 5 ¹ / ₄ 02/26/21	Bond	HKEX	BVI	USD	41,574,000	41,291,000	0.0610%	N/A
PCCW 3 ³ / ₄ 03/08/23	Bond	Singapore Exchange	BVI	USD	49,641,000	50,057,000	0.0740%	S&P BBB
Total					224,911,000	222,308,000	0.3285%	

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.

COMPLIANCE WITH COMPLIANCE MANUAL

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

PUBLIC FLOAT

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

REVIEW OF ANNUAL REPORT

The annual report of Champion REIT for the year ended 31 December 2016 has been reviewed by the Audit Committee and Disclosures Committee of the REIT Manager and approved by the Board of the REIT Manager.

The Directors of the REIT Manager acknowledge their responsibility for the preparation of the accounts of Champion REIT for the year ended 31 December 2016. The consolidated financial statements of Champion REIT and its controlled entities for the year ended 31 December 2016 have been audited by the Independent Auditor, Messrs. Deloitte Touche Tohmatsu. The statement about their responsibilities on the financial statements of Champion REIT for the year ended 31 December 2016 is set out in the Independent Auditor's Report on pages 114 to 117 of this Annual Report.

Connected Party Transactions Report

CONNECTED PARTY TRANSACTIONS REPORT

Set out below is the information in respect of the connected party transactions involving Champion REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

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

The following tables set forth information on the connected party transactions between Champion REIT and the Great Eagle Connected Persons Group and/or the SFK Connected Persons Group for the 12 months ended 31 December 2016 ("Year").

Great Eagle is a connected person of Champion REIT by virtue of being the holding company of the REIT Manager and also being a significant holder (as defined under the REIT Code) of Champion REIT through the direct unitholdings of its controlled corporations (including Top Domain International Limited, Keen Flow Investments Limited and Bright Form Investments Limited, each being a significant holder of Champion REIT) as more particularly described under the section headed "Disclosure of Interests" of this Annual Report on pages 109 to 112. The Great Eagle Connected Persons Group means those who are connected persons of Champion REIT by virtue of their relationship (including but not limited to being a director, senior executive, officer or associate (as defined under the REIT Code)) with Great Eagle.

SFK Construction Holdings Limited ("SFK") is a connected person of Champion REIT by virtue of being an associate (as defined under the REIT Code) of Mr. Lo Kai Shui, a director of the REIT Manager, who is entitled to exercise control of 33% or more of the voting power at the general meeting of SFK. The SFK Connected Persons Group means those who are connected persons of Champion REIT by virtue of being companies and entities held or controlled by SFK.

Connected Party Transactions – Rental Income (Revenue)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income for the Year HK\$
Eagle Asset Management (CP) Limited	Subsidiary of Great Eagle	Car parking fee	419,000
Eagle Asset Management (CP) Limited	Subsidiary of Great Eagle	Leasing transaction ¹	31,000
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Leasing transaction ²	4,373,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Leasing transaction ³	6,009,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Car parking fee	53,000
Best Come Limited	Subsidiary of Great Eagle	Leasing transaction ⁴	9,895,000
Total			20,780,000⁷

Connected Party Transactions Report

Connected Party Transactions – Building Management Fee Income (Revenue)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income for the Year HK\$
Eagle Asset Management (CP) Limited	Subsidiary of Great Eagle	Building management fee income ¹	6,000
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Building management fee income ²	609,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Building management fee income ³	790,000
Best Come Limited	Subsidiary of Great Eagle	Building management fee income ⁴	1,229,000
Total			2,634,000⁷

Connected Party Transactions – Estate Management Transactions (Expenditures)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Expenses for the Year HK\$
Keysen Engineering Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	226,000
The Great Eagle Engineering Company Limited	Subsidiary of Great Eagle	Repair and maintenance services	1,393,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Estate management expense	109,257,000 ⁵
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	6,000
Cordis Hong Kong Limited	Subsidiary of Great Eagle ⁶	Marketing expense	15,000
Clever Gain Investment Limited	Subsidiary of Great Eagle	Marketing expense	243,000
Total			111,140,000⁷

Notes:

1. A security deposit by way of cash of approximately HK\$31,000 provided by Eagle Asset Management (CP) Limited was held by the Trust as at the Year end date.
2. Security deposits by way of bank guarantee and cash in an aggregate amount of approximately HK\$1,287,000 provided by Eagle Property Management (CP) Limited were held by the Trust as at the Year end date.
3. A security deposit by way of cash of approximately HK\$1,519,000 provided by The Great Eagle Properties Management Company, Limited was held by the Trust as at the Year end date.
4. Security deposits by way of corporate guarantee and cash in the amount of HK\$2,214,000 and HK\$2,244,000 respectively provided by Best Come Limited were held by the Trust as at the Year end date.
5. Out of this HK\$109,257,000, approximately HK\$106,002,000 represented the amount of reimbursement of estate management expenses paid under the Langham Place Mall Estate Management Agreement and remaining amount of approximately HK\$3,255,000 represented the amount of reimbursement of estate management expenses paid under the CAF Management Agreement (in relation to the common areas/facilities of Langham Place). Both Langham Place Mall Estate Management Agreement and CAF Management Agreement are Pre-Existing Agreements with The Great Eagle Properties Management Company, Limited. Pursuant to the Langham Place Mall Estate Management Agreement, the Mall Estate Manager was entitled to retain at all times an amount equal to one-sixth of the annual expenditure under the approved budget for the Year; so as to enable the Mall Estate Manager to make payment of estate management expenses.
6. Cordis Hong Kong Limited is the wholly-owned subsidiary of Langham Hospitality Investments Limited whereby Great Eagle indirectly held approximately 61.90% interests in Langham Hospitality Investments Limited as at the Year end date. Accordingly, Cordis Hong Kong Limited is the indirect subsidiary of Great Eagle.
7. The annual value of the Connected Party Transactions were within the respective annual limits set out in the following table as approved by the unitholders in the Extraordinary General Meeting held on 10 December 2013:

	Annual Limit for the year ending 31 December 2016 HK\$
I. Revenue	
Rental income	84,972,000
Building management fee	10,592,000
Total:	95,564,000
II. Expenditure	
Estate management transactions	168,305,000

Connected Party Transactions Report

PRE-EXISTING AGREEMENTS

The following tables set forth information on the agreements previously entered into with the Great Eagle Connected Persons Group and/or the SFK Connected Persons Group in relation to the management and operation of Three Garden Road and Langham Place before the acquisition by Champion REIT, which will continue to subsist and are subject to annual limits of the waiver from strict compliance with the requirements and/or reporting requirements under Chapter 8 of the REIT Code.

Pre-Existing Agreements subject to Waiver

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

Name/Description of Agreement	Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income/Expenses for the Year HK\$
Langham Place Mall Estate Management Agreement	The Great Eagle Properties Management Company, Limited (as the Langham Place Mall Estate Manager)	Subsidiary of Great Eagle	Reimbursement of estate management expense	106,002,000
CAF Management Agreement (in relation to the common areas/facilities of Langham Place)	The Great Eagle Properties Management Company, Limited (as the CAF Estate Manager of Langham Place)	Subsidiary of Great Eagle	Reimbursement of estate management expense	3,255,000

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

Name/Description of Agreement	Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income/Expenses for the Year HK\$
DMC (deed of mutual covenant) for Langham Place	The Great Eagle Properties Management Company, Limited (as DMC Manager of Langham Place)	Subsidiary of Great Eagle	Building management fee expense ¹	3,498,000
Office Sub-DMC (sub-deed of mutual covenant) for the Langham Place Office Tower	Longworth Management Limited (as Office Sub-DMC Manager of the Langham Place Office Tower)	Subsidiary of Great Eagle	Building management fee expense ²	45,333,000
Deed of Delegation	The Great Eagle Properties Management Company, Limited (as DMC Manager of Langham Place)	Subsidiary of Great Eagle	Delegation of management functions of common areas/ facilities	Nil
Property Management Agreement	Eagle Property Management (CP) Limited (as Property Manager of Champion REIT)	Subsidiary of Great Eagle	Leasing and marketing services	101,276,000
DMC (deed of mutual covenant) for Three Garden Road	The Great Eagle Properties Management Company, Limited (as DMC Sub-manager appointed by the DMC Manager of Three Garden Road)	Subsidiary of Great Eagle	Building management fee expense and contribution ³	204,044,000 ⁴

Notes:

1. A management fee deposit and sinking fund of approximately HK\$716,000 was kept by The Great Eagle Properties Management Company, Limited in its capacity as DMC Manager of Langham Place as at the Year end date.
2. A management fee deposit and sinking fund of approximately HK\$12,759,000 was kept by Longworth Management Limited in its capacity as Office Sub-DMC Manager of Langham Place Office Tower as at the Year end date.
3. A management fee deposit of approximately HK\$16,384,000 was kept by The Great Eagle Properties Management Company, Limited in its capacity as DMC Sub-manager of Three Garden Road as at the Year end date.
4. Out of this HK\$204,044,000, approximately HK\$147,330,000 represented the amount of building management fee paid under the DMC for Three Garden Road, approximately HK\$56,714,000 represented the amount of building management fee contribution for (i) public area improvement; and (ii) curtain wall system's perimeter sealant replacement at Three Garden Road.

Connected Party Transactions Report

OTHER CONNECTED PARTY TRANSACTIONS WITH THE GREAT EAGLE CONNECTED PERSONS GROUP

REIT Manager's fee

Eagle Asset Management (CP) Limited, a wholly-owned subsidiary of Great Eagle, was appointed as the REIT Manager of Champion REIT. The REIT Manager's fee of approximately HK\$243,182,000 being the 12% of the net property income of Champion REIT for such services rendered during the Year is to be settled by the issuance of new Units pursuant to the Trust Deed and in the form of cash.

In 2012, the REIT Manager has notified the Trustee in writing and elected to receive 50% of the Manager's Fee in the form of Units and the balance of 50% in cash for the financial year 2013. As no change has been made by the REIT Manager, according to Clause 11.1.2 of the Trust Deed, the way of receipt of the Manager's Fee as to 50% in the form of Units and 50% in cash remains applicable to the financial year 2016. For the Year, the REIT Manager's fee paid and payable in the form of Units is in the amount of approximately HK\$121,591,000 and the REIT Manager's fee paid and payable in the form of cash is in the amount of approximately HK\$121,591,000.

Other Miscellaneous Expenditure

An amount of HK\$45,000 in respect of the venue rental fee for investor relations event during the Year was paid by Champion REIT to Best Come Limited, a wholly-owned subsidiary of Great Eagle.

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

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

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

HSBC Group means The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Champion REIT).

Connected Party Transactions – Ordinary Banking and Financial Services

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Income/ Expenses for the Year HK\$
HSBC Group	Trustee Connected Persons	Interest income from ordinary banking services	1,212,000
HSBC Group	Trustee Connected Persons	Bank charge	121,000
HSBC ¹	Trustee Connected Persons	Loan interest/expense	10,512,000
Hang Seng ²	Trustee Connected Persons	Loan interest/expense	228,247,000

Champion MTN Limited (a special purpose vehicle wholly-owned and controlled by Champion REIT) maintained currency swaps contracts with HSBC during the Year. The total notional amount in respect of such swap contracts with HSBC was US\$386,400,000 as at the Year end date.

CP Success Limited (a special purpose vehicle wholly-owned and controlled by Champion REIT) entered into interest rate swap contracts with HSBC in February 2017. The total notional amount in respect of such swap contracts with HSBC was HK\$300,000,000.

Notes:

1. HSBC was the lender of the term loan of HK\$1,900 million which was drawn down on 8 July 2013 and repaid on 28 June 2016. Under the said term loan, portion of Three Garden Road was mortgaged to HSBC as security.
2. Hang Seng is a subsidiary of HSBC. It acts as the facility agent for (i) the term loan and revolving credit facilities of HK\$2,500 million which was drawn down on 28 June 2013 and repaid on 28 June 2016; (ii) the term loan facilities of (a) HK\$3,700 million and (b) HK\$3,800 million, both of which were drawn down on 26 May 2014 and repaid on 28 June 2016; and (iii) (a) the term loan and revolving credit facilities of HK\$5,500 million; and (b) the term loan facility of HK\$5,800 million, with a total amount of HK\$11,000 million were drawn down on 28 June 2016. The total outstanding loans as at 31 December 2016 amounted to HK\$11,000 million. Syndicates of lenders of all the facilities include Hang Seng and HSBC. Under the respective term loans, portion of Three Garden Road and Langham Place were mortgaged to the syndicates of lenders as security. As at the Year end date, Three Garden Road is mortgaged to the syndicates of lenders as security under (iii).

Connected Party Transaction — Corporate Finance Transaction with HSBC Group

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

Connected Party Transactions – Others

During the Year, the trustee fee of approximately HK\$11,643,000 had been incurred for services rendered by HSBC Institutional Trust Services (Asia) Limited in its capacity as the trustee of Champion REIT.

Connected Party Transactions Report

CONNECTED PARTY TRANSACTIONS WITH OTHER CONNECTED PERSONS

During the Year, the total amount of approximately HK\$400,000 in aggregate were rendered for services to the Trust by Knight Frank Petty Limited (“Knight Frank”) and its connected persons. Among these, approximately HK\$355,000 was the valuation fee incurred for services rendered by Knight Frank in its capacity as the principal valuer of Champion REIT.

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

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

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

REPORT FROM AUDITOR OF CHAMPION REIT

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

Hong Kong, 27 February 2017

Note: All figures presented in this “CONNECTED PARTY TRANSACTIONS REPORT” have been rounded to the nearest thousand.

Disclosure of Interests

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

As at 31 December 2016, the following persons had interests or short positions in the Units, underlying Units and debentures of Champion REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the REIT Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO as deemed to be applicable by virtue of Schedule 3 of the Trust Deed, or which were recorded in the register required to be kept under Schedule 3 of the Trust Deed, are as follows:

Name	Capacity	Nature of Interests	Number of Units/ Underlying Units Held ⁶	Total	Percentage of Issued Units ⁷
Directors and Chief Executive of the REIT Manager					
Lo Ka Shui	Interests of Controlled Corporations	Corporate Interests	3,800,267,098 ¹		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	19,000,000	3,819,267,098	65.87
Cheng Wai Chee, Christopher	Beneficiary of a Trust	Trust Interests	13,424,730 ⁴	13,424,730	0.23
REIT Manager (also a Substantial Unitholder)					
Eagle Asset Management (CP) Limited	Beneficiary	Corporate Interests	361,214,733	361,214,733	6.23
Substantial Unitholders					
Great Eagle Holdings Limited	Interests of Controlled Corporations	Corporate Interests	3,797,688,098 ²	3,797,688,098	65.50
HSBC International Trustee Limited	Trustee	Other Interests	3,798,345,917 ³	3,798,345,917	65.51
HKSCC Nominees Limited	Interests of Controlled Corporations	Other Interests	2,313,661,475 ⁵	2,313,661,475	39.90
Top Domain International Limited	Beneficiary	Corporate Interests	1,420,416,628	1,420,416,628	24.50
Keen Flow Investments Limited	Beneficiary	Corporate Interests	1,071,375,933	1,071,375,933	18.48
Bright Form Investments Limited	Beneficiary	Corporate Interests	680,232,558	680,232,558	11.73

Disclosure of Interests

Notes:

1. Among these 3,800,267,098 Units:
 - (a) 940,000 Units, 589,000 Units, 50,000 Units and 1,000,000 Units were respectively held by Elizabeth B K Limited, Katherine B L Limited, Alexander C H Limited and Nicholas C N Limited, all of which are wholly-owned by Dr. Lo Ka Shui who is also a director of these companies; and
 - (b) 3,797,688,098 Units were indirectly held by Great Eagle as explained in Note 2 below. Dr. Lo Ka Shui is the Chairman, Managing Director and a substantial shareholder of Great Eagle.

The unitholdings of Dr. Lo Ka Shui increased by 167,118,453 Units as compared with the position as at 30 June 2016.

2. The 3,797,688,098 Units were indirectly held by Great Eagle through its controlled corporations as listed in the following table, which shows the number of Units and/or underlying Units held by these companies as at 31 December 2016 and 30 June 2016 respectively:

Name	Capacity	Nature of Interests	As at 31 December 2016 Number of Units/ Underlying Units Held	As at 30 June 2016 Number of Units/ Underlying Units Held
Top Domain International Limited	Beneficiary	Corporate Interests	1,420,416,628	1,420,416,628
Keen Flow Investments Limited	Beneficiary	Corporate Interests	1,071,375,933	920,375,933
Bright Form Investments Limited	Beneficiary	Corporate Interests	680,232,558	680,232,558
Eagle Asset Management (CP) Limited	Beneficiary	Corporate Interests	361,214,733	348,846,280
Fine Noble Limited	Beneficiary	Corporate Interests	200,007,503	200,007,503
Great Eagle Nichemusic Limited	Beneficiary	Corporate Interests	61,345,743	61,345,743
Ecobest Ventures Limited	Beneficiary	Corporate Interests	3,095,000	3,095,000

3. The disclosure was based on the latest Disclosure of Interest Form (with the date of relevant event as at 1 September 2016) received from HSBC International Trustee Limited ("HITL"). When compared to the position as at 30 June 2016, the unitholdings of HITL increased by 219,677,566 Units.

HITL was deemed to be interested in the same parcel of Units and underlying Units held by Great Eagle in its capacity as a trustee of a discretionary trust which held 33.48% interests in Great Eagle as at 31 December 2016. Certain directors of Great Eagle including Dr. Lo Ka Shui and Mr. Lo Kai Shui (who are also directors of the REIT Manager), Madam Lo To Lee Kwan, Mr. Lo Hong Sui, Antony, Madam Law Wai Duen, Mr. Lo Hong Sui, Vincent and Dr. Lo Ying Sui are among the discretionary beneficiaries of the discretionary trust. Dr. Lo Ka Shui in his own capacity, as controlling shareholder of certain companies and as the founder of another discretionary trust held 25.99% voting right in the capital of Great Eagle as at 31 December 2016.

4. These Units were held by a trust of which Mr. Cheng Wai Chee, Christopher is a beneficiary. The unitholdings of Mr. Cheng Wai Chee, Christopher remained unchanged as compared with the position as at 30 June 2016.
5. As far as the REIT Manager is aware, HKSCC Nominees Limited held such Units as a nominee. The number of Units held by HKSCC Nominees Limited decreased by 38,994,528 Units when compared to the position as at 30 June 2016.
6. Unless otherwise stated, the interests in Units disclosed above represent long positions in Units.
7. This percentage has been compiled based on the total number of issued Units of Champion REIT of 5,798,237,327 as at 31 December 2016.

Save as disclosed above, so far as is known to the REIT Manager, none of the Directors and Chief Executive of the REIT Manager and no other persons had any interests (or were deemed to be interested) and short positions in the Units, underlying Units and debentures of Champion REIT as at 31 December 2016 which were required to be notified to the REIT Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO as deemed to be applicable by virtue of Schedule 3 of the Trust Deed, or which were required to be recorded in the register kept under Schedule 3 of the Trust Deed.

HOLDINGS OF OTHER CONNECTED PERSONS

As at 31 December 2016, in addition to the disclosures in the above section headed "Holdings of Directors and Chief Executive of the REIT Manager, the REIT Manager and Substantial Unitholders", so far as the REIT Manager is aware of, the following persons, being also connected persons (as defined under the REIT Code) of Champion REIT, held Units and/or underlying Units of Champion REIT:

Name	Capacity	Nature of Interests	Number of Units/ Underlying Units Held	Total	Percentage of Issued Units ³
Fortune Mega Investments Limited	Associate	Interests held by Associate	1,267,151 ¹	1,267,151	0.02
HSBC Group	Interests of Controlled Corporations	Corporate Interests	43,614,870 ²	43,614,870	0.75

Notes:

- These Units were directly held by Fortune Mega Investments Limited. Its intermediate holding companies, Julian Holdings Limited, Kerry Properties Limited, Kerry Properties (Hong Kong) Limited and Spring Capital Holdings Limited, were deemed to be interested in the same parcel of Units. Each of them was a connected person by virtue of being an associate of Mr. Ho Shut Kan (a director of the REIT Manager). Their unitholdings decreased by 162,669,000 Units as compared with the position as at 30 June 2016.
- The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (excluding the Trustee and its proprietary subsidiaries, unless otherwise expressly stated herein) ("HSBC Group") are connected persons by virtue of being holding company, controlling entities, subsidiaries or associated companies (as defined under the REIT Code) of the Trustee of Champion REIT according to the information available to the REIT Manager. The number of Units held by HSBC Group increased by 25,883,015 Units as compared with the position as at 30 June 2016.
- This percentage has been compiled based on the total number of issued Units of Champion REIT of 5,798,237,327 as at 31 December 2016.

Save as disclosed above, the REIT Manager is not aware of any other connected persons (as defined under the REIT Code) of Champion REIT holding any Units and/or underlying Units of Champion REIT as at 31 December 2016.

Disclosure of Interests

HOLDINGS OF DIRECTORS AND CHIEF EXECUTIVE OF THE REIT MANAGER IN GREAT EAGLE HOLDINGS LIMITED AND LANGHAM HOSPITALITY INVESTMENTS AND LANGHAM HOSPITALITY INVESTMENTS LIMITED

Great Eagle is the holding company of Champion REIT and Langham Hospitality Investments and Langham Hospitality Investments Limited (“Langham”). As at 31 December 2016, Great Eagle owned 65.50% interests in Champion REIT and 61.90% in Langham. While the definition of “associated corporation” under the SFO caters only to corporations, for the purpose of enhancing the transparency of Champion REIT, the holdings of Directors and Chief Executive of the REIT Manager in Great Eagle and Langham as at 31 December 2016 are disclosed as follows:

Great Eagle

Dr. Lo Ka Shui had a personal interest in 45,115,435 shares and 1,310,000 share options and a corporate interest in 71,723,568 shares of Great Eagle as at 31 December 2016. He is the founder of a discretionary trust which owned 59,218,519 shares of Great Eagle and is also a discretionary beneficiary of another discretionary trust which owned 226,815,595 shares in Great Eagle as at 31 December 2016.

Mr. Lo Kai Shui had a personal interest in 454,898 shares and 500,000 share options and a corporate interest in 569,830 shares of Great Eagle as at 31 December 2016. He is also a discretionary beneficiary of a discretionary trust which owned 226,815,595 shares in Great Eagle as at 31 December 2016.

Mr. Ip Yuk Keung, Albert had a personal interest in 30,000 share options of Great Eagle as at 31 December 2016.

Ms. Wong Ka Ki, Ada had a personal interest in 104,000 share options of Great Eagle as at 31 December 2016.

Langham

Dr. Lo Ka Shui had a personal interest in 8,073,500 share stapled units of Langham. He had a corporate interest in 2,060,000 share stapled units of Langham and was deemed to be interested in 1,279,613,956 share stapled units of Langham held by Great Eagle as at 31 December 2016 by virtue of being a substantial shareholder, the Chairman and Managing Director of Great Eagle. He is also a settlor and member of Advisory Committee and Management Committee of a charitable trust which owned 44,000,000 share stapled units in Langham as at 31 December 2016.

Mr. Ip Yuk Keung, Albert had a joint interest with his spouse in 1,515,000 share stapled units of Langham as at 31 December 2016.

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Independent Auditor's Report

Deloitte.

德勤

TO THE UNITHOLDERS OF CHAMPION REAL ESTATE INVESTMENT TRUST

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Champion Real Estate Investment Trust ("Champion REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 118 to 166, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders, distribution statement and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial disposition of the Group as at 31 December 2016 and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p> <p>We have identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements, as a whole, combined with the significant judgments associated with determining the fair value. As disclosed in note 17 to the consolidated financial statements, the Group's investment properties amounted to HK\$66,841,500,000, representing 97.8% of the Group's total assets, with its change in fair value included in the consolidated income statement. During the year, an increase in fair value of investment properties amounted to HK\$2,001,856,000.</p> <p>The Group's investment properties are carried at fair value based on the valuations performed by an independent qualified professional valuer. Details of the valuation techniques, significant assumptions and key inputs used in the valuations are disclosed in note 17 to the consolidated financial statements. The valuations are dependent on key inputs, together with significant assumptions, that involve judgments, including capitalisation rates and market rents. Eagle Asset Management (CP) Limited (the "Manager" of Champion REIT) has reviewed and exercised its judgment on the key inputs to the valuations and the results.</p>	<p>Our procedures in relation to assessing the appropriateness of the valuation of investment properties included:</p> <ul style="list-style-type: none"> • evaluating the competence, capabilities, and objectivity of the independent qualified professional valuer; • understanding the independent qualified professional valuer's valuation process and methodology (including any limitations of scope imposed by the Manager), the performance of the property markets, significant assumptions adopted, critical judgmental areas and key inputs used in the valuations; • evaluating the reasonableness of the methodology and assumptions to industry norms; • assessing the reasonableness of key inputs used in the valuations by (i) checking the details of rentals on a sample basis to the respective underlying existing tenancy agreements; (ii) comparing to relevant market information on prices, rentals achieved and capitalisation rates adopted in other similar properties in the neighbourhood; and • performing analysis on the key inputs to evaluate the results on the valuations.

Independent Auditor's Report

Other Information

The Manager is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager and Those Charged with Governance for the Consolidated Financial Statements

The Manager is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

In addition, the Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the deed of trust dated 26 April 2006, as amended from time to time (the "Trust Deed") and the relevant disclosure provisions of Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission of Hong Kong.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Appendix C of the REIT Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. In addition, we are required to assess whether the consolidated financial statements of the Group have been prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code

In our opinion, the consolidated financial statements have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kuen.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 February 2017

Consolidated Income Statement

For The Year Ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Rental income	8	2,267,340	2,033,981
Building management fee income		258,185	226,639
Rental related income	9	31,569	28,684
Total revenue		2,557,094	2,289,304
Property operating expenses	10	(530,580)	(505,681)
Net property income		2,026,514	1,783,623
Interest income		12,094	9,948
Manager's fee	11	(243,182)	(214,035)
Trust and other expenses		(22,546)	(14,742)
Increase in fair value of investment properties	17	2,001,856	2,278,528
Gain on repurchase of medium term notes		–	2,686
Finance costs	12	(347,897)	(332,785)
Profit before tax and distribution to unitholders	13	3,426,839	3,513,223
Income taxes	14	(245,257)	(208,210)
Profit for the year, before distribution to unitholders		3,181,582	3,305,013
Distribution to unitholders		(1,330,794)	(1,145,913)
Profit for the year, after distribution to unitholders		1,850,788	2,159,100
Basic earnings per unit	15	HK\$0.55	HK\$0.57

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Profit for the year, after distribution to unitholders	1,850,788	2,159,100
Other comprehensive income/(expense):		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Cash flow hedges:		
Fair value adjustments on cross currency swaps designated as cash flow hedge	105,378	(70,701)
Reclassification of fair value adjustments to profit or loss	(3,552)	(842)
	101,826	(71,543)
Total comprehensive income for the year	1,952,614	2,087,557

Consolidated Statement of Financial Position

As At 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Investment properties	17	66,841,500	64,783,000
Notes receivables	18	221,121	223,204
Derivative financial instruments	24	32,408	–
Total non-current assets		67,095,029	65,006,204
CURRENT ASSETS			
Trade and other receivables	19	316,391	255,746
Tax recoverable		3,716	9,344
Bank balances and cash	20	957,531	692,920
Total current assets		1,277,638	958,010
Total assets		68,372,667	65,964,214
CURRENT LIABILITIES			
Trade and other payables	21	1,280,344	1,269,770
Deposits received		575,699	569,656
Tax liabilities		48,421	26,360
Distribution payable		696,481	595,313
Secured bank borrowings	22	–	2,196,927
Total current liabilities		2,600,945	4,658,026
NON-CURRENT LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Secured bank borrowings	22	10,924,600	8,699,105
Medium term notes	23	3,814,384	3,609,826
Derivative financial instruments	24	–	69,821
Deferred tax liabilities	25	497,975	459,289
Total non-current liabilities, excluding net assets attributable to unitholders		15,236,959	12,838,041
Total liabilities, excluding net assets attributable to unitholders		17,837,904	17,496,067
Net assets attributable to unitholders		50,534,763	48,468,147
Number of units in issue ('000)	26	5,798,237	5,771,682
Net asset value per unit	28	HK\$8.72	HK\$8.40

The consolidated financial statements on pages 118 to 166 were approved and authorised for issue by the Board of Directors of Eagle Asset Management (CP) Limited, as the Manager of Champion Real Estate Investment Trust ("Champion REIT"), on 27 February 2017 and were signed on its behalf by:

LO Ka Shui
DIRECTOR

WONG Ka Ki, Ada
DIRECTOR

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For The Year Ended 31 December 2016

	Issued units HK\$'000 (note 26)	Hedging reserve HK\$'000	Others HK\$'000 (note)	Profit less distribution HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2015	23,932,967	(240)	5,757,943	16,584,460	46,275,130
Profit for the year, after distribution to unitholders	–	–	–	2,159,100	2,159,100
Cash flow hedges	–	(71,543)	–	–	(71,543)
Total comprehensive income for the year	–	(71,543)	–	2,159,100	2,087,557
Issue of units	105,460	–	–	–	105,460
Net assets attributable to unitholders as at 31 December 2015	24,038,427	(71,783)	5,757,943	18,743,560	48,468,147
Profit for the year, after distribution to unitholders	–	–	–	1,850,788	1,850,788
Cash flow hedges	–	101,826	–	–	101,826
Total comprehensive income for the year	–	101,826	–	1,850,788	1,952,614
Issue of units	114,002	–	–	–	114,002
Net assets attributable to unitholders as at 31 December 2016	24,152,429	30,043	5,757,943	20,594,348	50,534,763

Note: "Others" represent

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

Distribution Statement

For The Year Ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
INTERIM DISTRIBUTION PERIOD			
Total distributable income		704,792	611,778
Percentage of distributable income for distribution (note (i))		90%	90%
Total distribution amount for Interim Distribution Period		634,313	550,600
FINAL DISTRIBUTION PERIOD			
Total distributable income	16	1,408,181	1,212,059
Less: distributable income paid in Interim Distribution Period		(634,313)	(550,600)
Distributable income available for Final Distribution Period		773,868	661,459
Percentage of distributable income for distribution (note (i))		90%	90%
Total distribution amount for Final Distribution Period		696,481	595,313
Total distribution amounts for the year		1,330,794	1,145,913
DISTRIBUTIONS PER UNIT TO UNITHOLDERS			
Interim distribution per unit paid (note (ii))		HK\$0.1094	HK\$0.0954
Final distribution per unit to be paid (note (iii))		HK\$0.1201	HK\$0.1029
		HK\$0.2295	HK\$0.1983

Notes:

(i) It is the policy of the Manager to distribute 90% (2015: 90%) of available distributable income as distributions for each of the six month periods ended 30 June (the "Interim Distribution Period") and 31 December (the "Final Distribution Period"). No additional amounts were distributed at the discretion of the Manager for both years.

(ii) The interim distribution per unit of HK\$0.1094 for the Interim Distribution Period in 2016 was calculated based on the interim distribution paid of HK\$634,313,000 for the period and 5,798,237,327 units as of 21 September 2016, which was the record date for the period. The distribution was paid to unitholders on 6 October 2016.

The interim distribution per unit of HK\$0.0954 for the Interim Distribution Period in 2015 was calculated based on the interim distribution paid of HK\$550,600,000 for the period and 5,771,681,761 units as of 21 September 2015, which was the record date for the period.

(iii) The final distribution per unit of HK\$0.1201 for the Final Distribution Period in 2016 is calculated based on the final distribution to be paid of HK\$696,481,000 for the period and 5,798,237,327 units. Such final distribution will be subject to further adjustments upon the issuance of units between 1 January 2017 and 23 May 2017, which is the record date set for such period. The final distribution will be paid to unitholders on 26 May 2017.

The final distribution per unit of HK\$0.1029 for the Final Distribution Period in 2015 was calculated based on the final distribution paid of HK\$595,313,000 for the period and 5,785,868,874 units as of 25 May 2016, which was the record date for the period.

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
OPERATING ACTIVITIES		
Profit before tax and distribution to unitholders	3,426,839	3,513,223
Adjustments for:		
Increase in fair value of investment properties	(2,001,856)	(2,278,528)
Gain on repurchase of medium term notes	–	(2,686)
Manager's fee paid and payable in units	121,591	107,017
Interest income	(12,094)	(9,948)
Finance costs	347,897	332,785
Exchange difference	(86)	43
Operating cash flow before movements in working capital	1,882,291	1,661,906
Increase in trade and other receivables	(60,037)	(69,194)
(Decrease) increase in trade and other payables	(3,112)	28,812
Increase in deposits received	6,043	27,548
Cash generated from operations	1,825,185	1,649,072
Interest paid	(272,805)	(299,267)
Hong Kong Profits Tax paid	(178,882)	(146,898)
Net cash from operating activities	1,373,498	1,202,907
INVESTING ACTIVITIES		
Interest received	13,644	9,211
Additions to investment properties	(56,644)	(66,472)
Additions in notes receivables	–	(224,911)
Net cash used in investing activities	(43,000)	(282,172)
FINANCING ACTIVITIES		
Bank origination fees	(86,050)	–
New bank loan raised	11,000,000	–
Repayment of bank loan	(10,950,000)	(650,000)
Proceeds from issuance of medium term notes	200,000	643,000
Medium term notes issue cost	(144)	–
Repurchase of medium term notes	–	(101,701)
Distribution paid	(1,229,693)	(1,124,204)
Net cash used in financing activities	(1,065,887)	(1,232,905)
Net increase (decrease) in cash and cash equivalents	264,611	(312,170)
Cash and cash equivalents at beginning of the year	692,920	1,005,090
Cash and cash equivalents at end of year, represented by bank balances and cash	957,531	692,920

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

1. GENERAL

Champion REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units are listed on The Stock Exchange of Hong Kong Limited (the "HKSE"). Champion REIT is governed by the deed of trust dated 26 April 2006, as amended from time to time (the "Trust Deed"), entered into between the Manager and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts (the "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 in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit. The address of the registered office of the Manager and the Trustee, is Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Hong Kong, and 1 Queen's Road Central, Hong Kong, respectively.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

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

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ²
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after a date to be determined

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

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

HKFRS 9 “Financial Instruments” (continued)

Key requirements of HKFRS 9: (continued)

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedge accounting and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Based on the Group’s financial instruments and risk management policies as at 31 December 2016, the Manager anticipates that the application of new hedging requirements may not have a material impact on the Group’s current hedge designation and hedge accounting.

The Manager anticipates that the application of other new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the relevant provisions of the Trust Deed, the REIT Code and the Rules Governing the Listing of Securities on the HKSE.

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

Historical cost is generally based on the fair value of consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for the financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Champion REIT and the entities controlled by Champion REIT. Control is achieved when Champion REIT:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a controlled entity begins when the Group obtains control over the controlled entity and ceases when the Group loses control of the controlled entity. Specifically, income and expenses of controlled entities acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains controls until the date when the Group ceases to control the controlled entity.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment properties

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as income in the period in which they are earned.

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified as held-to-maturity investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. The Group designated notes receivables as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment (see accounting policies on impairment losses on financial assets below).

Loans and receivables

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

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

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

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

The amount of the impairment loss is recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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

Other financial liabilities

Other financial liabilities (including trade and other payables, distribution payable, secured bank borrowings and medium term notes) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Unit issue costs

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

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as an effective hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Hedge accounting

The Group uses cross currency swaps to hedge its exposure against changes in exchange and interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

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

Amounts previously recognised in other comprehensive income and accumulated in net assets attributable to unitholders (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in net assets attributable to unitholders and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was accumulated in net assets attributable to unitholders is recognised immediately in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Rental income from operating lease is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases. Lease incentives provided to the lessees are amortised on a straight-line basis over the respective term of the lease.

Building management fee income is recognised when building management services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Borrowing costs

All borrowing costs in relation to non-qualifying assets are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Notes

to the Consolidated Financial Statements

For The Year Ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in net assets attributable to unitholders, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in net assets attributable to unitholders respectively.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Manager has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held-to-maturity investments

The Manager has reviewed the Group's held-to-maturity investments in the light of its working capital and liquidity requirements and confirmed the Group's positive intention and ability to hold those assets to maturity. The aggregate carrying amount of the held-to-maturity investments was HK\$221,121,000 (2015: HK\$223,204,000). Details of these assets are set out in note 18.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Manager has reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the Manager has determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

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to the Consolidated Financial Statements

For The Year Ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the valuation report and findings to the Manager half yearly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Investment properties are stated at fair value at the end of the reporting period based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates as described in note 17.

In addition, as described in note 24, the fair values of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Valuation techniques commonly used by market practitioners are applied. Cross currency swaps are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

Where the actual future market data varies, a material adjustment on the fair values of investment properties and cross currency swaps may arise. In relying on the valuation reports, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
FINANCIAL ASSETS		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Cross currency swaps	32,408	–
<i>Held-to-maturity investments</i>		
Notes receivables	221,121	223,204
<i>Loans and receivables</i>		
Trade and other receivables	24,515	26,304
Bank balances and cash	957,531	692,920
	982,046	719,224
FINANCIAL LIABILITIES		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Cross currency swaps	–	69,821
<i>Financial liabilities at amortised costs</i>		
Trade and other payables	265,910	254,715
Distribution payable	696,481	595,313
Secured bank borrowings	10,924,600	10,896,032
Medium term notes	3,814,384	3,609,826
	15,701,375	15,355,886

(b) Financial risks management objectives and policies

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

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5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(i) *Currency risk*

The Group has certain medium term notes denominated in a foreign currency (i.e. US\$) which expose the Group to foreign currency risk. The Group manages its foreign currency risk by entering into cross currency swaps to hedge against its exposures to changes in foreign exchange rate on its medium term notes. The cross currency swaps are designated as effective hedging instruments and hedge accounting is used (see note 24 for details). The Group reviewed the continuing effectiveness of hedging instruments at least at the end of each reporting period. The Group mainly uses regression analysis and comparison of change in fair value of the hedging instruments and the hedged items for assessing the hedge effectiveness. As the Group's foreign currency risk is hedged, no sensitivity analysis has been prepared accordingly.

(ii) *Interest rate risk*

The Group is exposed to cash flow and fair value interest rate risks in relation to non-derivative financial assets and liabilities. The Group's cash flow interest rate risk arises mainly from its variable-rate secured bank borrowings (see note 22 for details). The Group is also exposed to fair value interest rate risk in relation to its time deposits, notes receivables and medium term notes.

The Group manages its interest rate risk for the medium term notes by entering into cross currency swaps to hedge against its exposures to interest rate on certain medium term notes as detailed above.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's variable-rate term loans and medium term note. The Manager will continue to monitor the interest rate risk to the Group and take actions such as using interest rate swap to hedge against any foreseeable interest rate exposure, if necessary.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivatives instruments. For variable-rate term loans and medium term note, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2015: 50) basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(ii) *Interest rate risk (continued)*

Sensitivity analysis (continued)

If the interest rates have been higher or lower and all other variables were held constant, the Group's profit before tax and distribution to unitholders for the year ended 31 December 2016 would decrease/increase by HK\$58,215,000 (2015: HK\$57,965,000). This is mainly attributable to the Group's exposure to interest rates on its secured variable-rate term loans and medium term note which are not hedged and has an aggregate amount of HK\$11,643,000,000 (2015: HK\$11,593,000,000).

(iii) *Credit risk*

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

(iv) *Liquidity and capital risk management*

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the Manager observes the REIT Code concerning limits on total borrowings and monitors the level of borrowings to be within the permitted limit.

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5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iv) *Liquidity and capital risk management (continued)*

The Group has cash and cash equivalents of HK\$957,531,000 as at 31 December 2016 (2015: HK\$692,920,000). In addition to the cash resources, the Group has available borrowing facilities amounting to HK\$11,300,000,000 (2015: HK\$11,250,000,000), of which HK\$11,000,000,000 (2015: HK\$10,950,000,000) was drawn as at 31 December 2016. The undrawn committed facility in the form of revolving bank loans amounted to HK\$300,000,000 as at 31 December 2016 (2015: HK\$300,000,000). Details of which are set out in note 22.

The Group has established a US\$1 billion guaranteed medium term note programme, under which unsecured notes may be issued from time to time in various currencies and amounts with fixed or floating rates to be set upon issuance of notes and will be guaranteed by the Trustee, in its capacity as trustee of Champion REIT. The Group issued an aggregate principal amount of approximately HK\$3,841,274,000 as at 31 December 2016 (2015: HK\$3,641,194,000).

The Group manages liquidity risk by maintaining adequate banking facilities as well as by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As a result of the undrawn committed facility of HK\$300,000,000 (2015: HK\$300,000,000) and a balance of approximately HK\$3,915,000,000 (2015: HK\$4,007,000,000) under the guaranteed medium term note programme available for issuance, the Manager considered that the liquidity risk of the Group can be reduced.

As at 31 December 2016, the Group's current liabilities exceeded its current assets by HK\$1,323,307,000 (2015: HK\$3,700,016,000). Management reviews the Group's financial position and will negotiate with banks to refinance any existing secured term loan which is due within one year. Management considers that the Group will be able to obtain sufficient financial resources, including term loans, to satisfy its commitments and working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

The Group also considers the cost of capital and the risks associated with the capital. The Group has to maintain a level of borrowings that shall not exceed 45% of the total gross asset value as required by the REIT Code. As at 31 December 2016, the gearing ratio was 21.7% (2015: 22.1%). The ratio is calculated as total borrowings (principal amounts of secured bank borrowings and medium term notes) divided by total assets of the Group.

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iv) Liquidity and capital risk management (continued)

Liquidity and interest risk tables

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

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

	Weighted average effective interest rate %	Less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total amount HK\$'000	Total carrying amount HK\$'000
As at 31 December 2016							
<i>Non-interest bearing</i>							
Trade and other receivables	-	24,515	-	-	-	24,515	24,515
<i>Variable interest rate</i>							
Bank balances and cash	0.86	957,594	-	-	-	957,594	957,531
<i>Fixed interest rate</i>							
Notes receivables	4.95	7,908	10,360	126,331	120,997	265,596	221,121
Total		990,017	10,360	126,331	120,997	1,247,705	1,203,167
<i>Non-interest bearing</i>							
Trade and other payables	-	(203,984)	-	-	-	(203,984)	(203,984)
Distribution payable	-	(696,481)	-	-	-	(696,481)	(696,481)
		(900,465)	-	-	-	(900,465)	(900,465)
<i>Variable interest rate instruments</i>							
Secured term loans	1.53	(168,547)	(168,547)	(11,273,381)	-	(11,610,475)	(10,924,600)
Medium term notes	2.29	(14,750)	(14,750)	(44,250)	(646,687)	(720,437)	(643,000)
		(183,297)	(183,297)	(11,317,631)	(646,687)	(12,330,912)	(11,567,600)
<i>Fixed interest rate instruments</i>							
Medium term notes	3.69	(117,855)	(117,855)	(353,566)	(3,381,179)	(3,970,455)	(3,171,384)
Total		(1,201,617)	(301,152)	(11,671,197)	(4,027,866)	(17,201,832)	(15,639,449)

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5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iv) Liquidity and capital risk management (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total amount HK\$'000	Total carrying amount HK\$'000
As at 31 December 2015							
<i>Non-interest bearing</i>							
Trade and other receivables	—	26,304	—	—	—	26,304	26,304
<i>Variable interest rate</i>							
Bank balances and cash	0.38	692,984	—	—	—	692,984	692,920
<i>Fixed interest rate</i>							
Notes receivables	4.95	7,905	10,356	31,067	226,521	275,849	223,204
Total		727,193	10,356	31,067	226,521	995,137	942,428
<i>Non-interest bearing</i>							
Trade and other payables	—	(200,378)	—	—	—	(200,378)	(200,378)
Distribution payable	—	(595,313)	—	—	—	(595,313)	(595,313)
		(795,691)	—	—	—	(795,691)	(795,691)
<i>Variable interest rate instruments</i>							
Secured term loans	1.54	(2,350,654)	(3,802,211)	(5,144,951)	—	(11,297,816)	(10,896,032)
Medium term notes	1.67	(10,729)	(10,729)	(32,187)	(656,238)	(709,883)	(643,000)
		(2,361,383)	(3,812,940)	(5,177,138)	(656,238)	(12,007,699)	(11,539,032)
<i>Fixed interest rate instruments</i>							
Medium term notes	3.75	(112,312)	(112,312)	(336,936)	(3,275,766)	(3,837,326)	(2,966,826)
Total		(3,269,386)	(3,925,252)	(5,514,074)	(3,932,004)	(16,640,716)	(15,301,549)

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

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iv) Liquidity and capital risk management (continued)

Liquidity and interest risk tables (continued)

	Less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<i>Derivatives – net settlement</i>					
As at 31 December 2016					
Derivative financial instruments	4,930	4,622	13,086	9,770	32,408
<i>Derivatives – net settlement</i>					
As at 31 December 2015					
Derivative financial instruments	(10,178)	(9,381)	(29,378)	(20,884)	(69,821)

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Some of the Group's financial liabilities are measured at fair value at the end of the reporting period.

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

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2016				
<i>Derivative financial assets</i>				
Cross currency swaps	–	32,408	–	32,408
As at 31 December 2015				
<i>Derivative financial liabilities</i>				
Cross currency swaps	–	(69,821)	–	(69,821)

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

The following table gives information about how the fair values of these financial assets/(liabilities) are determined (in particular, the valuation techniques and inputs used).

Financial assets/(liabilities)	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2016 HK\$'000	2015 HK\$'000		
Cross currency swaps classified as derivative financial assets/(liabilities) in the consolidated statement of financial position	32,408	(69,821)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange and interest rates (from observable forward exchange and interest rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

7. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker ("CODM"), management of the Manager, are identified for the purpose of resource allocation and performance assessment and more specifically focused on the operating results of the three investment properties, namely Three Garden Road (formerly known as Citibank Plaza), 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 year under review.

For the year ended 31 December 2016

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Revenue	1,297,618	370,100	889,376	2,557,094
Segment results – Net property income	1,039,647	295,100	691,767	2,026,514
Interest income				12,094
Manager's fee				(243,182)
Trust and other expenses				(22,546)
Increase in fair value of investment properties				2,001,856
Finance costs				(347,897)
Profit before tax and distribution to unitholders				3,426,839
Income taxes				(245,257)
Profit for the year, before distribution to unitholders				3,181,582
Distribution to unitholders				(1,330,794)
Profit for the year, after distribution to unitholders				1,850,788
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Increase in fair value of investment properties	1,690,180	75,000	236,676	2,001,856

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7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

For the year ended 31 December 2015

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Revenue	1,081,866	348,024	859,414	2,289,304
Segment results – Net property income	820,675	283,434	679,514	1,783,623
Interest income				9,948
Manager's fee				(214,035)
Trust and other expenses				(14,742)
Increase in fair value of investment properties				2,278,528
Gain on repurchase of medium term notes				2,686
Finance costs				(332,785)
Profit before tax and distribution to unitholders				3,513,223
Income taxes				(208,210)
Profit for the year, before distribution to unitholders				3,305,013
Distribution to unitholders				(1,145,913)
Profit for the year, after distribution to unitholders				2,159,100
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Increase in fair value of investment properties	1,200,278	533,000	545,250	2,278,528

7. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2016				
Additions to non-current assets	52,820	–	3,824	56,644
For the year ended 31 December 2015				
Additions to non-current assets	54,722	–	11,750	66,472

Segment assets and liabilities

For the purpose of performance assessment, fair values of investment properties are reviewed by the CODM. As at 31 December 2016, the fair value of Three Garden Road, Langham Place Office Tower and Langham Place Mall was HK\$39,330,000,000 (2015: HK\$37,587,000,000), HK\$8,477,000,000 (2015: HK\$8,402,000,000) and HK\$19,034,500,000 (2015: HK\$18,794,000,000), respectively.

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

Geographical information

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

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

Information about major tenants

There were no tenants whose revenue contributed over 10% of the total revenue of the Group for the both years ended 31 December 2016 and 2015.

8. RENTAL INCOME

	2016 HK\$'000	2015 HK\$'000
Rental income	2,223,879	1,995,003
Car park income	43,461	38,978
	2,267,340	2,033,981

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9. RENTAL RELATED INCOME

	2016 HK\$'000	2015 HK\$'000
Interest income from tenants	274	538
Promotional levy income	10,834	9,970
Surplus on forbearance fee	2,246	868
Sundry income	18,215	17,308
	31,569	28,684

10. PROPERTY OPERATING EXPENSES

	2016 HK\$'000	2015 HK\$'000
Building management expenses	298,678	267,482
Car park operating expenses	10,185	10,096
Government rent and rates	64,348	66,721
Legal cost and stamp duty	5,949	5,221
Promotion expenses	24,614	23,266
Property and lease management service fee	66,683	60,582
Property miscellaneous expenses	2,576	2,686
Rental commission	50,984	53,020
Repairs and maintenance	6,563	16,607
	530,580	505,681

11. MANAGER'S FEE

Pursuant to the Trust Deed, as the net property income of Champion REIT exceeds HK\$200 million for each of the six months ended 30 June 2016 and 31 December 2016, the Manager is entitled to receive 12% of the net property income for each of the six months ended 30 June 2016 and 31 December 2016 as remuneration.

	2016 HK\$'000	2015 HK\$'000
Manager's fee:		
In the form of units	121,591	107,017
In the form of cash	121,591	107,018
	243,182	214,035

Based on the election on 30 November 2012, the Manager continued to receive 50% of the Manager's fee for each of the six months ended 30 June and 31 December 2016 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.

12. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Finance costs represent:		
Interest expense on bank borrowings	216,510	204,798
Interest expense on medium term notes	130,371	126,487
Other borrowing costs	1,016	1,500
	347,897	332,785

13. PROFIT BEFORE TAX AND DISTRIBUTION TO UNITHOLDERS

	2016 HK\$'000	2015 HK\$'000
Profit before tax and distribution to unitholders has been arrived at after charging (crediting):		
Auditors' remuneration	2,010	2,010
Trustee's remuneration	11,643	11,232
Principal valuer's fee	355	325
Other professional fees and charges	4,282	1,258
Roadshow and public relations expenses	1,334	94
Bank charges	387	284
Exchange difference	(86)	43

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14. INCOME TAXES

	2016 HK\$'000	2015 HK\$'000
Hong Kong Profits Tax:		
Current tax		
– Current year	204,851	168,678
– Under(over)provision in prior years	1,720	(3,129)
	206,571	165,549
Deferred tax (note 25)		
– Current year	38,686	42,661
	245,257	208,210

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

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

	2016 HK\$'000	2015 HK\$'000
Profit before tax and distribution to unitholders	3,426,839	3,513,223
Tax at the domestic income tax rate of 16.5%	565,428	579,682
Tax effect of income not taxable for tax purpose	(334,586)	(377,599)
Tax effect of expenses not deductible for tax purpose	12,556	10,484
Under(over)provision in prior years	1,720	(3,129)
Tax effect of tax losses not recognised	139	–
Utilisation of tax loss previously not recognised	–	(1,228)
Income taxes for the year	245,257	208,210

15. BASIC EARNINGS PER UNIT

The calculation of the basic earnings per unit before distribution to unitholders is based on the profit for the period, before distribution to unitholders of HK\$3,181,582,000 (2015: HK\$3,305,013,000) with the weighted average number of units of 5,791,214,549 (2015: 5,764,046,315) in issue during the year, taking into account the units issuable as manager's fee for its service for each of the year ended 31 December 2016 and 2015.

There were no dilutive potential units during the years ended 31 December 2016 and 2015, therefore the diluted earnings per unit has not been presented.

16. TOTAL DISTRIBUTABLE INCOME

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

	2016 HK\$'000	2015 HK\$'000
Profit for the year, before distribution to unitholders	3,181,582	3,305,013
Adjustments:		
Manager's fee paid and payable in units	121,591	107,017
Increase in fair value of investment properties	(2,001,856)	(2,278,528)
Non-cash finance costs	68,178	35,896
Deferred tax	38,686	42,661
Total distributable income	1,408,181	1,212,059

17. INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
FAIR VALUE		
At the beginning of the year	64,783,000	62,438,000
Additions during the year	56,644	66,472
Increase in fair value	2,001,856	2,278,528
	66,841,500	64,783,000

The fair value of the Group's investment properties at 31 December 2016 and 31 December 2015 has been arrived at on the basis of valuation carried out by Knight Frank Petty Limited, an independent qualified professional valuer not connected to the Group. The valuation was arrived by using the Income Capitalisation Approach which is a method of valuation whereby the existing rental income of all lettable units of the property are capitalised for their respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at its current market rent as at the end of the reporting period. Upon the expiry of the existing tenancy, each of the leased area is assumed to be let at the market rent as at the end of the reporting period, which is in turn capitalised at the market yield as expected by investors for the period which the property is held with expectations of renewal of Government lease upon its expiry. The capitalisation rate adopted is made by reference to the yields achieved in analysed market sales transactions and the valuer's knowledge of the market expectation from property investors. The expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating cost, risk factor and the like. In estimating the fair value of the investment properties, the highest and best use of the properties is their current use.

The Group's property interests held under finance leases, which are located in Hong Kong, are measured using the fair value model and are classified and accounted for as investment properties.

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17. INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2016, certain investment properties with total fair value of HK\$39,330,000,000 (2015: HK\$44,519,000,000) have been mortgaged as security for credit facilities as detailed in note 22.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
At 31 December 2016 and 2015					
Three Garden Road	Level 3	Income capitalisation approach The key inputs are: (i) capitalisation rate; and (ii) market rent per square foot	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market condition, of 3.6% for office and 4.25% for retail (2015: 3.6% for office and 4.25% for retail). Market rent, taking into account direct market comparables within the property.	The higher the capitalisation rate, the lower the fair value. The higher the market rent, the higher the fair value.	If the capitalisation rate to the valuation model is 50 basis points higher/lower, while all the other variables were held constant, the carrying value would decrease by approximately HK\$4,774 million (capitalisation rate of 4.1% for office and 4.75% for retail) and increase by approximately HK\$6,313 million (capitalisation rate of 3.1% for office and 3.75% for retail) respectively (2015: decrease by approximately HK\$4,568 million (capitalisation rate of 4.1% for office and 4.75% for retail) and increase by approximately HK\$6,042 million (capitalisation rate of 3.1% for office and 3.75% for retail) respectively). If the monthly rent to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying value would increase by approximately HK\$1,807 million and decrease by approximately HK\$1,806 million, respectively (2015: increase by approximately HK\$1,692 million and decrease by approximately HK\$1,698 million, respectively).

17. INVESTMENT PROPERTIES (CONTINUED)

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
At 31 December 2016 and 2015 (continued)					
Langham Place Office Tower and Langham Place Mall	Level 3	Income capitalisation approach	Capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, prevailing market condition, of 4.0% (2015: 4.0%) for both the retail and office.	The higher the capitalisation rate, the lower the fair value.	If the capitalisation rate to the valuation model is 50 basis points higher/lower, while all the other variables were held constant, the carrying value would decrease by approximately HK\$3,000 million (capitalisation rate of 4.5%) and increase by approximately HK\$3,879 million (capitalisation rate of 3.5%) respectively (2015: decrease by approximately HK\$2,983 million (capitalisation rate of 4.5%) and increase by approximately HK\$3,829 million (capitalisation rate of 3.5%) respectively).
		The key inputs are: (i) capitalisation rate; and (ii) market rent per square foot	Market rent, taking into account direct market comparables within the property.	The higher the market rent, the higher the fair value.	If the monthly rent to the valuation model is 5% higher/lower, while all other variables were held constant, the carrying value would increase by approximately HK\$1,251 million and decrease by approximately HK\$1,235 million, respectively (2015: increase by approximately HK\$1,218 million and decrease by approximately HK\$1,221 million, respectively).

18. NOTES RECEIVABLES

As at 31 December 2016, the Group held unsecured bonds with aggregate carrying amounts of HK\$221,121,000 (2015: HK\$223,204,000), which are denominated in United States dollars with nominal values ranging from US\$1,200,000 to US\$7,640,000. The unsecured bonds bear interest at fixed interest rates ranging from 3.75% to 5.875% (2015: 3.75% to 5.875%) per annum and have maturity dates ranging from February 2021 to May 2024 (2015: February 2021 to May 2024).

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19. TRADE AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	21,035	19,225
Deferred rent receivables	210,191	145,236
Deposits, prepayments and other receivables	85,165	91,285
	316,391	255,746

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

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

	2016 HK\$'000	2015 HK\$'000
0 – 3 months	21,035	19,225

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$21,035,000 (2015: HK\$19,225,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

20. BANK BALANCES AND CASH

	2016 HK\$'000	2015 HK\$'000
Cash on hand	2	2
Cash at bank	390,529	305,918
Time deposits	567,000	387,000
	957,531	692,920

Bank balances carry interest at market rates of 0.001% to 0.31% (2015: 0.001% to 0.31%) per annum. Time deposits have original maturity of not more than one year and carry interest at market rates which range from 0.85% to 1.90% (2015: 0.45% to 0.65%) per annum.

21. TRADE AND OTHER PAYABLES

	2016 HK\$'000	2015 HK\$'000
Trade payables	75,117	85,357
Rental received in advance	25,775	25,975
Other payables and accruals	215,977	194,963
Accrued stamp duty	963,475	963,475
	1,280,344	1,269,770

The accrual for stamp duty is based on the current stamp duty rate of 4.25% (2015: 4.25%) and the stated consideration of HK\$22,670,000,000 in the property sale and purchase agreements for the legal assignment of the investment properties which Champion REIT acquired the property interest in 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:

	2016 HK\$'000	2015 HK\$'000
0 – 3 months	75,117	85,357

22. SECURED BANK BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Secured bank borrowings	11,000,000	10,950,000
Loan front-end fee	(75,400)	(53,968)
	10,924,600	10,896,032
The maturity of the above secured bank borrowings is as follows:		
Within one year	–	2,196,927
More than one year but not exceeding two years	–	3,687,045
More than two years but not exceeding five years	10,924,600	5,012,060
	10,924,600	10,896,032
Less: amount due within one year shown under current liabilities	–	(2,196,927)
Amount due after one year	10,924,600	8,699,105

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For The Year Ended 31 December 2016

22. SECURED BANK BORROWINGS (CONTINUED)

During the year, the Group made arrangements for (i) a term loan and revolving credit facilities of HK\$5,500,000,000 and (ii) a term loan facility of HK\$5,800,000,000 for the purpose of refinancing and voluntary payments of the Group's outstanding secured term loans amounting to HK\$10,950,000,000.

As at 31 December 2016, the outstanding secured bank borrowings comprise the following:

- (i) HK\$5,200,000,000 secured term loan bears interest at a floating rate of HIBOR plus 0.83% per annum and is repayable in full in June 2019.
- (ii) HK\$5,800,000,000 secured term loan bears interest at a floating rate of HIBOR plus 0.95% per annum and is repayable in full in June 2021.

As at 31 December 2015, the outstanding secured banking facilities comprised of an aggregate term loan of HK\$10,950,000,000. The outstanding secured term loans under the banking facilities bore interests at HIBOR plus margins ranging from 1.20% to 1.48% and were repayable in full during the period from June 2016 to May 2019. Additionally, the Group had an undrawn revolving credit facility of HK\$300,000,000.

As security for the bank borrowings granted to the Group, investment properties with an aggregate fair value of HK\$39,330,000,000 as at 31 December 2016 (2015: HK\$44,519,000,000) together with the assignments of sales proceeds, insurance proceeds, rental income, revenue and all other income generated from these properties have been pledged and mortgaged to the banks.

23. MEDIUM TERM NOTES

	2016 HK\$'000	2015 HK\$'000
Medium term notes	3,839,146	3,637,986
Origination fees	(24,762)	(28,160)
	3,814,384	3,609,826

The Group established a US\$1 billion guaranteed medium term notes programme (the "MTN Programme"), under which unsecured notes may be issued from time to time in various currencies and amounts with fixed or floating rates to be set upon issuance of notes and will be guaranteed by the Trustee, in its capacity as trustee of Champion REIT.

As at 31 December 2016, the outstanding medium term notes comprised the following:

- (i) 10-year unsecured notes at a fixed rate of 3.75% per annum with principal of US\$386,400,000 (2015: US\$386,400,000) (the "USD MTN"). The issued medium term note is repayable in full on 17 January 2023. The foreign currency rate and interest rate are fixed by the use of cross currency swaps.
- (ii) 7-year unsecured notes at a floating rate of 3-month HIBOR plus 1.275% per annum with principal of HK\$643,000,000 (2015: HK\$643,000,000). The issued medium term note is repayable in full on 26 March 2022.
- (iii) 8-year unsecured notes at a fixed rate of 2.75% per annum with principal of HK\$200,000,000. The issued medium term note is repayable in full on 7 October 2024.

During the year ended 31 December 2015, an aggregate principal amount of US\$13,600,000 of the USD MTN was repurchased at a total consideration of HK\$101,701,000 and a gain on repurchase of medium term notes amounting to HK\$2,686,000 has been recognised in the profit and loss.

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For The Year Ended 31 December 2016

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 HK\$'000	2015 HK\$'000
Non-current asset		
Cash flow hedge – cross currency swaps	32,408	–
Non-current liability		
Cash flow hedge – cross currency swaps	–	69,821

The Group entered cross currency swaps with The Hongkong and Shanghai Banking Corporation Limited, a connected person as defined in the REIT Code, to minimise the exposure to fluctuations in foreign currency and interest rate of the medium term note which is denominated in United States dollars, in respect of the principal and fixed rate interest payments.

The cross currency swaps and the corresponding medium term note have similar terms and the Manager considered that the cross currency swaps were highly effective hedging instruments.

Major terms of the cross currency swaps are set out below:

Notional amount	Maturity	Exchange rate	Interest rate	Interest period	Total hedged item
US\$200,000,000	17 January 2023	HK\$7.7598: US\$1	3.75%	Semi-annually	Medium term note principal and coupon payments
US\$100,000,000	17 January 2023	HK\$7.76: US\$1	3.75%	Semi-annually	Medium term note principal and coupon payments
US\$50,000,000	17 January 2023	HK\$7.7613: US\$1	3.75%	Semi-annually	Medium term note principal and coupon payments
US\$36,400,000 (2015: US\$50,000,000)	17 January 2023	HK\$7.7541: US\$1	3.75%	Quarterly	Medium term note principal and coupon payments

The fair value of the above derivatives is based on the valuation provided by the counterparty financial institution and measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During the year, the nominal amount of the cross currency swap was amended from US\$400,000,000 to US\$386,400,000.

During the year, the gain on changes in fair value of the cross currency swaps under cash flow hedge amounting to HK\$105,378,000 (2015: loss on changes of HK\$70,701,000) has been recognised in other comprehensive income of which the fair value of the hedging instruments amounting to HK\$3,552,000 (2015: HK\$842,000) were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss and upon the settlement of coupon payment.

25. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2015	420,520	(3,892)	416,628
Charge to consolidated income statement during the year	38,769	3,892	42,661
As at 31 December 2015	459,289	-	459,289
Charge to consolidated income statement during the year	38,686	-	38,686
As at 31 December 2016	497,975	-	497,975

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

As at 31 December 2016, the Group has unutilised tax losses amounting to HK\$507,082,000 (2015: HK\$506,237,000) available to offset against future profits. No deferred tax asset has been recognised in respect of HK\$507,082,000 (2015: HK\$506,237,000) due to unpredictability of future profit stream. Tax losses may be carried forward indefinitely.

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For The Year Ended 31 December 2016

26. ISSUED UNITS

	Number of units	HK\$'000
Balance at 1 January 2015	5,744,851,859	23,932,967
Payment of Manager's fee through issuance of new units during the year (note (i))	26,829,902	105,460
Balance at 31 December 2015	5,771,681,761	24,038,427
Payment of Manager's fee through issuance of new units during the year (note (i))	26,555,566	114,002
Balance at 31 December 2016	5,798,237,327	24,152,429

Note:

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

Issue date	Payment of the Manager's fees for the period	Issue price per unit determined based on the Trust Deed HK\$	Aggregate issue price HK\$'000	Number of units issued
In 2016				
11 March 2016	1.7.2015 to 31.12.2015	3.830	54,337	14,187,113
24 August 2016	1.1.2016 to 30.6.2016	4.824	59,665	12,368,453
			114,002	26,555,566
In 2015				
16 March 2015	1.7.2014 to 31.12.2014	3.760	52,779	14,037,105
25 August 2015	1.1.2015 to 30.6.2015	4.118	52,681	12,792,797
			105,460	26,829,902

27. MAJOR NON CASH TRANSACTIONS

During the year ended 31 December 2016, 26,555,566 (2015: 26,829,902) units were issued as payment for the Manager's fee, amounting to HK\$114,002,000 (2015: HK\$105,460,000).

28. NET ASSET VALUE PER UNIT

The net asset value per unit is calculated by dividing the net assets attributable to unitholders as at 31 December 2016 of HK\$50,534,763,000 (2015: HK\$48,468,147,000) by the number of units in issue of 5,798,237,327 as at 31 December 2016 (2015: 5,771,681,761).

29. NET CURRENT LIABILITIES

At 31 December 2016, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$1,323,307,000 (2015: HK\$3,700,016,000).

30. TOTAL ASSETS LESS CURRENT LIABILITIES

At 31 December 2016, the Group's total assets less current liabilities amounted to HK\$65,771,722,000 (2015: HK\$61,306,188,000).

31. OPERATING LEASE COMMITMENTS

At 31 December 2016, commitments in respect of non-cancellable operating leases for rental of investment properties were as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	2,094,540	2,032,765
In the second to fifth year inclusive	3,525,293	4,304,201
Over five years	256,749	487,895
	5,876,582	6,824,861

The properties held had committed leases usually running for two to six years and rentals are predetermined at fixed amounts except for certain leases of which contingent rentals are charged based on the percentage of sales. Contingent rental income of HK\$86,278,000 (2015: HK\$92,838,000) was received for the year.

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

32. CAPITAL COMMITMENT

	2016 HK\$'000	2015 HK\$'000
Capital expenditure in respect of the improvement works of investment properties contracted for but not provided in the consolidated financial statements	10,000	49,923

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For The Year Ended 31 December 2016

33. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with connected and related parties:

	Notes	2016 HK\$'000	2015 HK\$'000
<i>Rental income</i>			
Cordis Hong Kong Limited	(a)	–	4,567
Strong Dynamic Limited	(a)	–	4,150
The Great Eagle Properties Management Company, Limited	(a)	6,062	5,740
Eagle Asset Management (CP) Limited	(a)	450	394
Eagle Property Management (CP) Limited	(a)	4,373	4,140
Best Come Limited	(a)	9,895	–
<i>Interest income</i>			
HSBC Group ^{1,4}	(b)	1,212	1,176
<i>Building management fee income</i>			
Strong Dynamic Limited	(a)	–	2,254
The Great Eagle Properties Management Company, Limited	(a)	790	735
Cordis Hong Kong Limited	(a)	–	701
Eagle Asset Management (CP) Limited	(a)	6	–
Eagle Property Management (CP) Limited	(a)	609	537
Best Come Limited	(a)	1,229	–
<i>Building management expenses and car park operating expenses</i>			
The Great Eagle Properties Management Company, Limited	(a)	260,085	240,054
Longworth Management Limited	(a)	45,333	41,993
<i>Property and lease management service fee</i>			
Eagle Property Management (CP) Limited	(a)	66,683	60,582
<i>Rental commission</i>			
Eagle Property Management (CP) Limited	(a)	34,593	18,255
Savills (Hong Kong) Limited ⁴	(c)	–	1,200
Knight Frank Petty Limited ⁴	(c)	45	–
<i>Repairs and maintenance fee</i>			
The Great Eagle Engineering Company Limited	(a)	2,048	4,946
Toptech Co. Limited	(a)	1,760	3,066
Keysen Engineering Company, Limited	(a)	220	223
The Great Eagle Properties Management Company, Limited	(a)	6	11

33. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

	Notes	2016 HK\$'000	2015 HK\$'000
<i>Repairs and maintenance and renovations contracted to</i>			
The Great Eagle Engineering Company Limited ⁴	(a)	1,393	6,056
Toptech Co. Limited ⁴	(a)	–	2,825
Keysen Engineering Company, Limited ⁴	(a)	226	692
The Great Eagle Properties Management Company, Limited ⁴	(a)	6	11
<i>Property miscellaneous expenses</i>			
Cordis Hong Kong Limited	(a)	15	11
Clever Gain Investment Ltd	(a)	243	221
The Langham, Hong Kong	(a)	–	7
<i>Trust and other expenses</i>			
HSBC Institutional Trust Services (Asia) Limited ⁴	(b)	11,643	11,232
Best Come Limited ⁴	(a)	45	–
HSBC Group ^{1,4}	(b)	121	156
<i>Manager's fee</i>			
Eagle Asset Management (CP) Limited	(a) & (d)	243,182	214,035
<i>Finance costs</i>			
Hang Seng Bank Limited ^{2,4}	(b)	199,988	174,052
The Hongkong and Shanghai Banking Corporation Limited ⁴	(b)	17,439	31,795
<i>Valuation fee</i>			
Savills Valuation and Professional Services Limited ⁴	(c)	–	5
Knight Frank Petty Limited ⁴	(c)	355	320

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33. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Balances with connected and related parties are as follows:

	Notes	2016 HK\$'000	2015 HK\$'000
<i>Amount due from</i>			
The Great Eagle Properties Management Company, Limited	(a) & (e)	50,091	52,557
Longworth Management Limited	(a) & (e)	15,311	15,311
Toptech Co. Limited	(a) & (e)	1,036	–
<i>Amount due to</i>			
Eagle Property Management (CP) Limited	(a) & (e)	18,910	11,521
Eagle Asset Management (CP) Limited	(a) & (e)	123,851	108,673
The Great Eagle Engineering Company Limited	(a) & (e)	756	2,166
The Great Eagle Properties Management Company, Limited	(a) & (e)	14,185	25,699
Keysen Engineering Company, Limited	(a) & (e)	367	622
Cordis Hong Kong Limited	(a) & (e)	3	–
Toptech Co. Limited	(a) & (e)	–	1,101
<i>Deposits placed with the Group for the lease of the Group's properties</i>			
Eagle Property Management (CP) Limited	(a) & (f)	360	360
The Great Eagle Properties Management Company, Limited	(a)	1,519	1,408
Cordis Hong Kong Limited	(a)	–	1,351
Best Come Limited	(a)	2,244	–
Eagle Asset Management (CP) Limited	(a)	31	–
Strong Dynamic Limited	(a) & (g)	–	–

33. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (a) These companies are the subsidiaries directly or indirectly held by Great Eagle, a significant unitholder of Champion REIT.
- (b) These companies are the Trustee or associates³ of the Trustee.
- (c) This company is the principal valuer of Champion REIT or its associates³.
- (d) The Manager's fee is calculated at 12% of the net property income provided that Champion REIT achieves net property income of HK\$200 million for each of the six month period ended 30 June 2016 and 31 December 2016.
- (e) The amounts due from and due to connected and related parties are unsecured, interest-free and have no fixed repayment terms.
- (f) A bank guarantee of HK\$927,000 (2015: HK\$927,000) was received in lieu of deposit.
- (g) A bank guarantee of HK\$2,882,000 was received in lieu of deposit as at 31 December 2015.

¹ HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries.

² On 28 June 2016, term loan facilities of HK\$1,900 million, HK\$3,700 million and HK\$3,800 million, together with the term loan and revolving credit facilities of HK\$2,500 million were refinanced by (i) term loan and revolving credit facilities of HK\$5,500 million and (ii) a term loan facility of HK\$5,800 million with an upfront payment of HK\$28,050,000 and HK\$58,000,000, respectively. Hang Seng Bank Limited is the facility agent under the new banking facilities.

As at 31 December 2016, total term loan outstanding under the abovementioned facilities is HK\$11,000 million (2015: HK\$9,700 million)

³ As defined in the REIT Code.

⁴ Connected party transactions as defined in the REIT Code.

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34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF CHAMPION REIT

The following principal subsidiaries are wholly-owned by Champion REIT as at 31 December 2016 and 2015.

Name	Issued and fully paid share capital	Principal activity
Incorporated and operating in Hong Kong and indirectly owned and controlled by Champion REIT:		
Benington Limited	100 shares with no par value	Property investment
CP (A1) Limited	1 share with no par value	Property investment
CP (B1) Limited	1 share with no par value	Property investment
CP (MC) Limited	1 share with no par value	Property investment
CP (PH) Limited	1 share with no par value	Property investment
CP (SH) Limited	1 share with no par value	Property investment
CP (WC) Limited	1 share with no par value	Property investment
CP Finance Limited	1 share with no par value	Financing
CP (Portion A) Limited	2 shares with no par value	Property investment
CP (Portion B) Limited	2 shares with no par value	Property investment
CP Success Limited	1 share with no par value	Financing
CP Wealth Limited	1 share with no par value	Financing
Elegant Wealth Limited	1 share with no par value	Property investment
Maple Court Limited	2 shares with no par value	Property investment
Panhy Limited	2 shares with no par value	Property investment
Renaissance City Development Company Limited	2 shares with no par value	Property investment
Shine Hill Development Limited	1,000,000 shares with no par value	Property investment
Trump Treasure Limited	1 share with no par value	Financing
Well Charm Development Limited	2 shares with no par value	Property investment
Incorporated in the Cayman Islands and indirectly owned and controlled by Champion REIT:		
Champion MTN Limited	1 share of US\$1	Medium term notes issuer
Ernest Limited	100 shares of US\$1 each	Investment holding
Incorporated in the British Virgin Islands and indirectly owned and controlled by Champion REIT:		
EAM-Champion REIT Limited	1 share of US\$1	Securities investment

The Manager is of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which principally affect the results or assets and liabilities of the Group.

Major Real Estate Agents and Contractors

TOP FIVE ESTATE AGENTS

The top five real estate agents and their respective commission paid were given below:

Real estate agents	Nature of service	Commission paid (HK\$)	Relevant cost (%)
Eagle Property Management (CP) Limited	Leasing	34,593,000	67.8
Cushman & Wakefield (HK) Limited	Leasing	5,418,000	10.6
Jones Lang LaSalle Limited	Leasing	5,043,000	9.9
Centaline Property Agency Limited	Leasing	2,660,000	5.2
Colliers International Agency Limited	Leasing	781,000	1.5
Total		48,495,000	95.0

TOP FIVE CONTRACTORS

The top five contractors and their respective value of service were given below:

Contractors	Nature of service	Value of contract (HK\$)	Relevant cost (%)
The Great Eagle Properties Management Company, Limited	Building management	316,805,000	68.0
Eagle Property Management (CP) Limited	Property and lease management	66,683,000	14.3
Longworth Management Limited	Building management	45,333,000	9.7
Imagine Lab Limited	Promotion expenses	5,312,000	1.1
A V Digital Illustration	Promotion expenses	3,037,000	0.7
Total		437,170,000	93.8

Performance Table

	2016	2015	2014	2013	2012
As at 31 December:					
Net asset value (HK\$'000)	50,534,763	48,468,147	46,275,130	45,363,960	44,252,200
Net asset value per unit (HK\$)	8.72	8.40	8.06	7.94	7.80
The highest traded price during the period (HK\$)	5.00	4.59	3.83	4.19	3.95
The highest premium of the traded price to net asset value ¹	N/A	N/A	N/A	N/A	N/A
The lowest traded price during the period (HK\$)	3.35	3.57	3.24	3.29	2.91
The highest discount of the traded price to net asset value	61.58%	57.50%	59.80%	58.56%	62.69%
For the year ended 31 December:					
The distribution yield per unit ²	5.46%	5.11%	5.65%	6.12%	5.63%
The net profit yield per unit ³	13.06%	14.76%	9.33%	11.22%	19.77%

Notes:

1. The highest traded price is lower than the net asset value per unit. Accordingly, no premium of the traded price to net asset value is presented.
2. Distribution yield per unit is calculated based on the distribution per unit of HK\$0.2295 (which calculation was set out in the Distribution Statement) for the year ended 31 December 2016 over the traded price of HK\$4.20 as at 30 December 2016.
3. Net profit yield per unit is calculated based on profit for the year before distribution to unitholders per unit for the year ended 31 December 2016 over the traded price of HK\$4.20 as at 30 December 2016.

Corporate Information

CHAMPION REIT

Champion Real Estate Investment Trust
(a Hong Kong collective investment scheme authorised
under section 104 of the Securities and Futures
Ordinance (Chapter 571 of the Laws of Hong Kong))

REIT MANAGER

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Non-executive Directors

LO Ka Shui (*Chairman*)
IP Yuk Keung, Albert
LO Kai Shui

Executive Director

WONG Ka Ki, Ada (*Chief Executive Officer
and Chief Investment Officer*)

Independent Non-executive Directors

CHA Mou Sing, Payson
CHENG Wai Chee, Christopher
HO Shut Kan
SHEK Lai Him, Abraham

AUDIT COMMITTEE OF THE REIT MANAGER

SHEK Lai Him, Abraham (*Chairman*)
CHENG Wai Chee, Christopher
LO Ka Shui

DISCLOSURES COMMITTEE OF THE REIT MANAGER

WONG Ka Ki, Ada (*Chairman*)
LO Ka Shui
SHEK Lai Him, Abraham

RESPONSIBLE OFFICERS OF THE REIT MANAGER

WONG Ka Ki, Ada
KWONG Chi Kwong
LAU Yee Tong, Yvonne

COMPANY SECRETARY OF THE REIT MANAGER

G. E. Secretaries Limited

PROPERTY MANAGER

Eagle Property Management (CP) Limited

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Citibank, N.A.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISOR

Baker & McKenzie

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL VALUER

Knight Frank Petty Limited

UNIT REGISTRAR AND TRANSFER OFFICE

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