

2019 ANNUAL REPORT

LANGHAM PLACE

THREE GARDEN ROAD CENTRAL



Creating Values
through Sustainability

Trust Profile

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



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.





Creating Values through Sustainability

The design of this annual report is created with extensive use of water colours, symbolising our intent to enlighten the lives of our stakeholders through sustainable development. It also echoes with the pioneering staircase art at our property which signals a step forward of our sustainability strategy to be a more collaborative and engaging one. Going hand in hand with our stakeholders, we preserve the environment through the way we operate, and put wellness of tenants, customers, employees and community to the forefront for greater social impacts. We uphold a high standard of corporate governance to reinforce the cornerstone for the sustainable growth of the Trust.



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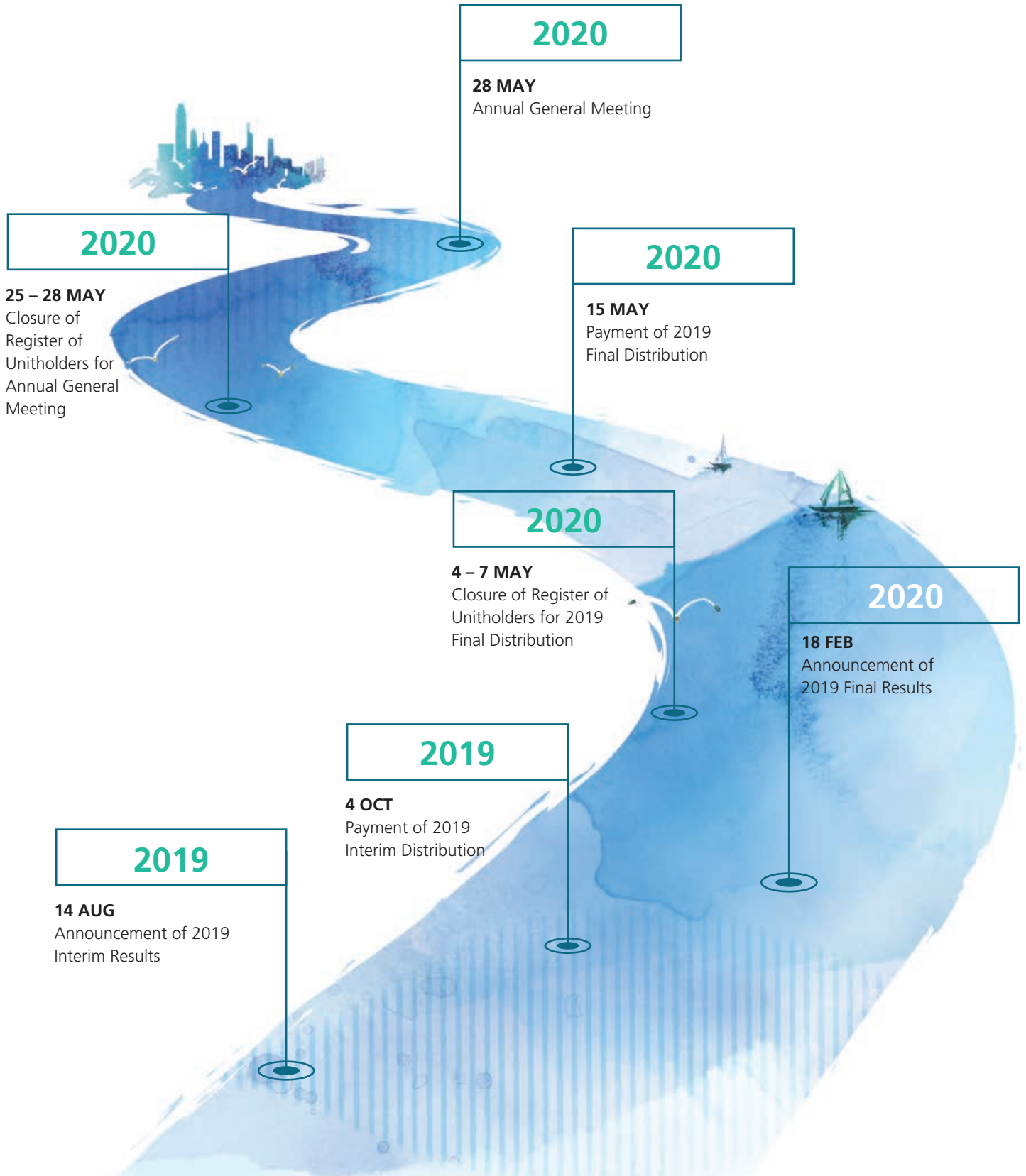
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Corporate Information

Timeline of Significant Events



Five Year Financial Summary

For the year ended 31 December

2015	2016	2017	2018	2019	PROFIT (HK\$ MILLION)
\$2,063	\$2,299	\$2,431	\$2,677	\$2,778	Total Rental Income
(\$279)	(\$272)	(\$265)	(\$272)	(\$298)	Net Property Operating Expenses
\$1,784	\$2,027	\$2,166	\$2,405	\$2,481	Net Property Income
2015	2016	2017	2018	2019	DISTRIBUTIONS (HK\$)
\$1,212	\$1,408	\$1,487	\$1,611	\$1,648	Distributable Income (million)
\$1,146	\$1,331	\$1,413	\$1,530	\$1,566	Distribution Amount (million)
\$0.1983	\$0.2292	\$0.2424	\$0.2614	\$0.2666	Distribution per Unit
2015	2016	2017	2018	2019	VALUATION (HK\$)
\$64,783	\$66,842	\$76,704	\$83,135	\$81,178	Gross Value of Portfolio (million)
\$8.40	\$8.72	\$10.36	\$11.42	\$11.04	Net Asset Value per Unit
2015	2016	2017	2018	2019	FINANCIAL RATIOS
13.5%	11.8%	10.9%	10.2%	10.7%	Net Expense Ratio
94.5%	94.5%	95.0%	95.0%	95.0%	Payout Ratio
22.1%	21.7%	18.9%	17.6%	18.0%	Gearing Ratio
2015	2016	2017	2018	2019	OPERATIONAL STATISTICS
91.2%	95.9%	94.2%	99.1%	93.0%	Three Garden Road Office Occupancy
\$75.4	\$78.2	\$92.5	\$98.6	\$107.8	...and Passing Rent (HK\$ psf)
100.0%	100.0%	97.1%	100.0%	97.7%	Langham Place Office Occupancy
\$37.5	\$39.7	\$40.8	\$42.7	\$46.5	...and Passing Rent (HK\$ psf)
100.0%	100.0%	100.0%	100.0%	100.0%	Langham Place Retail Occupancy
\$174.5	\$178.7	\$176.7	\$184.3	\$190.5	...and Passing Base Rent (HK\$ psf)

Chairman's Report to Unitholders

“Amid the precarious business environment, the Trust nonetheless delivered a mild growth in distributable income by 2.3%.”

Dr. LO Ka Shui

Chairman



The challenging environment for the office and retail markets in 2019 was underscored by slackened economic growth of Hong Kong coupled with protracted civil social unrest and US-China trade tensions. In the second half of the year, the intensified social turmoil resulted in severe deterioration in consumer sentiment and tourists arrivals, which in turn erased the solid growth of the Trust achieved in the first half. Amid the precarious business environment, the Trust nonetheless delivered a mild growth in distributable income by 2.3% to HK\$1,648 million (2018: HK\$1,611 million) and distribution per unit (“DPU”) by 2.0% to HK\$0.2666 (2018: HK\$0.2614).

The results of the Trust for 2019 once again demonstrated the complementary nature of the Trust’s property portfolio. Positive rental reversion of the office portfolio compensated the unforeseen weak performance of Langham Place Mall. Total rental

income of the Trust posted an increase of 3.8% to HK\$2,778 million (2018: HK\$2,677 million). Three Garden Road and Langham Place Office gained 8.7% and 7.2% growth in rental income respectively, while a decline of 4.9% for Langham Place Mall dragged down the overall results. Net property operating expenses of the Trust increased by 9.4% to HK\$298 million (2018: HK\$272 million) mainly due to higher government rent and rates and higher rental commission. Net property income rose by 3.1% to HK\$2,481 million in 2019 (2018: HK\$2,405 million).

During 2019, the Trust continued to take a proactive approach in liability management and further enhanced the credit profile. The Trust entered into new five-year unsecured banking facilities for a total amount of HK\$5.8 billion to refinance a HK\$3.7 billion secured loan due in 2019 and to partially repay another secured bank loan due in 2021. The unsecured debt portion

increased to 75.5% following the drawdown. Cash finance cost in 2019 increased to HK\$452 million (2018: HK\$404 million) mainly due to higher average HIBOR. The Trust entered into interest rate swaps in favourable market windows to increase the fixed rate debt portion to 64.2% as at 31 December 2019 to mitigate interest rate risks.

Valuation of the properties portfolio was affected by the sluggish leasing market. The appraised value of the Trust's properties as at 31 December 2019 was HK\$81.2 billion, down by 2.4% compared with HK\$83.1 billion as at 31 December 2018. The drop was driven mainly by lower rental rate assumptions. Net asset value per unit lowered to HK\$11.04 as at 31 December 2019 (2018: HK\$11.42) as a result. The gearing ratio slightly increased to 18.0% as at 31 December 2019 from 17.6% as at 31 December 2018, remaining at a comfortable level.

Outlook

The global economic uncertainties, exacerbated by the outbreak of the COVID-19, will adversely affect both the office demand and retail sentiments in 2020. As an externally oriented economy, Hong Kong will especially be affected by the pessimistic economic outlook and potentially deepening recession. With the ongoing political tensions in Hong Kong remain unsettled, the already weakening business environment is expected to weigh on both the office demand and retail sales performance.

The office rental segment of the portfolio is expected to be less vulnerable than the retail segment given the market rates of both Three Garden Road and Langham Place Office are slightly above the passing rents. However, the sluggish trend of office rental market in Central is expected to remain in 2020 because of the dampened business sentiments amid the COVID-19 epidemic and protracted social unrest and stalled demand from Mainland China due to its decelerating economy. Occupancy could also come under pressure due to potential availabilities from relocation and lease surrender. Demand and market rent of Langham Place Office may retrench as the lifestyle tenants' businesses are severely impacted by the viral outbreak.

The footfalls of the Mall have seen a significant drop as consumers avoid going out as a precaution against the new virus, resulting in a marked decrease in tenants' sales. This is further aggravated by a lack of mainland tourists and other international visitors, in light of quarantine measures and cross-border restrictions imposed. The battered local economy and unresolved social tensions will continue to suppress tourism and consumer spending. The gloomy consumer sentiment and tourists' arrivals would take a long time to restore. While waning retail sales would continue to affect the turnover rent portion of Langham Place Mall, the base rental income of the mall would also be impacted. The Trust is considering requests from tenants for further rental concessions to help the tenants cope with this severe downturn. To weather the headwinds, we would intensify marketing campaigns focusing on revitalising tenants' businesses and enriching customers' experience.

We will continue to actively manage our liabilities and review the fixed rate debt strategy from time to time. We plan to increase standby banking facilities to enhance the financial flexibility of the Trust.

The complementary nature of our existing portfolio has served the Trust well in times of market volatilities. While we are watchful of the challenges in the short term, our financial strength and discipline should allow us to weather the difficult period. Furthermore, we will continue to take a prudent approach in identifying diversification opportunities for external growth for the Trust globally in the coming year.

In summary, rental income of the office portfolio is facing downside risks in 2020 given the cautious outlook of office demand in Central. Moreover, the devastated softened retail market would lead to a lower total rental income and DPU. Amid the uncertain macro environment, we will continue to proactively manage the portfolio to deliver long-term returns to unitholders.

LO Ka Shui
Chairman

CEO's Review

“The Trust will continue to optimise its business through agility and perseverance to generate values for our stakeholders.”

Ms. WONG Ka Ki, Ada
Chief Executive Officer



Champion REIT continued to deliver steady growth and maintain its vibrancy despite economic headwinds. We have been quick to adapt to the ever-changing operating environment while steering the business forward with strategic foresight. We also remain focused to proactively manage the portfolio to deliver long-term returns to unitholders.

Three Garden Road

Overall leasing activities in the office market in Central, Hong Kong's prime business district were subdued in 2019. The leasing business at Three Garden Road was stalled with tenants generally taking a cautious approach. Beating the diminished momentum, Three

Garden Road managed to achieve positive rental reversion, boosting the total rental income of the property to HK\$1,512 million, up 8.7% compared to HK\$1,390 million in 2018.

Occupancy of the property was affected by the prudent approach adopted by tenants, moderating to 93.0% as at 31 December 2019 from 95.8% as at 30 June 2019. Some tenants have expressed interests in expanding their footprints in the property but held up their plans in the uncertain macro environment.

Rent levels were also impacted by the general market conditions. Three Garden Road could not remain unscathed from the overall downhill trend in Grade A

office rental prices and rising vacancies in Central. That said, given the gap between the market rents and expiring rents in 2019, passing rents of the property increased to HK\$107.76 per sq. ft. (based on lettable area) as at 31 December 2019 (2018: HK\$98.61 per sq. ft.).

Net property income maintained a steady growth of 8.2% to HK\$1,375 million (2018: HK\$1,270 million). The positive rental reversion achieved was more than sufficient to compensate for the lower average occupancy at Three Garden Road. Net property operating expenses increased by 14.3% to HK\$137 million (2018: HK\$120 million) mainly due to increase in rental commission and higher government rent and rates.

Thanks to the wellness programmes developed for our tenants and staff working in Three Garden Road, which we promote actively, the premises have recently become the first existing office building in Hong Kong to be awarded Platinum WELL Certification by the International WELL Building Institute, the highest recognition for workplaces in health and wellness.

Langham Place Office Tower

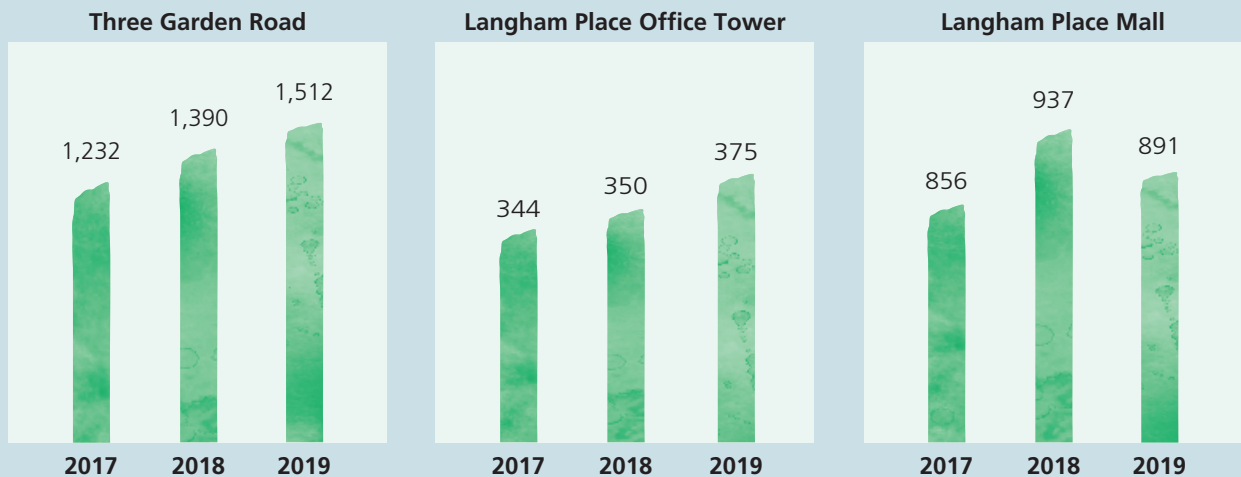
Business performance of Langham Place Office was stable. Although some tenants were cautious about the economic outlook, demand from the lifestyle sector persisted. As at 31 December 2019, the proportion of tenant mix in the lifestyle, healthcare and beauty categories expanded to 59%.

Occupancy of the property stood high at 97.7% as at 31 December 2019 and market rents stayed put throughout 2019. Positive rental reversion was achieved, driving up total rental income by 7.2% to HK\$375 million in 2019 (2018: HK\$350 million). Passing rents increased to HK\$46.48 per sq. ft. (based on gross floor area) as at 31 December 2019 (2018: HK\$42.68 per sq. ft.).

Net property income grew by 6.2% to HK\$342 million (2018: HK\$322 million) attributable to positive rental reversion. Net property operating expenses rose to HK\$33 million (2018: HK\$28 million), mainly due to higher repairs and maintenance expenses.

Rental Income

(HK\$million)



CEO's Review

Langham Place Mall

2019 was an extremely challenging year for the Hong Kong retail sector. The slowdown in retail sales which started at the beginning of the year deepened in the second half of the year on flagging local economic conditions as well as drawn-out social unrest subsequently. The dampened consumption sentiment and disruptions to inbound tourism resulted in a 11.1% decline in Hong Kong retail sales. Langham Place Mall recorded a drop of 19.4% in tenant sales in 2019. Business for shops focusing on Chinese tourists in particular suffered from the interruptions. Access to the mall was partially affected by closure of the Mong Kok MTR station on certain days and blockage of roads due to the confrontations in surrounding areas, causing a low double-digit fall in footfall in 2019.

Faced with the unfavourable operating environment for the retail market, total rental income of the mall decreased 4.9% to HK\$891 million (2018: HK\$937 million). This was mainly caused by a drop in tenant sales which in return suppressed turnover rent to HK\$114 million (2018: HK\$187 million). On the other hand, passing base rents increased to HK\$190.49 per sq. ft. (based on lettable area) as at 31 December 2019 (2018: HK\$184.28 per sq. ft.) as most leases were confirmed in advance. However, the growth in base rents was insufficient to offset the decline in turnover rent. Requests for rental concessions from tenants were considered on a case-by-case basis. Despite the sluggish market conditions, the mall remained fully occupied as at 31 December 2019.

Optimisation of tenant composition for the low zone in the mall was accomplished in 2019. Tenant mix of basement two was unified to confectionary and food and beverage. On basement one, a portion of the shoes and bags section was replaced by beauty tenants.

Net property income went down 6.0% to HK\$764 million (2018: HK\$813 million) on abated retail sales and sliding turnover rent. Net property operating expenses increased by 2.4% to HK\$127 million (2018: HK\$124 million), mainly due to higher rental commission and higher promotion expenses. Given the adverse retail environment in second half of 2019, we have launched a number of sales-driven campaigns to generate footfall and sales.

Sustainability

Embracing sustainability is an indispensable part of the Trust's corporate culture and business direction. This year, we kick-started the new decade with our 2030 sustainability blueprint to spearhead various environment, social and governance ("ESG") initiatives in a measurable and systematic approach. The Trust will continue to optimise its business through agility and perseverance to generate values for our stakeholders.

WONG Ka Ki, Ada
Chief Executive Officer

	2019 HK\$'000	2018 HK\$'000	Change
Three Garden Road			
Rental Income	1,511,663	1,390,473	+ 8.7%
Net Property Operating Expenses	137,119	120,003	+ 14.3%
Net Property Income	1,374,544	1,270,470	+ 8.2%
Langham Place Office Tower			
Rental Income	375,067	349,777	+ 7.2%
Net Property Operating Expenses	33,332	27,881	+ 19.6%
Net Property Income	341,735	321,896	+ 6.2%
Langham Place Mall			
Rental Income	891,412	936,996	- 4.9%
Net Property Operating Expenses	127,049	124,039	+ 2.4%
Net Property Income	764,363	812,957	- 6.0%

Awards and Achievements



The Trust has clinched a number of highest accolades from prestigious professional associations in recognition of our continuous efforts. The Trust was bestowed Best CEO, Best Investor Relations and Best Managed Company by FinanceAsia, and Award for Sustainability Excellence by The Chamber of Hong Kong Listed Companies.

Champion REIT

Corporate Excellence

Asia's Best Companies Poll 2020: Best CEO (top honour), Best Investor Relations (top honour), Best Managed Company, Best Environmental Stewardship, Most Committed to Social Causes
FinanceAsia

Listed Company Award of Excellence 2019
Hong Kong Economic Journal

Soaring Companies Award
Hong Kong Top 100 Listed Companies Research Centre

Outstanding Listed Companies Award 2019
The Hong Kong Institute of Financial Analysts and Professional Commentators Limited

Investor Relations

Investor Relations Awards 2019: Overall Best IR Company Award (top honour), Best IR Company, Best IR by Chairman/CEO, Best IRO, Best Investor Meeting, Best Digital IR, Best Investor Presentation Material, Best Annual Report, Best IR Team
Hong Kong Investor Relations Association

Asian Excellence Awards 2019: Best Investor Relations Company, Asia's Best CEO, Best Investor Relations Professional
Corporate Governance Asia

Sustainability

Hong Kong Sustainability Grand Award (top honour), Special Recognition for Outstanding Sustainability Initiative: Social Dimension and Environmental Dimension
The Hong Kong Management Association

Hong Kong Corporate Governance Excellence Awards 2019: Award for Sustainability Excellence
The Chamber of Hong Kong Listed Companies

Caring Company 2019/20 – Five Years Plus
The Hong Kong Council of Social Service

Annual Report

Best Annual Report Awards 2019: Excellence Awards for Small Size Entries
The Hong Kong Management Association

International ARC Awards 2019: Cover Photo/Design – Gold, Interior Design – Silver Award
MerComm. Inc

Cover Design – Gold Award
The International Annual Report Design Awards



Three Garden Road

Building Certificate

WELL Building Standard Certification – Platinum (top honour)
International WELL Building Institute

Environment

Hong Kong Green Organisation Certification: Wastewi\$e Certificate – Excellence Level
Environmental Campaign Committee

Indoor Air Quality Certificate Award – Excellent Class
Environmental Protection Department

Charter on External Lighting – Platinum Award
Environment Bureau

Quality Water Supply Scheme for Buildings – Gold (Fresh Water)
Water Supplies Department

Safety

Security Services Best Training Award – Gold
Vocational Training Council and Hong Kong Police Force Crime Prevention Bureau

Hong Kong Island Best Security Service Awards
Hong Kong Island Regional Crime Prevention Office

Community

Caring Company 2019/20 – Five Years Plus
The Hong Kong Council of Social Service

Langham Place

Retail Leasing and Marketing

RICS Awards Hong Kong 2019: Retail Team of the Year – Certificate of Excellence
Royal Institution of Chartered Surveyors

Mob-Ex Award 2019: Best App (Branded Content) – Bronze Award
Marketing Magazine

Building Certificate

BEAM Plus Existing Building V2.0 Comprehensive Scheme – Platinum (top honour)
Hong Kong Green Building Council

Environment

Indoor Air Quality Certificate – Excellent Class
Environmental Protection Department

Charter on External Lighting – Platinum Award
Environment Bureau

Quality Water Supply Scheme for Buildings – Gold (Fresh Water)
Water Supplies Department

Safety

Kowloon West Best Security Services Awards: Honorable Managed Property Award
Kowloon West Regional Crime Prevention Office

Security Services Best Training Award – Gold
Vocational Training Council and Hong Kong Police Force Crime Prevention Bureau

Community

Caring Company 2019/20 – 10 Years Plus
The Hong Kong Council of Social Service

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, one Non-executive Director and four Independent Non-executive Directors.



Dr. LO Ka Shui
Chairman and Non-executive Director

aged 73, was appointed the Chairman and a Non-executive Director of the REIT Manager in 2006. He is a member of Audit Committee, Disclosures Committee and Nomination Committee of the REIT Manager. 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 and a

member of the Board of Trustees of the Hong Kong Centre for Economic Research.

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.

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

aged 39, has been the Chief Executive Officer, an Executive Director and the Chairman of Disclosures Committee of the REIT Manager since 2016. 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 2014. She was also appointed as the Chief Investment Officer of the REIT Manager in 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 a Responsible Officer as defined under the Securities and Futures Ordinance. She is also a Director of all special purpose vehicles of Champion REIT.

Ms. Wong has over 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 offer 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-raising 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. She was honoured with the titles of Best CEO by FinanceAsia in 2020; Best IR by CEO by the Hong Kong Investor Relations Association in 2017, 2018 and 2019; Directors Of the Year Awards – Listed Companies Executive Director by the Hong Kong Institute of Directors in 2018; and Asia's Best CEO by Corporate Governance Asia in 2017, 2018 and 2019. She is the Chairperson of Asia Pacific Real Estate Association Hong Kong chapter and a Fellow member of the Royal Institution of Chartered Surveyors.

Board of Directors



Mr. IP Yuk Keung, Albert
Non-executive Director

aged 67, 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). He is an Independent Non-executive Director of Lifestyle International Holdings Limited, Power Assets Holdings Limited, TOM Group Limited, New World Development Company Limited and Hutchison Telecommunications Hong Kong Holdings Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong. During the past three years, Mr. Ip was an Executive Director and Chief Executive Officer of the Manager of the publicly listed trust, Langham Hospitality Investments and an Independent Non-executive Director of Hopewell Highway Infrastructure

Limited (now known as Shenzhen Investment Holdings Bay Area Development Company Limited) and Hopewell Holdings Limited.

With a passion to serve in education, Mr. Ip is an Adjunct Professor of City University of Hong Kong, The Hang Seng University of Hong Kong, Hong Kong University of Science and Technology, School of Hotel and Tourism Management at the Chinese University of Hong Kong and Adjunct Distinguished Professor in Practice at the University of Macau. He is an Honorary Professor of Lingnan University, an Honorary Advisor of School of Humanities and Social Science of The Hong Kong University of Science and Technology, a Professor of Practice (International Banking and Real Estate) of The Hong Kong Polytechnic University and a Council Member of The Hong Kong University of Science and Technology. He is also a Member of the International Advisory Committee at University of Macau and a Trustee of the Board of Trustee at Washington University in St. Louis. 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.



Mr. CHA Mou Sing, Payson

Independent Non-executive Director

aged 77, was appointed an Independent Non-executive Director of the REIT Manager in 2006. Mr. Cha is the Chairman and Executive Director of HKR International Limited, the Chairman and Non-executive Director of Hanison Construction Holdings Limited, an Independent Non-executive Director of New World Development Company Limited and the Chairman and Non-executive Director of Million Hope Industries Holdings 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 fifty years of experience in property development and investment.

Mr. CHENG Wai Chee, Christopher

Independent Non-executive Director



aged 71, has been a Director of the REIT Manager since 2006. He is a member of the Audit Committee and Nomination Committee of the REIT Manager. He was a Non-executive Director of the REIT Manager prior to his resignation as an Independent Non-executive Director of the REIT Manager in May 2014. Mr. Cheng is the Chairman of Wing Tai Properties Limited and an Independent Non-executive Director of NWS Holdings Limited, both are listed on the Hong Kong Stock Exchange. 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 and the former Chairman of the Hong Kong General Chamber of Commerce. During the past three years, Mr. Cheng was an Independent Non-executive Director of Kingboard Holdings Limited.

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 71, has been a Director of the REIT Manager since 2007. He has been appointed as a member of the Audit Committee and the Chairman of the Nomination Committee of the REIT Manager. 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 forty years of experience in

the property sector. During the past three years, Mr. Ho was an Executive Director and the Chief Executive Officer of Kerry Properties Limited and a Director of Shang Properties, Inc.

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 74, was appointed an Independent Non-executive Director in 2006. He is the Chairman of Audit Committee, and a member of Disclosures Committee and Nomination 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 Honorary 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 Paliburg Holdings Limited, Lifestyle International Holdings Limited, NWS Holdings Limited, Chuang's Consortium International 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, Goldin Financial Holdings Limited, Everbright Grand China Assets Limited, CSI Properties Limited and

Far East Consortium International Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited. He is also an Independent Non-executive Director of Regal Portfolio Management Limited (manager of the publicly listed Regal REIT). Mr. Shek is 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). During the past three years, Mr. Shek was an Independent Non-executive Director of ITC Corporation Limited (now known as PT International Development Corporation Limited), Midas International Holdings Limited (now known as Magnus Concordia Group Limited) and MTR Corporation 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, Eagle Asset Management (CP) Limited, 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, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) 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

aged 39, Chief Executive Officer, Responsible Officer, and Manager-In-Charge of overall management oversight and key business line functions as defined under the Securities and Futures Ordinance, 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.

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

Senior Management



Ms. LUK Ka Ping, Amy

Investment and Investor Relations Director

aged 47, 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 REIT 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. She was honoured with the titles of Best Investor Relations Professional by Corporate Governance Asia and Best IRO by Hong Kong Investor Relations Association.



Mr. LEUNG Kin Shan

Business Development Director

aged 35, is responsible for identifying and evaluating potential business development opportunities in line with the strategy of Champion REIT and the Trust's finance function. He is also the Manager-In-Charge of finance and accounting function as defined under the Securities and Futures Ordinance. He has over 10 years of experience in the finance industry. Prior to joining the REIT Manager, Mr. Leung worked at Standard Chartered and Citigroup's investment banking division in originating and executing capital markets and M&A transactions for clients across Asia.

Mr. Leung graduated from University of Michigan (Ann Arbor), with a Bachelor of Business Administration degree from Ross School of Business and a Bachelor of Arts degree from College of Literature, Science and the Arts.



Ms. LAU Yee Tong, Yvonne

Chief Operating Officer – Asset Management

aged 53, Responsible Officer and Manager-In-Charge of operational control and review function as defined under the Securities and Futures Ordinance, is responsible for overseeing the management of Champion REIT's properties and formulating the business plans of Champion REIT's properties and overseeing the property management team with a view to maximising rental income via active asset management. She has 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 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.

**Mr. KWONG Chi Kwong***Chief Operating Officer – Risk Management*

aged 60, Responsible Officer and Manager-In-Charge of anti-money laundering and counter-terrorist financing function as defined under the Securities and Futures Ordinance, is responsible for establishing and maintaining internal control procedures on anti-money laundering and counter-terrorist financing in the operation level for Champion REIT. Mr. Kwong is also responsible for maintaining an effective risk management system for identification, evaluation, prioritising and recording as well as communication of risks within the REIT Manager and Champion REIT as well as its key service providers in accordance with the risk management policy. Mr. Kwong has more than 25 years of experience in the real estate industry.

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

**Ms. SUNG Kar Wai, Rosana***Senior Finance Manager*

aged 45, Manager-In-Charge of finance and accounting function as defined under the Securities and Futures Ordinance, is responsible for the financial reporting of Champion REIT. Her duties include reviewing management accounts, maintaining profit and cashflow forecasts and the reporting of financial returns to regulators. Ms. Sung is also a Director of all special purpose vehicles of Champion REIT. With more than 20 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.

**Mr. NG Cheuk Hei, Terrance***Compliance Manager*

aged 36, Manager-In-Charge of compliance, anti-money laundering and counter-terrorist financing functions as defined under the Securities and Futures Ordinance, is responsible for setting the internal policies and procedures and ensuring the management and operational compliance of Champion REIT with statutory requirements and regulations. Mr. Ng is also responsible for establishing and maintaining internal control procedures on anti-money laundering and counter-terrorist financing in the trust administrative level for Champion REIT. Mr. Ng has over 10 years' working experiences and gained legal, compliance and finance experience from various companies including international financial institutions, listed company and law firms. Prior to joining the REIT Manager, Mr. Ng performed legal duties in a well recognised listed construction, property development group.

Mr. Ng graduated from City University of Hong Kong, with a Bachelor of Social Sciences (Honours) in Policy Studies and Administration, a Juris Doctor (with Credit) and a Postgraduate Certificate in Laws. He is also a Solicitor of the Hong Kong Special Administrative Region and a member of the Law Society of Hong Kong.

Senior Management



Mr. YUEN Chi Hang, Tony

Internal Audit Manager

aged 45, Manager-In-Charge of operational control and review, and risk management functions as defined under the Securities and Futures Ordinance, 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 recognised 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 a CPA (Aust.), Chartered Global Management Accountant and Associate Chartered Management Accountant.



Mr. YAU Kai Hung, Wilson

Senior IT Project Manager

aged 38, Manager-In-Charge of information technology function as defined under the Securities and Future Ordinance, is responsible for the design, development and operation of the IT systems of Champion REIT. Prior to joining the REIT Manager, Mr. Yau worked for Fortune 500 and well recognised multinational companies with over 15 years of IT experience.

Mr. Yau holds Master of Business from The University of Newcastle (Australia); Master of Science in Managerial Leadership from Edinburgh Napier University (UK) and Bachelor of Software Engineering from the University of Hong Kong. He is also a Fellow Certified Risk Planner, Project Management Professional, Agile Project Management Practitioner and Certified Big Data Science Professional.

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

Maximise Rental Income

Optimise 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 capitalising 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 minimise rental losses due to downtime and lead to lower expenses and agency fees incurred for new tenancies.

A Quality and Diversified Tenant Base

Retain a quality tenant base built upon high covenant, multinational office occupiers and well recognised retail tenants in order to maintain a premium image for our properties and to minimise default rates.

Sustainability Focus

Build strong sustainability corporate culture and incorporate sustainability matters into decision-making processes, creating sustainable business growth and long-term values to our stakeholders.



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 globally:

Yield Accretion

Properties to be acquired should either have strong existing rental income or the potential for higher rental income.

Potential for 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 scrutinised. 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, sustainability performance and compliance with regulations will also be examined.

Financial Review

Distributions

The total distribution amount of Champion REIT for the year was HK\$1,566 million, representing a 2.3% growth compared to HK\$1,530 million in 2018. The total distribution amount is based on 95% of Champion REIT's distributable income.

The distribution per unit for the six months ended 31 December 2019 ("Final Distribution per Unit") was HK\$0.1334 as announced by the Trust on 18 February 2020. This is subject to adjustment that may result from the issuance of any new units between 1 January 2020 and the record date. A further announcement informing unitholders of any adjustment to the Final Distribution per Unit will be made in due course.

With an Interim Distribution per Unit of HK\$0.1332 and a Final Distribution per Unit of HK\$0.1334, the Total Distribution per Unit for 2019 amounted to HK\$0.2666 (2018: HK\$0.2614) subject to adjustment as mentioned above. Based on the closing unit price of HK\$5.15 recorded on 31 December 2019, the Total Distribution per Unit represents a distribution yield of 5.2%.

Closure of Register of Unitholders

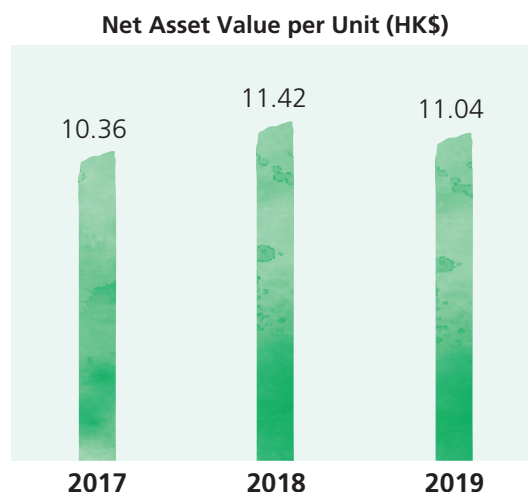
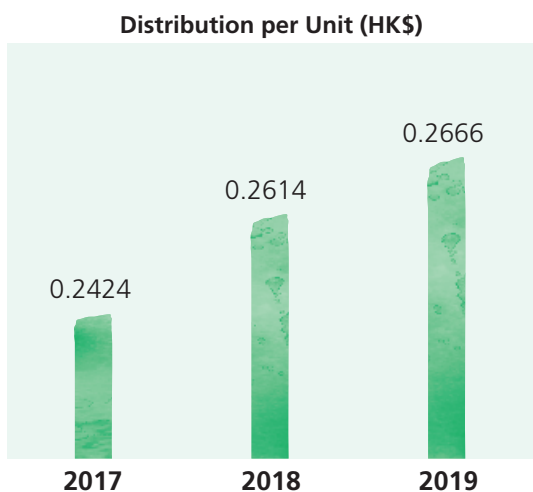
The Register of Unitholders will be closed during the

following periods and during these periods, no transfer of Units will be effected:

- (i) To qualify for the distribution for the six months ended 31 December 2019

For the purpose of ascertaining the Unitholders' entitlement to the distribution for the six months ended 31 December 2019, the Register of Unitholders will be closed from Monday, 4 May 2020 to Thursday, 7 May 2020, both days inclusive. The payment of the distribution for the six months ended 31 December 2019 will be made on Friday, 15 May 2020 to Unitholders whose names appear on the Register of Unitholders on Thursday, 7 May 2020.

In order to qualify for the distribution for the six months ended 31 December 2019, all properly completed transfer forms accompanied by the relevant Unit certificates must be lodged with Champion REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited ("Unit Registrar") 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, 29 April 2020.



- (ii) To attend and vote at the 2020 Annual General Meeting

For the purpose of ascertaining the Unitholders' entitlement to attend and vote at the 2020 Annual General Meeting to be held on Thursday, 28 May 2020 ("2020 AGM"), the Registers of Unitholders

will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, both days inclusive.

In order to be eligible to attend and vote at the 2020 AGM, all properly completed transfer forms accompanied by the relevant Unit certificates must be lodged with the Unit Registrar for registration not later than 4:30 p.m. on Friday, 22 May 2020.

Proactive Liability Management

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

As at 31 December 2019

HK\$ million	Utilised facilities	Fixed rate debt ⁽³⁾	Floating rate debt ⁽³⁾
Secured Bank Loans	3,685	3,450	235
Unsecured Bank Loans	5,814	1,500	4,314
Total Bank Loans	9,499	4,950	4,549
Medium Term Notes	5,541	4,698 ⁽⁴⁾	843
Total Outstanding Debt Facilities	15,040	9,648	5,392
Percentage		64.2%	35.8%

(1) All amounts are stated at face value

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

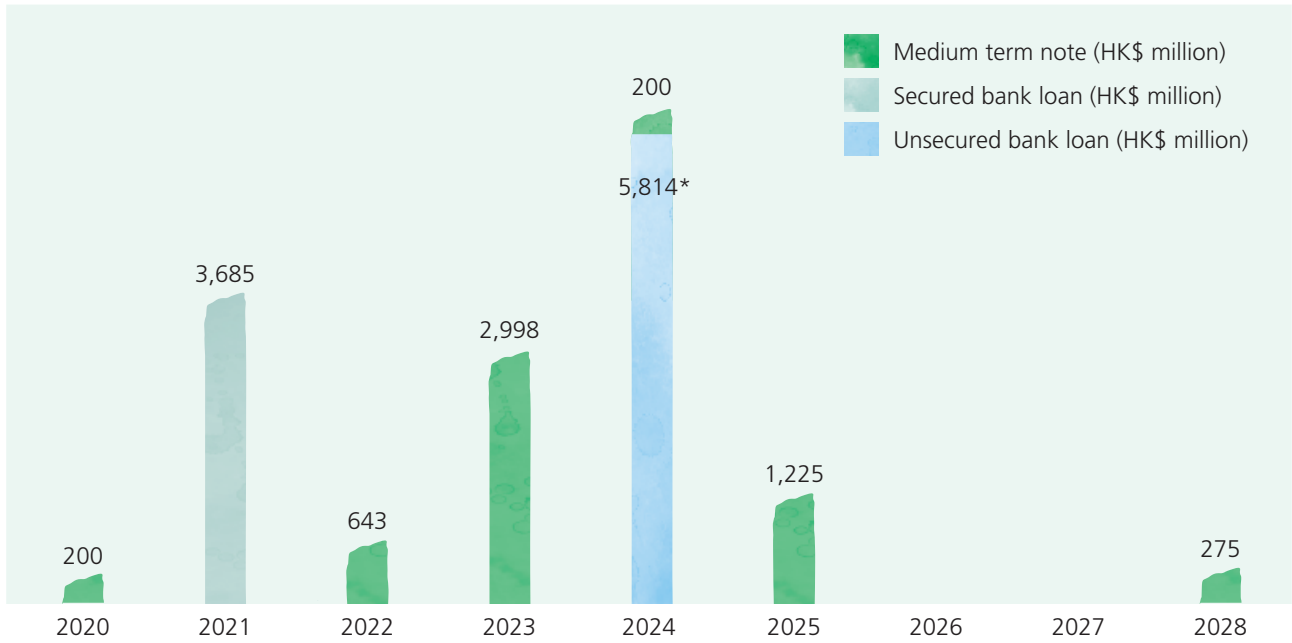
(3) After interest rate swaps

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

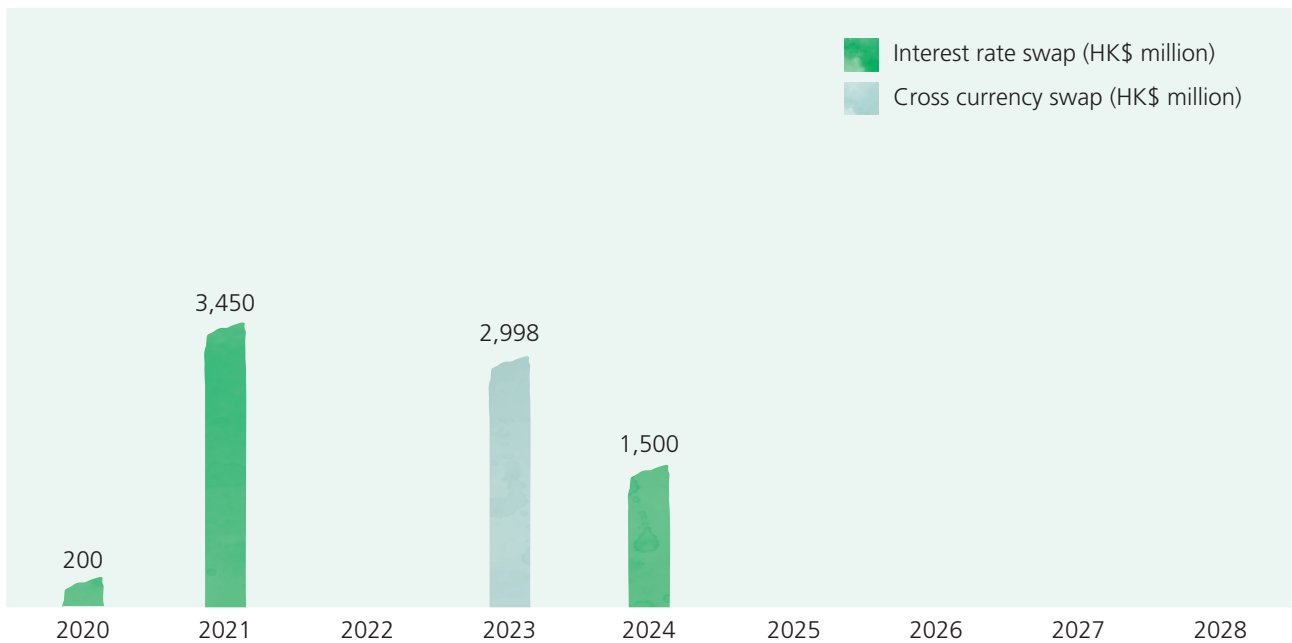
Financial Review

Outstanding Maturity Profile (Debt and Derivatives)

As at 31 December 2019



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



The Trust has proactively lowered its secured debt ratio in order to provide more financial flexibility. In June 2019, the Trust refinanced HK\$5,814 million of its existing secured debts by new unsecured 5-year banking facilities due 2024. As at 31 December 2019, 75.5% of total outstanding debt facilities were unsecured. The remaining 24.5% secured loan facility of HK\$3,685 million is secured by certain portions of Three Garden Road, which carried a fair value of HK\$24.9 billion as at 31 December 2019. The Trustee has provided guarantees for all of the debt facilities.

In addition, the Trust also monitors interest rate risks closely. As at 31 December 2019, the fixed-rate debt proportion has increased to 64.2% after entering into interest rate swap arrangements at an average swap rate (before interest margin) of 1.508% per annum during the year. The average effective interest rate for the year was 3.0% and the average life of the Trust's outstanding debt was 3.2 years as at 31 December 2019.

The Trust's investment properties as at 31 December 2019 were appraised at a total value of HK\$81.2 billion, representing a 2.4% decrease from HK\$83.1 billion as at 31 December 2018. Correspondingly, the Gearing Ratio (or total borrowings as a percentage of gross assets) increased from 17.6% as at 31 December 2018 to 18.0% as at 31

December 2019. The gross liabilities (excluding net assets attributable to unitholders) as a percentage of gross assets were 22.5% (2018: 21.7%).

Strengthened Liquidity Position

The Trust also took the initiative to strengthen its liquidity position to weather potential headwinds. As at 31 December 2019, the Trust had both committed and uncommitted revolving credit facilities of HK\$286 million and HK\$500 million respectively that remained undrawn. Together with a cash balance of HK\$1,962 million, the Trust has sufficient liquid assets to satisfy its working capital and operating requirements.

Net Asset Value per Unit

The Net Asset Value per Unit as at 31 December 2019 was HK\$11.04 (2018: HK\$11.42). It represented a 114.4% premium to the closing unit price of HK\$5.15 as at 31 December 2019.

Commitments

As at 31 December 2019, the Trust did not have any significant commitments at the end of the reporting year.

Environmental, Social and Governance Report

The Trust takes a holistic approach to develop our sustainability strategy and integrate it into our decision-making processes of our business. We have formulated the 2030 sustainability blueprint to manage our environmental, social and governance (“ESG”) performance. With our efforts to optimise our environmental and wellness initiatives, we attained WELL Platinum certification and BEAM Plus Platinum certification for Three Garden Road and Langham Place Mall respectively.



Sustainability Vision

Embracing sustainability is an indispensable part of Champion REIT's corporate culture and business direction. The Trust strongly believes that sustainable development is fundamental to the viability of our business, which will in turn create long-term values for our stakeholders and members of the community.

The Sustainability Working Group steered the ESG initiatives of the Trust effectively throughout the year. To push forward the long-term ESG development, the Trust has formulated a total of 14 long-term targets in this respect.

Reporting Standard and Scope

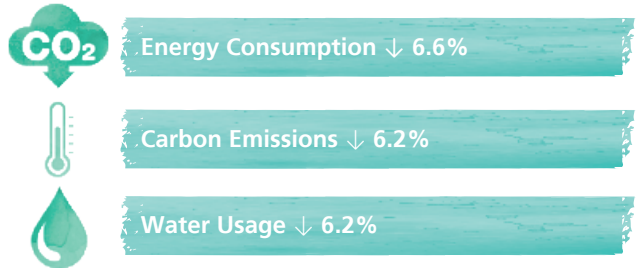
This report is prepared in accordance with the Stock Exchange of Hong Kong Limited ("HKEX") ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules. Champion REIT has upped its game to go beyond the mandatory ESG reporting requirements of HKEX by disclosing material ESG-related risks and setting targets for ESG key performance indicators.

The scope of this report includes all areas of Champion REIT's business, including the operations of Three Garden Road and Langham Place. The stakeholder engagement and materiality assessment conducted in 2018 were taken into account for defining the material topics for inclusion in this report.

Performance Highlights

In the past year, we spared no effort in bringing positive impacts to our community and environment. The areas we focused on included pursuing international sustainability benchmarks, attaining wellness and green building certifications, engaging stakeholders through "Champion our Wellness" initiatives, and improving internal sustainability awareness.

Environmental Impacts



Building Certifications



WELL Building Standard Platinum (Three Garden Road)



BEAM Plus Existing Building Platinum (Langham Place Mall)

International Sustainability Benchmarks



Global Real Estate Sustainability Benchmark — Green Star recognition & Grade A rating on Public Disclosure



Hang Seng Corporate Sustainability Index Series Member 2019-2020

Hang Seng Corporate Sustainability Benchmark Index — Constituent of the index for four consecutive years

Sustainability Awards



Hong Kong Management Association — Sustainability Grand Award



The Chamber of HK Listed Companies — Award for Sustainability Excellence

Environmental, Social and Governance Report







Sustainability Strategy



We take a holistic approach to develop our sustainability strategy and integrate it into the decision-making processes of our business. We are committed to fostering a strong sustainability culture across all business units of the Trust, with both top-down and bottom-up approaches to engage every individual employee in the journey.

Through the stakeholder engagement exercises, and benchmarking our performance against international sustainability ratings, we understand stakeholders' expectations. It has helped identify key ESG focus areas that are core to Champion REIT.

2030 ESG Targets

This year, the Trust has formulated the 2030 sustainability blueprint to manage our ESG performance in a measurable and systematic approach. The blueprint lays out 14 long-term targets in alignment with nine of the Sustainable Development Goals ("SDGs") of the United Nations. We have also taken into account insights collected from the stakeholder engagement exercises. We will engage internal and external stakeholders to work together to achieve the long-term targets. The progress of the targets will be reviewed annually.

Aspect	Focus Area	2030 Target	Plan for 2020	
 7 AFFORDABLE AND CLEAN ENERGY  9 INDUSTRY, INNOVATION AND INFRASTRUCTURE  11 SUSTAINABLE CITIES AND COMMUNITIES  12 RESPONSIBLE CONSUMPTION AND PRODUCTION  13 CLIMATE ACTION  17 PARTNERSHIPS FOR THE GOALS	Energy and carbon emissions	<ul style="list-style-type: none"> 42% reduction on carbon intensity by 2030¹ 	<ul style="list-style-type: none"> Develop measures on enhanced use of energy Install over 50 panels of solar energy at our properties 	
	Water	<ul style="list-style-type: none"> 25% reduction on water consumption intensity by 2030² 	<ul style="list-style-type: none"> Install water-saving flow regulators for faucets at our properties 	
	Waste	<ul style="list-style-type: none"> Develop a well established waste tracking system to facilitate future waste management initiatives and minimise waste generated from operations 	<ul style="list-style-type: none"> Develop a well established waste tracking system 	
	Climate change	<ul style="list-style-type: none"> Develop a Climate Change Resilience Policy and mitigation plan Reduce the impacts of climate change 	<ul style="list-style-type: none"> Conduct research for the Climate Change Resilience Policy 	
	Green buildings	<ul style="list-style-type: none"> Achieve the highest rating of green building certification Adopt at least one innovation of green building feature every two years Establish a Green Lease Partnership Programme 	<ul style="list-style-type: none"> Obtain the Platinum rating of WELL building certification for Three Garden Road Combine chiller plants in the period from 2020 to 2021 at Three Garden Road to enhance energy efficiency Establish the framework for the Green Lease Partnership Programme 	

Aspect	Focus Area	2030 Target	Plan for 2020
Social    	Safety	<ul style="list-style-type: none"> Maintain zero fatality and work injuries among our employees 	<ul style="list-style-type: none"> Ongoing health and safety trainings
	Well-being	<ul style="list-style-type: none"> Maintain IAQ Certification of Excellence Class every year for all premises Develop Health and Well-being Policy Conduct well-being survey for both our employees and tenants 	<ul style="list-style-type: none"> Ongoing practices to maintain excellent level of indoor air quality Conduct research for the Health and Well-being Policy Carry out well-being survey for employees
	Training and development	<ul style="list-style-type: none"> 50% increase on average training hours of our employees by 2030³ Develop training and development plan aligned with sustainability strategy Arrange sustainability-related trainings to all Board members and employees 	<ul style="list-style-type: none"> Achieve 5-10% increase on average training hours Conduct research for the training and development plan
	Stakeholder engagement	<ul style="list-style-type: none"> 50% increase on the resources devoted to stakeholder engagement by 2030³ Develop ongoing stakeholder engagement plan 	<ul style="list-style-type: none"> Achieve 5-10% increase on resources devoted to stakeholder engagement Conduct research for the ongoing engagement plan
	Community investment	<ul style="list-style-type: none"> 25% increase on volunteer service hours by 2030³ Measure and report impacts of community investment 	<ul style="list-style-type: none"> Achieve 3-5% increase on volunteer service hours
	Diversity and inclusion	<ul style="list-style-type: none"> Promote gender equality through awareness trainings and sharing 	<ul style="list-style-type: none"> Launch activities to promote gender diversity
	Governance  	Board	<ul style="list-style-type: none"> Formally set up Nomination Committee Further enhance the Board's involvement in sustainability matters
ESG Policy		<ul style="list-style-type: none"> Establish integrated ESG Framework and Policies Strengthen governance through best practice of documentation and regulatory procedures 	<ul style="list-style-type: none"> Formalise the integrated ESG Framework and Policies
Supply chain management		<ul style="list-style-type: none"> Develop a structured green procurement system Conduct supply chain risk assessments 	<ul style="list-style-type: none"> Conduct research for the structured green procurement system and assessments

1: Tonne CO₂ equivalent per square metre; compared with base year 2011

2: Cubic metre per square metre; compared with base year 2014

3: Compared with base year 2018

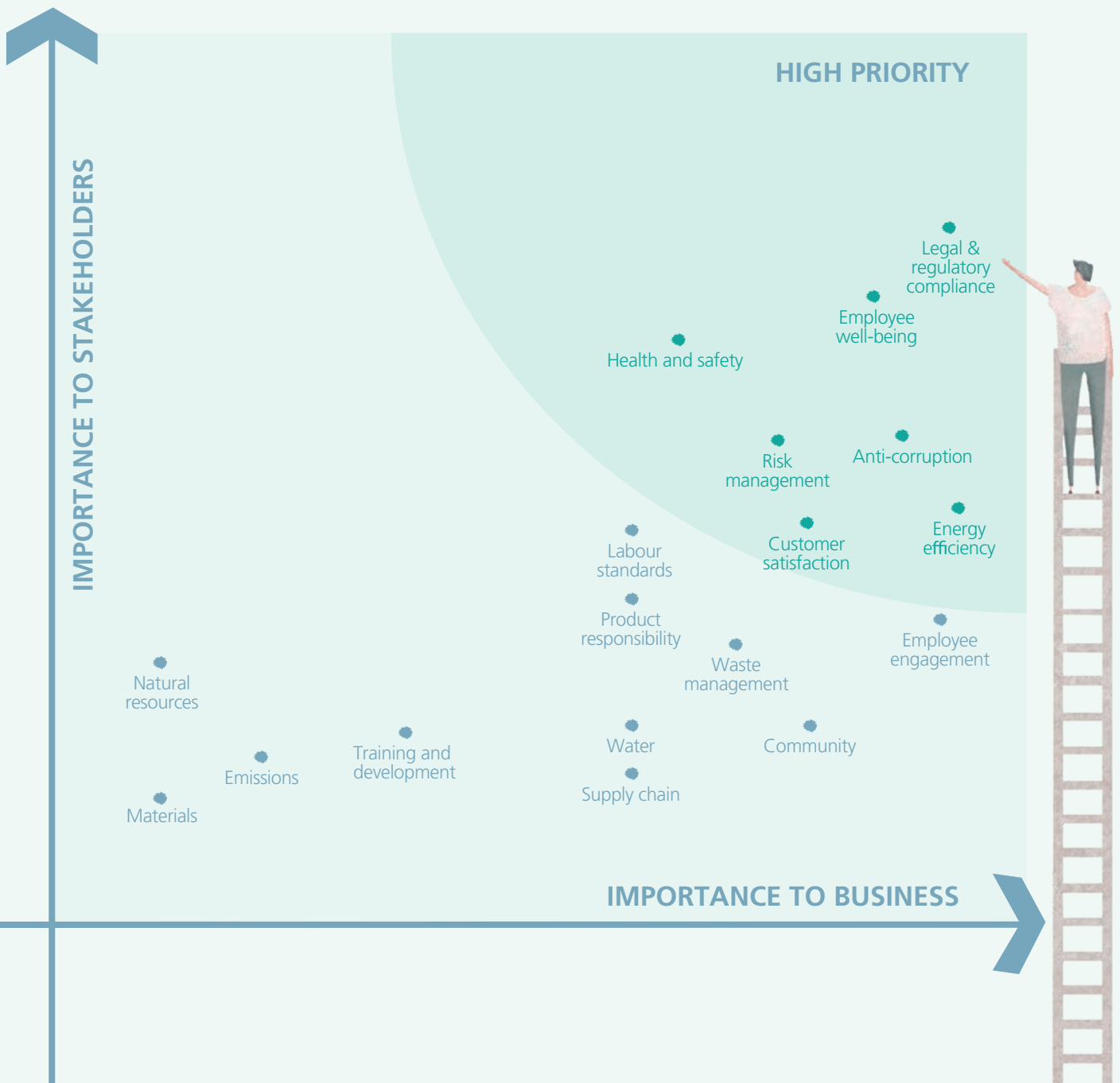
Environmental, Social and Governance Report

Stakeholder Engagement

We conduct stakeholder engagement exercises periodically to identify sustainability topics that are of high importance to the Trust from their perspectives. Through a series of extensive engagement sessions with internal and external stakeholders (employees, tenants, suppliers, investors and

media) conducted in 2018, a total of 18 material topics were summarised in the matrix and a list of high priority issues was generated. Based on the feedback from the stakeholders, we have taken into account the high priority issues and incorporated them into our ESG targets.

Stakeholder-driven Materiality Review



Top Material Issues

High Priority Topics	Stake Groups Concerned	Mapping with 2030 Targets
Legal and regulatory compliance	All stakeholder groups	Targets of Board; ESG Policy; supply chain management
Employee well-being	Employees	Target of well-being
Health and safety	All stakeholder groups	Target of safety
Anti-corruption	Investors and business partners	Targets of Board; ESG Policy; supply chain management
Risk management	Investors and business partners	Targets of climate change; Board
Energy efficiency	Employees, tenants and investors	Targets of energy and carbon emissions
Customer satisfaction	Tenants and employees	Targets of well-being; stakeholder engagement

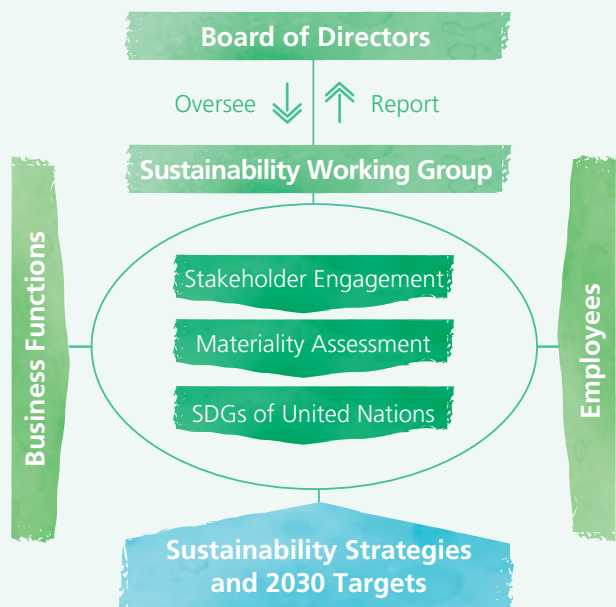
Sustainability Governance

Board and Senior Management’s Engagement in Sustainability Matters

The Board of Directors plays a primary role in overseeing the Trust’s sustainability endeavours of every facet of the business, including ESG targets, sustainability strategies and risk management. Board members receive ESG-related updates and trainings where necessary.

The Sustainability Working Group chaired by the CEO was set up for the implementation of the sustainable development measures. The working group meets and reports the sustainability progress to the Board of Directors quarterly. Senior management and all key business functions are included in the working group, covering asset management, leasing, property management, investor relations, risk management, marketing and corporate communications. Members of working group also receive ESG-related trainings and updates where appropriate. Under this comprehensive framework, the working group communicates our strategies thoroughly with all employees, inspiring great ideas from them to move forward our sustainability development.

Sustainability Working Group



Environmental, Social and Governance Report

ESG Framework and Policies

We have strengthened our ESG Framework and Policies, which steer our business practices in line with market trends and industry standards. The ESG Framework aims to provide guiding principles for incorporating sustainability practices seamlessly into our business operations, and safeguarding the interests of our stakeholders. We strive to attain a high standard of corporate governance by enhancing our business practices relentlessly. The Nomination Committee of the REIT Manager, splitting from the existing Audit Committee, aiming to enhance the effectiveness of the Board and to uphold a high standard of integrity was established in November 2019.



Environment Policy



Social Responsibility Policy



Governance Framework

Risk Management

The Risk Management Framework is integral to developing the strategy that drives business objectives of the Trust. The Board provides oversight of the risk management process. With the adoption of an integrated top-down (for risks of corporate level) and bottom-up approach (for risks of operation level), the risk management process is incorporated into the daily operations. All employees are fully equipped to stay vigilant to potential risks in the operations. Our Risk Management Team evaluates impacts of the potential risks in order to identify major risks in our business. All major risks and mitigation plans are brought to the attention of the Board of Directors through the Audit Committee.

Cyber security has been identified as one of the major risks through the risk management process. A series of risk mitigating measures were implemented, including ongoing software and system upgrades to strengthen network security and the placement of cyber insurance. We appointed an external professional consultant to perform comprehensive cyber security assessment and penetration testing in 2019. Based on the findings of the assessment and testing, we have improved our operational practices and raised the employees' awareness of identified risk and relevant risk mitigating activities. Independent information and technology security review by both the internal and external consultants is carried out on a regular basis to strengthen protection against the growing cyber security risk.

To achieve the overall business objectives, including sustainable development, we have Risk Management Policy in place to ensure that all key risks are identified, analysed, evaluated, treated, monitored and reported in a consistent manner across the Trust.

Risk Management Process



Building a Safe Environment for Stakeholders

The months-long social unrest in Hong Kong has inevitably presented significant risks to our business last year. Health and safety is a main focus for maintaining a smooth operation of our business in light of the protracted turmoil. We have implemented well-thought-out contingency plans and emergency measures in response to different scenarios. We will continue to monitor the situation closely and will make special operational arrangements as needed. We will also have frequent communications with tenants, customers and the public to keep everyone as well as our premises safe.

We maintain a high standard of hygiene and take precautions, including proper cleaning and sanitisation to protect the health and safety of our tenants and visitors at our properties. We always strive to stay on top of the changing environments by taking proactive and concrete steps to attain steady business growth.



Strengthened cleaning and sanitisation works at our properties

Code of Conduct

We advocate moral and responsible conduct among our employees and suppliers, which is the cornerstone of the sustainable development of our business. All of our employees shoulder the same responsibilities to make sure business activities are conducted legally, and are compliant to all requirements. We have enforced vigorous policies to ensure the fight against corruption. The Trust's Code of Conduct outlines our expectations on employees with regard to conflicts of interest and whistle-blowing procedures. Under the rigorous Code of Conduct, all employees are strictly prohibited from soliciting, accepting or offering bribes or any other form of advantages. Anti-money laundering and counter-terrorist financing procedures are set out in compliance with guidelines from the Securities and Futures Ordinance. During the year, we did not receive any non-compliance complaints or penalties in this regard.

We take a proactive manner to promote ethics and integrity across the supply chain. We have introduced the Supplier Code of Conduct and incorporated it into our tendering documents in the form of a question-and-answer checklist.

Through the Supplier Code of Conduct, we encourage accountable behaviours in ethics, labour rights, environmental protection and management practices. Suppliers are required to fill in the checklist every three years to keep us informed of the compliance status. Non-compliance may result in termination of collaboration.

Sustainability Initiatives

Our ESG initiatives focus on four core aspects, namely green environment, cohesive workforce, customer and value chain, and community wellness. The initiatives under each core aspect are developed with foresight to fully achieve our ESG targets.



Environmental, Social and Governance Report

Green Environment

Environmental protection is a key topic in our sustainability agenda. We are committed to limiting the environmental impacts of our operations to the minimum. We take action on climate change, and carry out various environmentally friendly measures where possible. Backed by our devoted employees, we promote diversified green initiatives at our properties, and strive to create a green environment.

High priority topic:
Energy efficiency

Energy Saving

Innovation and Technology

Our team has been curtailing energy consumption actively by incorporating innovative measures. Solar panels were installed on the rooftop of Langham Place Mall to generate clean energy for the premise. In the coming year, we will extend the use of renewable energy by equipping Three Garden Road with more than 50 solar panels.



Solar panels installed on the rooftop of Langham Place Mall

Enhanced Use of Lighting

Enhanced use of natural resources is another initiative for energy conservation. We have gradually upgraded the lightings at our properties to energy-efficient LED luminaires which are more durable than the conventional models. LED lighting has been installed in common areas like staircases, corridors, lavatories and passenger lift cars. In 2019, we extended the night mode lighting schedule at the lift

lobbies and corridors of Three Garden Road to further minimise energy use. At Langham Place, we installed occupancy sensors to adjust the lighting in the lavatories based on footfall to boost energy efficiency. We have further curbed energy consumption at our properties through the installation of daylight sensors, which automatically dim or deactivate all non-essential interior electric lights.

In recognition of our efforts in preventing energy wastage and light nuisance in the community, the Environment Bureau named both our properties for the Platinum Award of Charter on External Lighting. Furthermore, we also optimised the operating schedules of passenger lift systems of our properties, and stopped the use of some elevators during non-peak hours in order to reduce energy use.

Optimisation of Ventilation and Air-conditioning Systems

Both our properties were well equipped with comprehensive ventilation and air-conditioning systems with climate sensors. Supply of fresh air is automatically adjustable based on carbon dioxide concentrations so as to reduce wastage in areas with low occupancy. We are a keen supporter of the Energy Saving Charter on Indoor Temperature Scheme launched by the Environment Bureau. As pledged to the charter, both our properties maintain an average indoor temperature between 24°C and 26°C during June to September in summer. We continue to encourage our tenants to participate in the scheme to step up the positive impacts on environmental protection. A total of 51 shopping mall tenants and office tenants at Langham Place and 12 tenants at Three Garden Road joined the scheme in 2019 respectively. In addition, the chiller plants, the large-scale cooling systems at our properties, undergoes constant optimisation to enhance efficiency.

Driven by our stringent environmentally friendly measures, the total energy reduction rate of our properties was 6.6% in 2019. Both our properties were dubbed Hong Kong Green Organisation by Environmental Campaign Committee.

Case Study: Energy Saving with Internet of Things

We have pioneered a demand control ventilation system at Three Garden Road's carpark which is operated by the Internet of Things (IoT) sensors since August 2019. By monitoring the CO concentration level and indoor temperature at real time, IoT sensors measure the amount of exhaust emissions from vehicles in the carpark in order to provide ventilation rates by actual demand to optimise the energy use and maintain the excellent indoor air quality. From August to December 2019, the actual reductions on energy consumption and carbon emissions were 254,510kWh and 203,608kg CO₂e respectively. The estimated annual reductions are equivalent to 30% reduction rate compared with 2018.



Pioneered the Internet of Things technology for energy saving

GHG Emissions

Champion REIT does not involve any manufacturing operations which lead to production or discharges of hazardous toxins or harmful chemicals. Our emission footprints were limited to those generated by the day-to-day operations of our properties. We have tried our utmost to reduce carbon emissions from our daily operations through the energy saving programmes discussed in the above section. In 2019, the total carbon emissions of our properties dropped by 6.2%, including direct and indirect emissions from electricity generated off-site.

Water Reduction

To curb wastage, water collected in an underground tank of Three Garden Road is reused for irrigating its landscaped gardens. Langham Place was equipped with low-flow water faucets to optimise water efficiency. The similar measure will soon be extended to Three Garden Road by equipping the water-saving flow regulators for faucets in lavatories. In 2019, the combined water usage at our properties decreased by 6.2% thanks to water reduction from the improved efficiency of our air-conditioning system. In addition, both our properties won the Water Supplies Department's Gold recognition of Quality Water Supply Scheme for Buildings (Fresh Water).

Waste Recycling

We strive to reduce waste through a range of recycling initiatives. We make sure that sufficient recycling stations are available at our properties, in particular, on every floor of Langham Place Mall. We also put in place effective separation and collection procedures of office and retail waste for third-party recycling. Major recycling items included paper, fluorescent tubes, plastic bottles, aluminum cans and reusable batteries. There was a drop in the amount of recycling materials because the team has temporarily removed some recycling stations for safety reason during the period of public activities. Furthermore,



Sufficient recycling stations at our properties

Environmental, Social and Governance Report

BEAM Plus Existing Building Platinum for Langham Place Mall

We achieved Platinum certification, the highest rating in the final assessment of BEAM Plus Existing Building V2.0 Comprehensive Assessment Scheme for Langham Place Mall, demonstrating our commitment to sustainable development. We also attained full credit in the aspect of energy use.



Materials Collected for Recycling

	2017	2018	2019
Waste Paper (kg)	260,785	287,738	257,725
Fluorescent Tubes (kg)	420	952	504
Plastic Bottles (kg)	284	640	374
Aluminum Cans (kg)	199	269	208
Reusable Batteries	296	545	170

we have appointed a third-party contractor to collect leftovers from the food court of Langham Place Mall regularly for reprocessing.

We have also stepped up effort to recycle waste generated from the festive decorations of our properties. By joining the Wood Recycling and Tree Conversation Scheme organised by the Hong Kong Environmental Protection Association, Christmas trees and Chinese New Year plants displayed during the holidays at Three Garden Road were recycled last year. The Chinese New Year plants at Three Garden Road were donated to a charity, St. James' Settlement. Under the Cherry Tree Recycling Programme organised by the Environmental Protection Department, peach blossom trees showcased at Langham Place are recycled annually. In 2019, we provided recycling arrangement for Mid-Autumn Festival mooncakes at Three Garden Road to minimise food waste. At Langham Place, our tenants and employees donated mooncakes to the non-profit organisation Food Angel's Mooncake Re-Gifting Programme for people in need.

Our recycling practices highlight our emphasis on forestry conservation which is crucial to the sustainable development of natural habitats of wild animals and biodiversity. We are dedicated to capping the use of paper at our offices by encouraging internal communications via

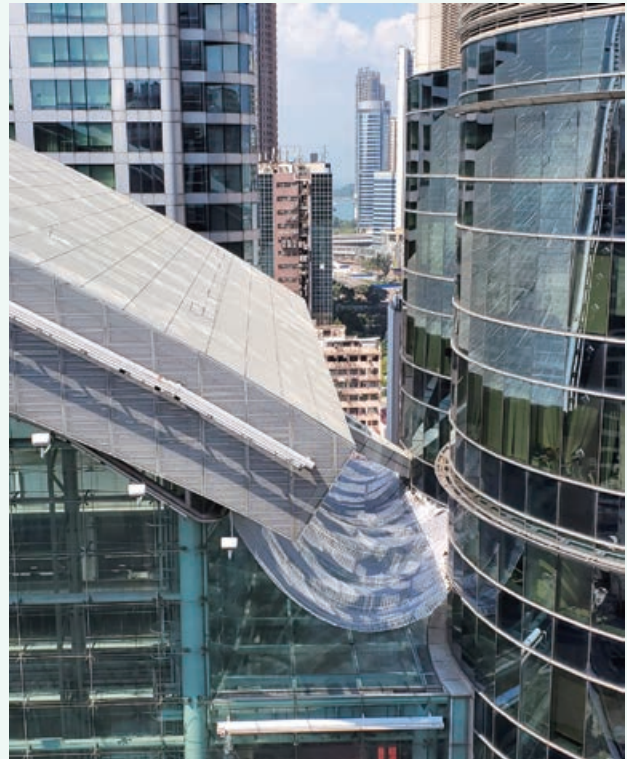
electronic means. We also distribute our corporate publications in electronic format to our unitholders as an alternative to hardcopies. We strive to improve waste management of our properties by seeking professional advice. We employed qualified consultants to conduct audits at Langham Place mall in order to review the existing waste handling practices and explore ways for improvement. As an acknowledgment, Three Garden Road was awarded the Wastewi\$e Certificate — Excellence Level by the Environmental Campaign Committee.



Waste recycling at Langham Place

Building Resilience and Climate Change Adaption

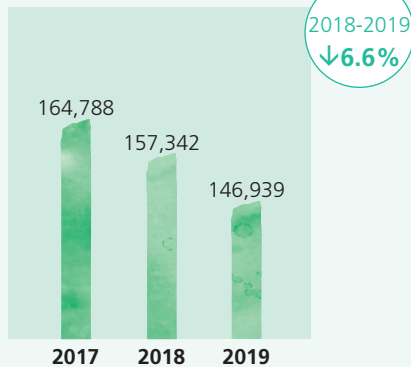
The impacts of climate change are becoming more widespread. We have established an energy and carbon emissions reduction target in response to the HKSAR Government’s Long-term Decarbonisation Strategy. We conduct regular assessments to monitor our environmental performance and evaluate the effectiveness of the ongoing measures. Both our properties have been certified under ISO 14001 Environmental Management System. From our monitoring mechanism and risk management process, the increasing prevalence of typhoons has been identified as a major risk to our business. Integrated emergency guidelines have been issued to enable our properties to resume operations swiftly after a typhoon. Gaining experience from the super typhoon Mangkhut in 2018, which left a large number of glass curtain walls of buildings broken across Hong Kong, we installed a safety net above the skylight glass panes of Langham Place Mall to prevent people from being injured by fallen glass debris. As severe typhoons, rising sea levels and flooding are considered inevitable threats, we have Climate Change Resilience Policy and mitigation plans in the pipeline to ensure our business can go on safely and smoothly as far as possible. Recommendations on resilience enhancement measures will be implemented.



Safety net above the skylight glass panes of Langham Place Mall for preventing injuries from fallen glass debris caused by typhoon

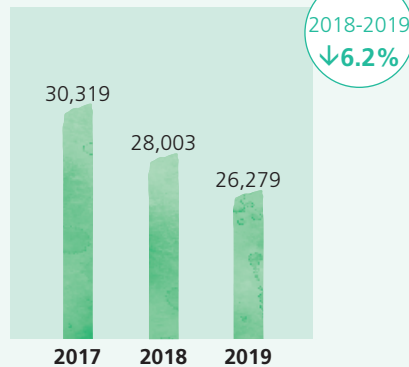
Energy Consumption

(gigajoule)



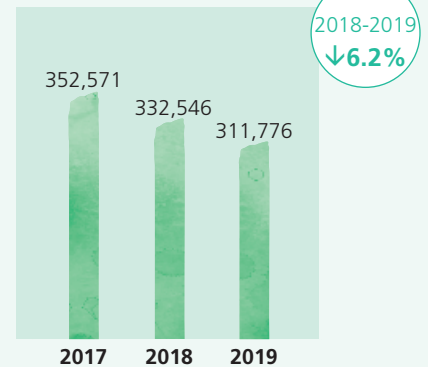
Carbon Emissions

(tonne CO₂ equivalent)



Water Usage

(cubic metre)



The above measurements are based on Three Garden Road and Langham Place.

Environmental, Social and Governance Report

Cohesive Workforce

We regard employees as the important asset of the Trust. We invest in our employees by providing them sufficient employment protection, competitive remuneration, training opportunities and a promising career path. We are committed to building a safe, healthy and desirable workplace where employees can thrive and pursue their professional aspirations.

High priority topics:
Health and safety
Well-being of employees

Fair Labour Practices

The Trust strictly complies with relevant labour laws and regulations to safeguard employees' interests. We provide fair and competitive remuneration through a comprehensive employee benefit scheme. The scheme covers, among others, wage protection, rest days, paid holidays, sickness allowances, annual leave, maternity and paternity leave, maternity protection, severance and long service payments. All these benefits are stipulated in the Employee Handbook. The handbook also includes policies related to recruitment, promotion, welfare as well as grievance handling. We review our policies continuously to keep up with the latest laws and regulations.

Human Rights and Equal Opportunities

We respect and uphold human rights in accordance with the UN International Bill of Human Rights in managing our relationships with employees and suppliers. We prohibit the use of all forms of forced labour and human trafficking

across our business operations and supply chain. Child labour is also strictly forbidden by the Trust. We value diversity in workplace and take zero tolerance in discrimination, harassment, vilification and victimisation. Under our equal opportunities policy, no job applicant or employee receives less favourable treatment or is disadvantaged on grounds of gender, race, pregnancy, disabilities, marital status or family status. During the year, we did not receive any cases related to human rights violations and non-compliance of labour standards.

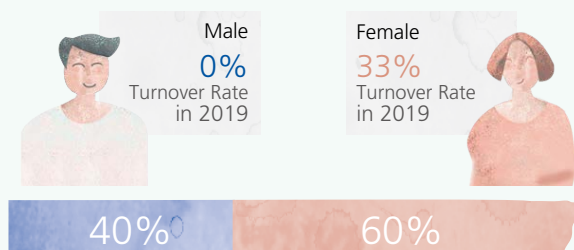
Employees' Health and Safety

Providing our employees and service providers a safe and healthy working environment is among our utmost priorities. To achieve this goal, we provide our employees and service providers with regular safety trainings and adequate guidelines to conduct their job duties. Apart from carrying out timely assessment and enhancement on our work facilities, we also take an active role to ensure there is effective crowd management and evacuation in case of emergency. To prevent mass infection of diseases, alternative office sites are made available.

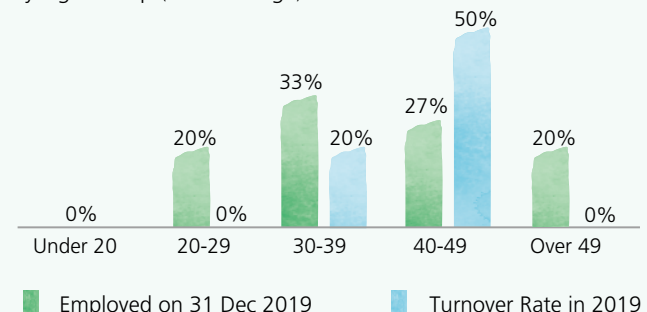
Routine emergency drills are conducted in our workplace to reinforce the safety awareness among our employees and service providers. We invited all major services providers to join the Safety Charter Ceremony at Langham Place in 2019. Service providers signed the charter, pledging to achieve the goal of zero accidents and occupational injuries at the occasion. Moreover, emergency procedures and crisis management plans are in place for employees and service providers to report health hazards in workplace. The Trust takes occupational health and safety seriously. Complimentary

Breakdown of Employees and Turnover Rate by Age Group and Gender:

By Gender



By Age Group (Years of Age)



The table above refers to the percentage of employees working under the REIT Manager. As the REIT Manager delegates property management, lease management, marketing and promotion functions to various service providers, it hires a relatively small team of in-house staff. This may result in misleading high turnover rates in cases where single employees in any one category need to be replaced.

general clinic services are provided to our employees. We also maintain proper hygiene in the workplace to reduce occupational diseases. The occupational fatality and injury rate of our employees maintained zero in 2019.

Employees' Wellness

We take to heart employees' physical and mental well-being. We spare no effort to promote work-life balance in workplace which we believe is a key driver for work efficiency and productivity. A rich array of wellness activities have been introduced to facilitate our employees to lead a healthy lifestyle. We strive to build strong sense of cohesiveness and teamwork through gatherings and activities, such as Team Building Cooking and Go Green Healthy Snack Workshop. Through the initiatives, we scored favourably in our Employees Satisfaction Survey with 64% average satisfaction rate in 2019.

Employees' Training and Development

Nurturing our employees is essential for us to retain and attract talent. We provide various training workshops for our employees to advance themselves. The training topics range from communication skills, management abilities, relationship management to practical on-the-job skills, such as workshops of Seven Habits of Highly Effective People and Business Innovation. We also identify external workshops and seminars for our employees to broaden their horizons and acquire knowledge beyond their professional fields. A Study Subsidy Scheme is made available to our employees for further development.



Team building exercise through creative cooking activity

Employees' Voice

We listen and draw on the views of our employees for the long-term growth of the Trust. We solicit their opinions on issues that are crucial to our business through stakeholder engagement exercises. Our annual employee satisfaction survey is designed to understand employees' expectations for building an engaging and rewarding workplace. Moreover, we set up a performance appraisal system under which employees can give their feedback to their supervisors and exchange ideas on career development through regular dialogues. Our grievance handling guideline allows our employees to file their queries and feedback about job-related or personal matters. All information received will be treated with strict confidentiality.

Customers and Value Chains

Providing excellent customer experiences is a paramount business goal. To this end, a broad range of customer-centric initiatives and supply chain management plans for value-added services have been performed.

High priority topics:
Customer satisfaction
Health and safety

Tenants' Well-being

We advocate physical and mental well-being through the "Champion Our Wellness" campaign at our properties. Following the sought-after Chair Yoga Event held in 2018, we introduced the novel Mindful Eating Experience to our tenants in 2019. Participants of the Mindful Eating Event were guided to practise simple techniques such as breathing and personal awareness exercise to relieve stress.



Mindful Eating Experience for our tenants

Environmental, Social and Governance Report

Customer-friendly Features

Multiple customer-friendly facilities were introduced at our properties to boost convenience for our customers. Brand-new digital features, such as self-ordering system at the food court, a mobile app and online channels were launched last year. We also started to provide e-directories at Langham Place Mall to assist our shoppers to locate shops and find information more effectively.



Self-ordering system at the food court of Langham Place Mall

It is our commitment to bring value-added services to our customers and improve accessibility for those with disabilities. Additional automatic swing doors were installed at Langham Place Mall, providing barrier-free access for all customers. At Three Garden Road, wheelchair rental service has been made available for those in need. We also arranged trainings for our frontline employees in guiding visually impaired customers, such as the Understanding Guide Dog Workshop.



Understanding Guide Dog Workshop for our frontline employees

Customers' Health and Safety

Maintaining the health and safety of our customers is another key area in our business. Both our properties are equipped with modern and advanced safety features, including computerised automatic fire detection alarm systems, emergency power supply in common areas and essential facilities in the event of a power failure. The indoor air quality of our properties is always kept at an optimal level to prevent the spread of contagious diseases and to reduce indoor health risks. All our properties have been granted an Indoor Air Quality Certificate – Excellence Class by the Environmental Protection Department. We keep our tenants informed of health advice issued by the government through posters at our properties.

The operating procedures of our management systems at both Three Garden Road and Langham Place have been certified by the ISO 45001 Occupational Health and Safety Assessment System, we continue to upgrade the safety standards at our facilities accordingly. In 2019, we replaced the metal tree display at Langham Place Mall with lighter materials and additional safety slings to prevent customers from being injured by objects dislodged from height. Improvement in the safety features for passenger and service lifts will be carried out at Langham Place Mall. Langham Place Mall received Honorable Managed Property Award of Kowloon West Best Security Services Awards last year in recognition of its outstanding security services.

Service Responsibility

Adhering to ISO 9001 Quality Management System, both our properties have devised effective measures to monitor and enhance customer satisfaction. Our property management team conducts tenant satisfaction surveys periodically to understand their needs. We have various communication channels, such as customer feedback system and e-mail questionnaires, for our tenants and shoppers to put forward their suggestions to our building management team.

We strive to ensure services delivered by the independent providers are in line with the Trust's standards. We have established clear procedures and guidelines based on the Supplier Code of Conduct for the service providers. Regular reviews and assessments on service providers' performance are conducted for quality assurance.

Protection of customer data is of utmost importance to the Trust. We take steps to ensure the collection and handling of personal data is done lawfully and properly. Our data protection policy is in accordance with the Hong Kong Personal Data (Privacy) Ordinance.

Engaging Tenants and Customers in Sustainability Practices

To make a positive impact in the community, we proactively engage our tenants in implementing sustainability practices in their operations. A guide on sustainability attached to the lease contracts and a handbook with fit-out guidelines are provided to our tenants. Our employees, tenants and suppliers of our properties are encouraged to make reference to the Green Purchasing Policy. Green workshops, such as a session on DIY coasters by recycled old clothes are held regularly. We also continue to mobilise our tenants to join the Earth Hour Campaign in April every year and No Air Con Night Programme with a goal to reduce ecological footprints and raise awareness of environmental protection.

Serving Customers with Heart

I accidentally sprained my ankle at Langham Place Mall. I received immediate assistance to relieve my pain from the staff of the mall. The staff also followed up on my condition by phone afterwards. I highly appreciate the attentive and caring attitude of the staff of Langham Place Mall.

A customer at Langham Place Mall

Case Study: WELL Building – First Existing Building Scoring Platinum Rating in Hong Kong

Three Garden Road achieved the WELL Building Standard Certification of Platinum Rating. WELL is a global standard created to advance the wellness of buildings. It covers air, water, light, nourishment, movement, thermal comfort, sound, materials, mind and community. The recognition once again highlighted our holistic approach to foster a favourable and healthy environment for our tenants and employees who work in our premises.

Most recently, we commissioned a young Hong Kong artist to undertake a project called *Garden in the City Centre* to paint a staircase. The nature-inspired artwork is soothing to both the mind and body, giving onlookers a sense of ease and comfort. It also resonates with our call for our tenants to take the stairs to stay healthy and save energy at the same time.

“Taking the lead in areas such as experience, process, technology and tenant satisfaction adds value to the industry and changes our norms for the better. It is brave and it enables us all to further develop our ideas and service.”

Michael Smith,
Director – Head of Property Management, CBRE



Before-and-after of the staircase painting

Environmental, Social and Governance Report

Community Wellness

As a responsible corporate citizen, we take an active role in promoting the healthy development of our community and helping the underprivileged in our society. Advocating community wellness and supporting our youth are also central to us.

Community Wellness

Community wellness is an essential pillar of sustainable development of the Trust. Our “Champion Our Wellness” campaign is designed not only with the wellness of our stakeholders in mind but also the community as a whole. The Musica del Cuore (Italian for “Music of the Heart”) concert series takes place at the lobby of Three Garden Road every Friday evening. Showcasing classical music, the concert series is open to the public. We strive to nourish art and culture in our community, and provide a space for our tenants and passers-by to relax. At Langham Place, we partnered with Youth Outreach to bring The Flash Mob Charity Show at our mall to raise public awareness on mental health and fundraise for the organisation.



Classical music performance at Three Garden Road

Physical fitness is equally important for our community. In 2019, we supported the Trail Run Event as a vendor sponsor in collaboration with a non-profit organisation. Starting the race at Three Garden Road, runners trekked

Promoting Healthy Lifestyle in Our Building

In our Victoria 10 Trail Race, Champion REIT was extremely kind in collaborating with us as venue sponsor. Having a central urban location of Three Garden Road as a starting venue, coupled with food and beverage discounts offered for runners, it helped us attract more racers than expected. Tenants of Three Garden Road also took part in the race, embracing an active lifestyle beyond just working in the building.

Matthew Mok,
Race Director,
Victoria 10 Series



the city centre and a country park before finishing in Deep Water Bay. The event attracted over 200 participants and was a great way to promote healthy living.

Support for the Youth

We have relentlessly devoted resources to support youth development. The Trust is the only participating employer of the Harvard China Student Internship Programme from Hong Kong in 2018, we have also provided internship opportunities for students from Harvard University in 2019. Moreover, our internship programme has been extended to other overseas and local universities, including University of Michigan and Hong Kong University of Science and Technology. We have also supported the Project My Future Internship Programme for two consecutive years, providing a work-based learning platform for local secondary school students.

**Fruitful Internship Experience
for University Students**

I have had a truly rewarding internship with Champion REIT this summer. I have come out of the experience more prepared to fully pursue my career. Friendships throughout the office have supported me to do my best.

Kathryn Wantlin,
Harvard University
Intern



**Opportunities for Local High School
Students to Gain a Taste of Business World**

The internship provided me the opportunity to learn many things outside textbooks. I have learned more about the operations of the business world and the property industry. I am grateful for the chance to experience how business is run in a shopping mall.

Jeata Lau,
Local High School Student
Intern



Volunteer Work

Every year, we offer a wide range of volunteering opportunities to our employees, and thus we have been awarded the Caring Company Logo – Five Years Plus by The Hong Kong Council of Social Service. In 2019, we joined hands with New Life Psychiatric Rehabilitation Association (“NLPR”) to launch a Chinese Tea Appreciation Workshop to promote mental health. Through the workshop, our employees and the beneficiaries of NLPR had a chance to mingle with each other. The experience helped our employees understand mental health and inaccurate stereotypes associated with it. We also visited the New Life Eco Farm, a social enterprise run by NLPR, to explore green living and learn more about preserving the environment.



Our volunteers visited the beneficiaries of New Life Psychiatric Rehabilitation Association



Our volunteers experienced organic agriculture at the New Life Eco Farm

Environmental, Social and Governance Report

A number of charitable events were organised at our properties to promote better development of our community. The Blood Donation Day is held annually at Three Garden Road. Langham Place was the vendor sponsor for the Hidden Treasures of Hong Kong Photo Exhibition which was organised by Mighty Oaks Foundation to promote intergenerational relationships for a harmonious society. The one-month-long e-Reading Corner was staged at our mall with the objective to promote reading culture. E-book samples were available for public to download free during the event. Throughout the year, Langham Place offered free airtime for charitable organisations to broadcast their promotional videos on its giant LED TV. The Community Chest of Hong Kong, Care For Your Heart and Hong Kong Aids Foundation were among the beneficiaries.



Blood Donation Day is launched at Three Garden Road annually

Case Study: Christmas Gift Matching in Collaboration with Tenants

Tying to the festive season, we launched the Christmas Gift Matching Donation Campaign in 2019 for underprivileged children with the support of our tenants. For each donation received, we donated a matching portion to double the amount of the donation. All presents collected were delivered to the children through the Hans Andersen Club. We also collaborated with the Boys' & Girls' Clubs Association in the Treasure Trove Event to donate stationary to children. We believe that the small steps we take in caring our community will create unexpected values for the needy groups.



We sent Christmas gifts to the underprivileged children in collaboration with our tenants

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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. It is an intelligent building capable of meeting the demanding technical specifications of global financial institutions.

Office Passing Rent (HK\$psf)



Occupancy Rate



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 Mong Kok, a major transport hub in Kowloon and a busy shopping district. The building attracts location sensitive lifestyle and multinational office tenants.

Passing Rent (HK\$psf)



Occupancy Rate



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 and 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 Base Rent (HK\$psf)

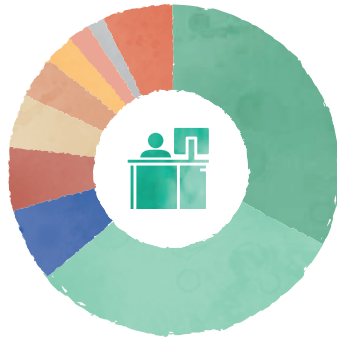
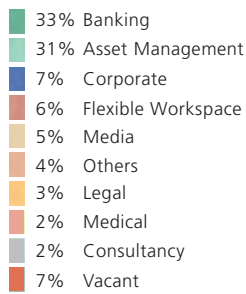


Occupancy Rate

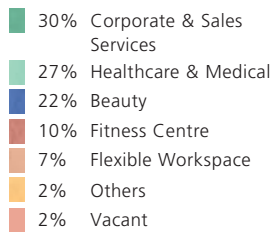


Tenant Profile as at 31 December 2019

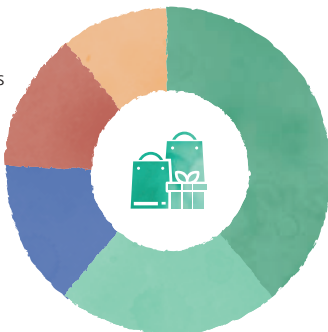
Three Garden Road Office



Langham Place Office Tower



Langham Place Mall



Major Tenants of Champion REIT

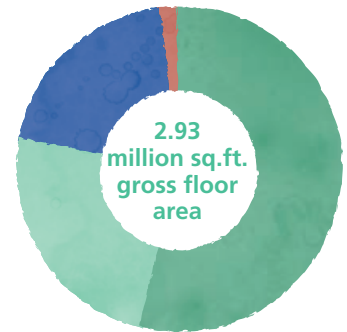
(in alphabetical order)

- Allianz Global Investors
- Beauty Avenue
- Blackrock
- Bloomberg
- Cinema City
- Citi
- Dr Reborn & Union Medical Healthcare
- Industrial and Commercial Bank of China
- Neo Derm
- Perfect Medical
- Pure Fitness & Pure Yoga

Value as at 31 December 2019

HK\$ million	Three Garden Road	Langham Place	Sub-total
Office	46,889	10,428	57,317
Retail	675	21,548	22,223
Car Park	614	373	987
Miscellaneous	352	299	651
Total	48,530	32,648	81,178

- 54% Three Garden Road Office 1,579,900 sq. ft.
- 24% Langham Place Office Tower 702,900 sq. ft.
- 20% Langham Place Mall 589,800 sq. ft.
- 2% Three Garden Road Retail 57,700 sq. ft.



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. It has 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.



Three Garden Road received WELL Core Certification at Platinum level under the WELL Building Standard by the International WELL Building Institute™, making it the first existing building in Hong Kong to score at the highest rating.

THREE
GARDEN
ROAD
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 three-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 became, and is still, the owner of Three Garden Road in its entirety.

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 when it was built.

Grade A Standard with Continuous Upgrade

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 computerised control centre 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,

Three Garden Road

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. During the year, the chilled water system and the generator set have been upgraded constantly to optimise energy efficiency. We have also pioneered a demand control ventilation system at the carpark which is operated by the Internet of Things (IoT) sensors, with the estimated annual reductions of energy consumption and carbon emissions reaching 30%.

WELL Building Standard Platinum Level

Three Garden Road achieved Platinum level of the WELL Building Standard, becoming the first-in-Hong Kong existing building to attain the highest level of the certification. It fulfilled the WELL Platinum standard, including air, water, light, nourishment, movement, thermal comfort, sound, materials, mind and community. This recognition is a testament to our commitment in enhancing people's health in our properties.

Three Garden Road places great emphasis on the quality of facility management and customer experience. 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. Pioneering campaigns Mindful Eating Experience and Trail Run Event were held to promote better healthy lifestyle and mental well-being.

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. Additionally, upscale flexible workspaces offer lunch and happy hour drinks and event space for tenants. Three Garden Road is also the venue for weekly classical music performances, which are well received by tenants. All of these wellness amenities and services provide tenants an environment to enjoy work-life balance.



Building Statistics

HK\$48.5 billion
Assessed Value

205 m Tall,
Highest Floor is **50**

43,000 sq. ft.
Lettable Retail Area

34,000 sq. ft.
Gross Floorplate

558
Vehicle
Basement
Garage

Built in
1992

106
Tenants

1,638,000 sq. ft.
Gross Floor Area

1,225,000 sq. ft.
Lettable Office Area

Features and Amenities

- Nine Emergency Generators (12,400kVA)
- 36 Passenger Lifts in Nine Zones
- Security Card Access
- Private Driveway
- Private Taxi Stand
- Electric Vehicle Charging Stations
- Shuttle Bus Service
- Internal Loading Dock
- 10-storey Lobby Atrium
- Heated Swimming Pool
- WELL Building Standard Platinum Certification
- HKIAQ Certification
- ISO 45001 Certification
- ISO 9001 Certification
- ISO 14001 Certification
- 30,000 sq. ft. Fitness Centre

Langham Place

Langham Place Office Tower is a modern 59-storey Grade A building that is the lifestyle hub in Mong Kok. Langham Place Mall is a hip and trendy 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 five-star hotel. The project occupies two entire city blocks bordered by Argyle Street, Portland Street, Shantung Street and Reclamation Street. Completed in 2004 with a total floor area of nearly two million sq. ft., Langham Place immediately became a defining landmark of Mong Kok, as well as a prime retail and commercial zone. Langham Place is directly linked via a pedestrian tunnel to the Mong Kok 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 four 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.

Popular Trendy Mall in Mong Kok

The Langham Place Mall is a hip and trendy mall targeting young shoppers interested in the latest fashion trends.

Being one of the busiest malls in town, it boasts a vast array of retail options ranging from hip and trendy lifestyle, health and beauty, sportswear, fashion and accessories.

As part of the shopping experience, the mall also offers its shoppers a cineplex, a games arcade and more than 50 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.

The Langham Place Mall has several unique modern architectural and design features. Its distinctive multi-faceted facade of Fissured Brazilian Granite is immediately recognisable from the surrounding shopping district. Among its internal features are a Grand Atrium enclosed by nine-storey-high glass curtains showcasing the surrounding street-level activity and some of the world's longest indoor escalators. In the upper section of the mall, there is the iconic Spiral section leading up to an indoor bar and restaurant floor. In addition, the mall attained the highest rating Final Platinum under BEAM Plus Existing Building



Langham Place

V2.0 Comprehensive Scheme, which adopts a holistic approach to assess the long-term environmental performance of the building. The mall achieved excellent results with full credit in the aspect of energy use.

Innovative Retail Experience

As a retail trend setter, Langham Place Mall strategically created new experiences to engage customers, riding on experience-based promotion and new technologies. The mall carried out a broad array of customised events to celebrate different festival and cater prevalent pop culture throughout the year, ranging from Chinese New Year celebration, summer party to Christmas festivity. The events successfully drove traffic and sales and further strengthened the leading position of the mall amidst the ever-changing market.

Lifestyle Hub in Mong Kok

The positioning of Langham Place Office Tower as a lifestyle hub was further strengthened. The strategic location of the property at the heart of Mong Kok, where different forms of public transport were easily accessible, continued to be highly valued by beauty and healthcare sectors. This 255-meter skyscraper also benefits from the neighbouring Langham Place Mall and Cordis Hotel. 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 is covered in reflective blue glass and topped off with a large colour-changing dome visible from as far away as Hong Kong Island at night, and it boasts a sweeping panoramic view of the Kowloon skyline. The building also contains a 70,000 sq. ft. fitness centre, allowing visitors to enjoy a healthier lifestyle.



Building Statistics

HK\$32.6 billion
Assessed Value*

255
Vehicle
Basement
Garage

Built in
2004

255 m Tall,
Highest Floor is **60**

52
Office Tenants*

173
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

Features and Amenities

- 15-storey Shopping Mall
- Adjoining Five-star Hotel
- 1,100 Seat Cineplex
- Over 50 F&B Outlets
- Direct MTR Access
- 10-storey Glass Atrium
- Panoramic View of Kowloon
- Electric Vehicle Charging Stations
- Internal Loading Dock
- BEAM Plus Existing Building Platinum Certification
- HKIAQ Certification
- ISO 45001 Certification
- ISO 9001 Certification
- ISO 14001 Certification
- 70,000 sq. ft. Fitness Centre

* only Champion REIT's portion

Langham Place What's Been Happening at the Mall



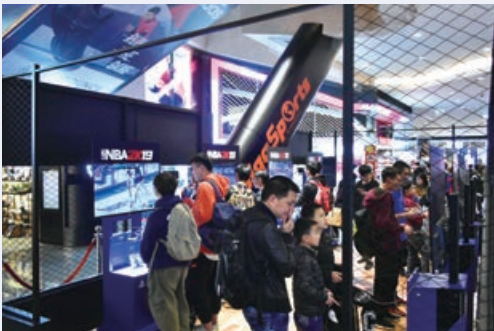
PLATINUM
鉑金級

EB 既有建築
V2.0 2019

HKGBC
BEAM Plus
綠建環評

Langham Place Mall attained the highest rating Final Platinum under BEAM Plus Existing Building Comprehensive Scheme. It demonstrated our efforts and commitment to drive the long-term environmental performance and sustainable development of our properties. It also achieved excellent results with full credit in the aspect of energy use.





Jan: NBA 2K19 Game Experiencing Zone

A game zone was set-up in the mall during the finale of the NBA 2K19 Asia Tournament in Hong Kong. Customers could experience the excitement of the NBA 2K19 Playground 2 Game, and bag the game set home from the daily challenge.



Jan – Feb: Auspicious Pink Tea House

Langham Place transformed the L4 atrium into an instagrammable pink-themed Chinese teahouse and dim sum photo spots during last Lunar New Year. Interactive games and premiums also brought customers an exciting journey. The stylish pink board game and laisee box set were extremely popular and were all redeemed within a few days.



Apr – May: Osamu Tezuka 90th Anniversary of Birth Exhibition

Celebrating the 90th anniversary of the birth of legendary manga artist, Osamu Tezuka, creator of *Astro Boy*, *Black Jack* and *Princess Knight*, a special exhibition was held at Langham Place. Exclusive merchandises were available for fans to pick up at the pop-up store.

Langham Place What's Been Happening at the Mall



May: LEGO® Star Wars™ 20 Years Exhibition

The LEGO® Star Wars™ 20 Years Exhibition held in Langham Place, the solo exhibition in Asia Pacific, showcasing magnificent history of the Star Wars™ exhibits from 1999, with numerous 3D LEGO® models and memorable Star Wars™ movie scenes. Fans were all fascinated by the exclusive merchandises sold during the exhibition.



Jul – Sep: First-in-Hong Kong Kakao Friends Summer Hotel

Popular Korean character, Kakao Friends, had their first Friends Summer Hotel at Langham Place last summer. Customers were amused by the Facebook Messenger and WeChat game that allowed them to create personalised hotel room card. Over 190 limited-edition merchandises were also available at the pop-up store. The event successfully drew extensive public and press attention, and over 16,000 new LP CLUB members were acquired during the campaign.



Oct: BeautyFest

Assembled over 80 top beauty brands in the mall, Langham Place has expanded the beauty floors from L1 and L2 to B1 since the fourth quarter of 2019. In partnership with tenants of beauty brand, BeautyFest was launched to offer sales redemptions, product give away and special bundle offers, generating a huge number of supports and sales from both locals and mainland visitors.



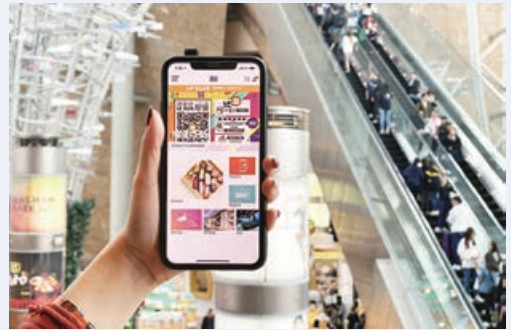
Dec: Disney Christmas in the Woods

Last Christmas, Chip'n'Dale, Bambi and Seven Dwarfs from Disney shared the warmth of the festive season with customers in Langham Place through the launch of Disney Christmas in the Woods. Fans of Disney were delighted by the enchanting decoration. Over 1,000 limited-edition merchandises were also put on sale exclusively during the event.

Langham Place Revamped Mobile APP and Official Website

During the third quarter of 2019, Langham Place mobile APP and website have been revamped to greet shoppers with a brand new image. Mobile food ordering function was introduced, allowing customers to pre-order for the restaurants located on L4 Food Court and facilitating their ordering procedures.

Since July 2019, customers could register as LP CLUB members for free with no minimum spending required. Numerous proactive promotions launched and successfully recruited over six times more new members compared with to 2018.



Valuation Report

Colliers International (Hong Kong) Limited

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Wanchai, Hong Kong

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WEBSITE www.colliers.com



5 February 2020

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")

AND

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 SIR/MADAM,

Re: Valuation of Three Garden Road, Central, Hong Kong (the "Property")**1.1 Instructions**

In accordance with the instructions for us to value the Property, we confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the leasehold interests of the Property in its existing state as at 31 December 2019 (the "Valuation Date") for reporting purposes.

1.2 Valuer's Interest

We hereby confirm that:

- We have no present or prospective interest in the Property and we are independent of Champion REIT, the Trustee and the Manager.
- We are authorised to practice as valuer and have the necessary expertise and experience in valuing similar types of property.
- The valuations have been prepared on a fair and unbiased basis.

1.3 Basis of Valuation

Our valuation is made on the basis of Market Value, which is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

1.4 Valuation Standards

The valuations have been carried out in accordance with “The HKIS Valuation Standards (2017 Edition)” published by The Hong Kong Institute of Surveyors; and in compliance with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in August 2014.

1.5 Valuation Rationale

In the course of our valuations, we have adopted **Income Approach – Term and Reversion Method**. This valuation method estimates the value of properties or assets on a market basis by capitalizing net rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deduction is made for outgoings such as property management fees, capital expenditure, vacancy loss, and other necessary expenses. Our adopted capitalization rate of the retail and office accommodations is 4.25% and 3.6% respectively.

This analysis has then been cross-checked by the **Market Approach** assuming sale of the Property in its existing state and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as ‘arms-length’ transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the Property.

1.6 Title Investigations

We have not been provided with extracts from title documents relating to the Property but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information, which is more properly in the sphere of your legal advisers.

1.7 Sources of Information

We have relied to a considerable extent on the information provided by the Manager on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Manager that no material factors or information have been omitted or withheld from the information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

Valuation Report

1.8 Site Measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Property but have assumed that the areas shown on the documents and plans provided to us are correct.

1.9 Site Inspections

We have inspected the exteriors and the interiors of the Property. Our inspections of the Property were carried out by Stella Ho (MRICS and MHKIS) on 30 December 2019. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the Property are free of rot, infestation or any other structural defects. No tests were carried out on any of the services. Our valuations have been prepared on the assumption that these aspects are satisfactory.

1.10 Caveats and Assumptions

Our valuations have been made on the assumption that the Property can be sold on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect its values although it is subject to the existing management agreements and lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing neither on the Property nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

This report and our valuations are for the use of the REIT Manager and the Trustee of Champion REIT and the report is for the use only of the parties to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of these valuations.

We have made the following assumptions:

- All information on the Property provided by the Manager is correct.
- Proper ownership titles of and relevant planning approvals for the Property has been obtained, all payable land premiums, land-use rights fees and other relevant fees have been fully settled and the Property can be freely transferred, sub-let, mortgaged or otherwise disposed of.
- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement by the Manager. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.
- 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.
- Unless otherwise stated, we have not carried out any valuation on a redevelopment basis, nor the study of possible alternative options.
- No acquisition costs or disposal costs have been taken into account in the valuations.
- The Government Leases will be renewed upon expiry on normal terms.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong dollars (HK\$).

Our valuations of the Property are set out in the Valuation Particulars attached hereto, which together with this covering letter, form our valuation report.

Yours sincerely,
For and on behalf of
Colliers International (Hong Kong) Limited

Stella Ho

BSSc (Hons) MSc MRICS MHKIS RPS (GP) MCIREA

Registered Real Estate Appraiser PRC

Senior Director

Valuation & Advisory Services

Note: Stella Ho is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in the Hong Kong Special Administrative Region ("Hong Kong"). She is suitably qualified to carry out the valuation and has over 20 years' experience in the valuation of properties of this magnitude and nature.

Valuation Report

2 VALUATION PARTICULARS

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019	Estimated Net Property Yield																														
Three Garden Road, Central, Hong Kong (the "Property") (See Note 1) 1,449,936/ 1,650,000 th 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> <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> <table border="1"> <thead> <tr> <th colspan="3">Gross Rentable Area</th> </tr> <tr> <th>Use</th> <th>sq m</th> <th>sq ft</th> </tr> </thead> <tbody> <tr> <td>Retail</td> <td>3,956.99</td> <td>42,593</td> </tr> <tr> <td>Office</td> <td>113,822.46</td> <td>1,225,185</td> </tr> <tr> <td>Total</td> <td>117,779.45</td> <td>1,267,778</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	Gross Rentable Area			Use	sq m	sq ft	Retail	3,956.99	42,593	Office	113,822.46	1,225,185	Total	117,779.45	1,267,778	<p>The retail portion of the Property was let under seven tenancies for various terms with the latest expiry date in October 2025, yielding a total monthly rental income of approximately HK\$2.93 million, exclusive of rates, management and air-conditioning charges. The retail tenancies, except Shop No. 5 on Lower Ground Floor, were subject to turnover rents. The average monthly turnover rent receivable during the period from November 2018 to October 2019 was approximately HK\$76,000.</p> <p>With exception of the vacant 7,980.21 sq. m (85,899 sq ft), the office portion of the Property was let under various tenancies for various terms with the latest expiry date in June 2025, yielding a total monthly rental income of approximately HK\$124.45 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\$48,530,000,000 (Hong Kong Dollars Forty-Eight Billion Five Hundred and Thirty Million Only)	3.2%
Total Floor Area																																		
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Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019	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 93.0% 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 January 2019 to November 2019 was approximately HK\$1.82 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 July 2021, yielding a total monthly licence fee of approximately HK\$77,000, 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 three licences with the latest expiry date in June 2022, yielding a total monthly licence fee of approximately HK\$1.54 million, exclusive of rates and management fees.</p>		

Valuation Report

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 the 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 Spaces	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 owner 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	<p>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).</p> <p>Various portions of the Champion Tower, including 3rd to 12th Floors, 15th to 18th Floors, 20th to 23rd Floors, 25th to 28th Floors (13th, 14th and 24th Floors are omitted from floor numbering; 1st, 2nd, 19th and 35th Floors are mechanical floors).</p> <p>Restaurant Space and Shops 1 to 4 on Lower Ground Floor of the development.</p> <p>Private car parking space nos. 5 to 20, 26 to 33, 45 to 51, 121 to 122 and 166 to 167 on Basement 2 and public carpark comprising 500 car parking spaces and 50 motor cycle parking spaces within the development.</p> <p>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).</p>

Registered Owner	Portion of the Property
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 Champion Tower.
CP (Portion A) Limited	Portion A on 40th Floor and 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 the Champion Tower. Private car parking space nos. 23 to 25 on Basement 2 of the development.
Elegant Wealth Limited	34th, 36th and 37th Floors of Champion Tower. Private car parking space nos. 39 to 41 on Basement 2 of the development.

3. The Property is subject to, inter alia, the following encumbrances 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 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.

Valuation Report

- (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 portion 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 the 31st Floor and 32nd to 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 the 38th Floor of Champion Tower held by Well Charm Development Limited;
 - d. All those the whole of the 39th Floor and Portion B on the 40th Floor of Champion Tower and all those three private car 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 car parking space nos. 39 to 41 on Basement 2 of the Property held by Elegant Wealth Limited.
4. The Property lay within an area zoned "Commercial" under the Draft Central District (HPA 4) Outline Zoning Plan No S/H4/17 gazetted on 24 May 2019 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 2019 (HK\$)
Retail:	675,000,000
Office:	46,889,000,000
Carpark:	614,000,000
Miscellaneous:	352,000,000
Total:	48,530,000,000

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 (excluding car parking spaces and the licenced miscellaneous premises) as at 31 December 2019 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	1,139,286	93.0%
Vacant	85,899	7.0%
Total	1,225,185	100%

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2013	114,444	10.1%	11,357,244	9.1%	2	1.5%
2014	71,235	6.3%	7,307,964	5.9%	5	3.9%
2015	100,644	8.8%	9,864,123	7.9%	4	3.1%
2016	173,394	15.2%	16,389,255	13.2%	10	7.7%
2017	223,174	19.6%	23,560,979	18.9%	35	26.9%
2018	195,192	17.1%	23,549,831	18.9%	39	30.0%
2019	261,203	22.9%	32,419,650	26.1%	35	26.9%
Total	1,139,286	100%	124,449,046	100%	130	100%

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2020	456,693	40.1%	49,166,826	39.5%	51	39.2%
2021	390,399	34.2%	39,297,597	31.6%	44	33.9%
2022	190,083	16.7%	23,421,124	18.8%	29	22.3%
2023	18,138	1.6%	2,270,997	1.8%	2	1.5%
2025	83,973	7.4%	10,292,503	8.3%	4	3.1%
Total	1,139,286	100%	124,449,046	100%	130	100%

Valuation Report

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
1	18,996	1.7%	2,843,109	2.3%	2	1.5%
2	69,360	6.1%	8,034,008	6.5%	13	10.0%
3	488,477	42.9%	56,058,593	45.0%	86	66.1%
4	19,786	1.7%	2,459,663	2.0%	4	3.1%
5	124,796	10.9%	11,217,960	9.0%	7	5.4%
6	251,555	22.1%	26,030,436	20.9%	14	10.8%
7	166,316	14.6%	17,805,277	14.3%	4	3.1%
Total	1,139,286	100%	124,449,046	100%	130	100%

* Individual monthly rental may not sum to same as the total due to rounding effect.

The monthly rental is the rent for the current term of the tenancy.

Note: The above tenancy profile excludes seventeen renewal tenancies for terms of approximately three years to five years commencing in between January 2020 and June 2023.

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 the licenced miscellaneous premises) as at 31 December 2019 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	42,593	100.0%
Vacant	0	0.0%
Total	42,593	100%

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2015	30,517	71.7%	1,822,475	62.1%	1	14.3%
2016	7,289	17.1%	475,865	16.2%	2	28.5%
2017	2,202	5.2%	391,402	13.4%	2	28.6%
2018	1,798	4.2%	172,608	5.9%	1	14.3%
2019	787	1.8%	70,830	2.4%	1	14.3%
Total	42,593	100%	2,933,180	100%	7	100%

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2020	2,202	5.2%	391,402	13.4%	2	28.5%
2021	2,180	5.1%	229,908	7.8%	2	28.6%
2022	787	1.9%	70,830	2.4%	1	14.3%
2023	6,907	16.2%	418,565	14.3%	1	14.3%
2025	30,517	71.6%	1,822,475	62.1%	1	14.3%
Total	42,593	100%	2,933,180	100%	7	100%

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	* Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
3	4,787	11.2%	634,840	21.6%	4	57.1%
5	382	0.9%	57,300	2.0%	1	14.3%
7	6,907	16.2%	418,565	14.3%	1	14.3%
10	30,517	71.7%	1,822,475	62.1%	1	14.3%
Total	42,593	100%	2,933,180	100%	7	100%

* Individual monthly rental may not sum to same as the total due to rounding effect.

The monthly rental is the rent for the current term of the tenancy.

Valuation Report

3 OFFICE MARKET OVERVIEW

3.1 Introduction

The Hong Kong economy and with it, the property sector became unstable in the second half of 2019. Gross Domestic Product figures released by the Hong Kong Government indicated an obvious decrease of 2.9% in real terms in the third quarter of 2019 and that of the whole year is forecast to decrease by 1.3% in real terms.ⁱ Exports are being affected by the weak global economy, the unresolved US-China trade war as well as the prolonged social unrest in Hong Kong. Hong Kong's PMI remained at around 48 in the first half of 2019, but showed a significant drop in the second half of 2019 and reached a record low of 38.5 in November of 2019.ⁱⁱ Private sector expansion remains subdued and enterprises may find themselves losing confidence in doing business in Hong Kong. In addition, the Hong Kong Government, in the Third Quarter Economic Report 2019, changed its prediction of real GDP growth in 2019 from -0.1% in August to -1.3% as at November. In the face of such uncertainties, sales and leasing activity has slowed. More office space stands vacant in core districts. This, together with substantial upcoming supply will mean that vacancy is certain to rise in 2020. Rents and prices overall are foreseeably facing pressure, especially in the CBD.

3.2 Office Stock

According to the Rating and Valuation Department, by the end of 2018, the total stock of private offices amounted to over 129 million sq ft, comprising 65% Grade A, 23% Grade B and 12% Grade C. The estimated office completions in 2019 will be around 3.06 million sq ft, representing an increase of 59% from 2018.

Central, being the Central Business District (CBD) of Hong Kong, is one of the preferred office locations for international financial institutions and regional headquarters of multinational corporations. The Grade A offices in Central represented approximately 13.7% of total office stock and about 21.2% of the total Grade A office in 2018, according to the Rating and Valuation Department. 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 47.3% of total Grade A office stock by the end of 2018.

3.3 Demand

In the third quarter of 2019, according to Colliers Office Market Research, overall Grade A office rents went down by 2.4% QOQ and leasing momentum was slow with the overall net take-up staying negative.

The overall Grade A office market recorded a negative net take-up of 143,800 sq ft in the third quarter of 2019, despite the realisation of large amounts of pre-committed space in new buildings which were completed in the quarter. Demand further weakened in Hong Kong's CBD, with the fifth consecutive quarter of negative net-take up of 168,680 sq ft in Central and Admiralty.ⁱⁱⁱ

Expansion activities remained slow while relocation demand has been focusing on decentralised areas. Island East recorded a positive net take-up of 194,880 sq ft driven by the completion of K11 Atelier King's Road, while Wan Chai/Causeway Bay recorded another quarter of weak performance, with -110,640 sq ft of net take-up.^{iv}

ⁱ Source: Census and Statistic Department

ⁱⁱ Source: Trading Economics

^{iii - iv} Source: Colliers Research

3.4 Supply

Looking ahead, about 3.06 million sq ft and 709,000 sq ft of new office space are expected to be completed in 2019 and 2020 respectively. Of the supply in 2019, 25% will be on Hong Kong Island, 46% in Kowloon and 29% in the New Territories. Kwun Tong and Shatin together will provide 71% of the newly completed space. In 2020, the supply focus will be on Tsuen Wan and Sai Kung, which will together account for 59% of completions. It is also anticipated that Grade A offices will dominate with forecast completions in 2019 and 2020 at 90% and 72% respectively.^v

It is worth noting that most of the future supply will be located outside the core business districts of Central, Sheung Wan, Wan Chai/Causeway Bay and Tsim Sha Tsui.

Hong Kong's Grade A office supply trended down from 2007 to 2016 as a result of a general lack of available sites in core office locations, but was slightly up between 2016 and 2018, according to the Rating and Valuation Department. In 2015-2018, supply reached an average of 1.7 million sq ft per annum, 0.2 million sq ft lower than the long-term average. Around 23% of the total supply was located in Central, Hong Kong's traditional CBD. Supply of Grade A offices in 2019 is expected to record a 44% increase compare with that in 2018.

According to Colliers Research, average annual Grade A office supply from 2019 to 2023 will increase to 2.3 million sq ft. Meanwhile, significant supply of 1.9 million sq ft is to be completed in Kowloon, providing opportunities for decentralisation this year. According to the Rating and Valuation Department, new Grade A office supply in 2019 will be over 2.7 million sq ft but will drop sharply in 2020.

3.5 Take-up and vacancy

Vacancy in Grade-A offices has risen moderately since the third quarter of 2011; however, the situation is expected to change in 2020 due to limited new supply in 2020 and 2021. Overall vacancy in Grade-A offices rose to around 6.1%, as at the third quarter of 2019, representing a decrease of 2.4% QOQ.^{vi}

Overall net take-up turned negative in the third quarter of 2019, to -143,800 sq ft, despite the realisation of large amounts of pre-committed space in new buildings which were completed in the quarter. However, due to the completion of K11 Atelier King's Road as well as the effect of decentralisation, demand in Island East increased resulting in a net take-up of 194,880 sq ft. On the other hand, Central/Admiralty recorded a negative net take-up of 168,860 sq ft, in large part due to the deferred expansion plans of multinational companies and large banks.^{vii}

Driven by the cautious market sentiment, Grade A office vacancy in most of the areas in Hong Kong has increased. The vacancy rate in Central/Admiralty increased from 2.7% to 3.5% in the third quarter of 2019; while that in Wan Chai/Causeway Bay increased from 3.0% to 4.1%.^{viii}

^v Source: Rating and Valuation Department

^{vi - viii} Source: Colliers Research

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3.6 Rental trends

Overall office rents decreased by 2.4% in the third quarter of 2019 compared with the preceding quarter.^{ix} The continuing social unrest, the US-China trade tensions and slower local economic growth are likely to continue to weigh on the office market. Meanwhile, the decentralisation trend is expected to continue in this cost-cautious atmosphere. However, the upcoming high supply of 1.9 million sq ft in Kowloon might have some impact.

Hong Kong's Grade A office rents have experienced continuous increases from 2013 to 2019, with average Grade A office rents in Central having risen 31% since 2015, an average annual increment of about 7.1%. According to the Rating and Valuation Department, the average Grade A office rent in Hong Kong rose by around 24% in the 2015 to early 2019 period. Overall Grade A office rents in core districts reached an all-time high in the first quarter of 2019, with a 2.1% QOQ increase. However, Grade A office rents recorded a decrease of 2.4% QOQ in the third quarter of 2019, the largest QOQ drop since the fourth quarter of 2012.^x

Rents in Central/Admiralty decreased notably by 3.7% QOQ in the third quarter of 2019 as a result of weakening demand in CBD. Rents in Island East remained firm and recorded a slight growth of 0.5% QOQ. It was the only positive rental growth among major Grade A office submarkets. In Tsim Sha Tsui, rents declined by 2.0% QOQ in the third quarter of 2019, following an increase of 1.7% recorded in the prior quarter. Rents in Kowloon East are expected to face pressure due to high supply and softened demand.^{xi}

3.7 Price trends

Grade A office prices experienced a slight fall in the third quarter of 2019, after experiencing considerable increases in the last five years (2014 to 2018) and a rebound of transactions in both the en bloc and strata title markets in the second quarter of 2019. According to Colliers Research, average prices for strata-titled Grade A offices overall dropped slightly by 1.9% QOQ in the third quarter of 2019. According to the Rating and Valuation Department's price index for Grade A offices in all districts in Hong Kong, prices slid in the first three quarters of 2019 after a continuous upward trend from 2014 to 2018. In the third quarter of 2019, the office sales transaction volume declined significantly by 80% QOQ.^{xii}

In the face of the unresolved US-China trade war tensions and the prolonged social unrest in Hong Kong, there were no en bloc office transactions recorded in the third quarter of 2019, which is the first time in Collier's 15 years of data collection. The strata title market remains subdued and its sales volume declined significantly, by 48% QOQ. Two office properties were transacted in Admiralty Centre with unit prices ranging from HK\$30,000 to HK\$33,000, which is on par with market level. A low floor unit in Shun Tak Centre China Merchant Tower in Sheung Wan was sold for HK\$65 million, translating to a unit price of HK\$40,123 per sq ft. A marginal drop in average prices on the back of an inactive market and a slump in transaction volumes indicates that investors stayed financially strong and did not feel the urge to sell at lower prices.^{xiii}

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. The district saw a recovery in price growth in 2015, recording a 4% growth from 2014 estimated from Rate and Valuation Department Data. Average Grade A office price has recorded a 42% increase from 2016 to 2018. However, overall price of Grade A offices continued its downward trend in the third quarter of 2019, falling 1.9% QOQ amid the slow market.^{xiv}

^{ix - xiv}Source: Colliers Research

3.8 Outlook

The overall economy and labour market continue to be affected by US-China trade tensions and continuing social unrest giving rise to investor hesitation. The uncertainties, together with increasing future supply and vacancy, are now impacting negatively on office rents. In the short term, with some expansion plans on hold by multinational companies and large banks, as well as the slow commitment to new supply in Kowloon East, office rents will continue to stay under downward pressure. CBD rents are illustrating a decrement in the face of negative net take-up, and it is therefore likely that the downward trend in office rents will persist in the coming months. Rents in Island East are likely to be flat because of improved accessibility and the relatively attractive rental levels compared to the CBD. Kowloon, however, might feel pressure on rental growth in view of the increased vacancy.

In general, office demand in Hong Kong is likely to be affected by dampened business sentiment. Companies in general appear to be taking a wait and see approach to their expansion plans in the short run. We thus expect rents in Central/Admiralty to decline slightly in 2020 in the light of negative net take-up. Rental growth in Kowloon might face pressure whereas Island East is expected to remain stable.

For the investment market, the prospect of a low yield environment should support long term investment activities as some funds remain cash-rich. However, in the face of the ongoing social unrest and the as yet unresolved US-China trade war, it is expected that prices of Grade A offices will be under pressure in 2020. We forecast strata-titled Grade A office prices to remain subdued in 2020, and we expect the 2020 Grade A office rents in the CBD to adjust downwards.

Valuation Report

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5 February 2020

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")

AND

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 SIR/MADAM,

Re: Valuation of (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")

1.1 Instructions

In accordance with the instructions for us to value the Property, we confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the leasehold interests in the Property in its existing state as at 31 December 2019 (the "Valuation Date") for reporting purposes.

1.2 Valuer's Interest

We hereby confirm that:

- We have no present or prospective interest in the Property and we are independent of Champion REIT, the Trustee and the Manager.
- We are authorised to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.
- The valuations have been prepared on a fair and unbiased basis.

1.3 Basis of Valuation

Our valuation is made on the basis of Market Value, which is defined as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

1.4 Valuation Standards

The valuations have been carried out in accordance with “The HKIS Valuation Standards (2017 Edition)” published by The Hong Kong Institute of Surveyors; and in compliance with the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of the Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in August 2014.

1.5 Valuation Rationale

In the course of our valuations, we have adopted **Income Approach – Term and Reversion Method**. This valuation method estimates the value of properties or assets on a market basis by capitalising net rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deductions are made for outgoings such as property management fees, capital expenditure, vacancy loss, and other necessary expenses. Our adopted capitalisation rate for the retail and office accommodation is 3.75% and 4.0% respectively.

This analysis has then been cross-checked by the **Market Approach** assuming sale of the Property in its existing state and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as ‘arms-length’ transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the Property.

1.6 Title Investigations

We have not been provided with extracts from title documents relating to the Property but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information, which is more properly in the sphere of your legal advisers.

Valuation Report

1.7 Sources of Information

We have relied to a considerable extent on the information provided by the Manager on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Manager that no material factors or information have been omitted or withheld from the information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

1.8 Site Measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the Property but have assumed that the areas shown on the documents and plans provided to us are correct.

1.9 Site Inspections

We have inspected the exteriors and the interiors of the Property. Our inspections of the Property were carried out by Stella Ho (MRICS and MHKIS) on 30 December 2019. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the Property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services. Our valuations have been prepared on the assumption that these aspects are satisfactory.

1.10 Caveats and Assumption

Our valuations have been made on the assumption that the Property can be sold on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect its values although it is subject to the existing management agreements and lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing neither on the Property nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

This report and our valuations are for the use of the REIT Manager and the Trustee of Champion REIT and the report is for the use only of the parties to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of these valuations.

We have made the following assumptions:

- All information on the Property provided by the Manager is correct.
- Proper ownership titles of and relevant planning approvals for the Property has been obtained, all payable land premiums, land-use rights fees and other relevant fees have been fully settled and the Property can be freely transferred, sub-let, mortgaged or otherwise disposed of.

- We have been provided with the tenancy schedules, a standard Tenancy Agreement and a Licence Agreement by the Manager. We have not examined the lease documents for each specific tenancy and our assessment is based on the assumption that all leases are executed and are in accordance with the provisions stated in the tenancy schedules provided to us. Moreover, we assume that the tenancies are valid, binding and enforceable.
- 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.
- Unless otherwise stated, we have not carried out any valuation on a redevelopment basis, nor the study of possible alternative options.
- No acquisition costs or disposal costs have been taken into account in the valuations.
- The Government Leases will be renewed upon expiry on normal terms.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong dollars (HK\$).

Our valuations of the Property are set out on the Valuation Particulars attached hereto, which together with this covering letter, form our valuation report.

Yours sincerely,

For and on behalf of

Colliers International (Hong Kong) Limited

Stella Ho

BSSc (Hons) MSc MRICS MHKIS RPS (GP) MCIREA

Registered Real Estate Appraiser PRC

Senior Director

Valuation & Advisory Services

Note: Stella Ho is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in the Hong Kong Special Administrative Region ("Hong Kong"). She is suitably qualified to carry out the valuation and has over 20 years' experience in the valuation of properties of this magnitude and nature.

Valuation Report

2 VALUATION PARTICULARS

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019	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,	Langham Place is a retail/office/hotel/carpark complex erected on two rectangular sites, separated by Shanghai Street. Completed in 2004, the Property is of a total registered site area of about 11,976 sq m (128,910 sq ft). Currently standing on the eastern site is a 59-level tower, comprising 46 levels of office, 4 levels of shop, 5 mechanical floors, 2 refuge floors and 2 roof floors, and a 15-storey retail building, including 2 basement levels, erected over 3 levels of basement carpark.	The office portion of the Property was let under various tenancies mostly for terms of three years with the latest expiry date in February 2025 yielding a total monthly rental income of approximately HK\$32.35 million, exclusive of rates, management and air-conditioning charges. A number of tenancies contain options to renew for further terms at the then prevailing market rents.	HK\$32,648,000,000 (Hong Kong Dollars Thirty-Two Billion Six Hundred and Forty-Eight Million Only)	4.0%
(2) Retail Block, Langham Place, 8 Argyle Street,				
(3) Carpark, 8 Argyle Street and 555 and 557 Shanghai Street, and		The retail portion of the Property was let under various tenancies mostly for terms of three years with the latest expiry date in May 2025 yielding a total monthly basic rent of approximately HK\$58.73 million, exclusive of rates, management and air-conditioning charges. Most of the tenancies are subject to turnover rents. The average monthly turnover rent receivable during the period from December 2018 to November 2019 was approximately HK\$11.57 million.		
(4) Reserved Area, 8 Argyle Street and 555 and 557 Shanghai Street, Mong Kok, Kowloon	On the western site, government, institution and community facilities, public open space and a hotel built over 2 levels of basement car park are provided on the site. Two covered footbridges and an underground vehicle tunnel across Shanghai Street are constructed to connect the buildings erected on the two separate sites.			
1,075,082/1,963,066 th undivided parts or shares of and in Kowloon Inland Lot No 11099.		The occupancy rates of the office and retail portions were approximately 97.7% and 99.99% respectively.		

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019	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 carpark was operated as a fee-paying public carpark let on monthly and hourly bases. The total average monthly gross income receivable during the period from January 2019 to October 2019 was approximately HK\$2.06 million.</p> <p>Miscellaneous income generated from lightboxes, signage spaces and other miscellaneous items yields an average monthly licence fee of approximately HK\$1.77 million.</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 is also consisted of 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 the 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>			

Valuation Report

Notes:

1. The registered owner of the Property was Benington Limited as at the Valuation Date.
2. The Property 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 Rental Area is equal to the Total Floor Area.
4. The Property lay within an area zoned "Commercial (2)" under the Approved Mong Kok (KPA 3) Outline Zoning Plan No S/ K3/32 gazetted on 18 October 2019 as at the Valuation Date.
5. The rentals reported herein are the total of the face rental 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 2019 (HK\$)
Office:	10,428,000,000
Retail:	21,548,000,000
Carpark:	373,000,000
Miscellaneous:	299,000,000
Total:	32,648,000,000

7. Based on the tenancy information provided by the Manager, our analysis of the existing tenancy/licence profile for the office portion of the Property (excluding car parking spaces and the licensed miscellaneous premises) as at 31 December 2019 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	686,824	97.7%
Vacant	16,087	2.3%
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
2014	44,137	6.4%	1,925,914	5.9%	2	2.8%
2015	17,398	2.5%	800,308	2.5%	1	1.4%
2016	103,261	15.1%	4,614,056	14.3%	6	8.2%
2017	154,041	22.4%	6,688,546	20.7%	19	26.0%
2018	172,986	25.2%	8,376,565	25.9%	22	30.1%
2019	195,001	28.4%	9,944,044	30.7%	23	31.5%
Total	686,824	100%	32,349,433	100%	73	100%

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	*Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2019	29,209	4.3%	1,234,558	3.8%	2	2.7%
2020	200,019	29.1%	9,189,066	28.4%	21	28.8%
2021	82,961	12.1%	3,884,786	12.0%	16	21.9%
2022	140,108	20.4%	6,491,662	20.1%	13	17.8%
2023	134,645	19.6%	6,382,291	19.7%	14	19.2%
2024	82,484	12.0%	4,271,073	13.2%	6	8.2%
2025	17,398	2.5%	895,997	2.8%	1	1.4%
Total	686,824	100%	32,349,433	100%	73	100%

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	*Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2	26,001	3.8%	1,370,446	4.2%	5	6.8%
3	274,867	40.0%	12,703,079	39.3%	38	52.1%
4	62,554	9.1%	2,927,393	9.0%	6	8.2%
5	159,829	23.3%	7,875,137	24.3%	17	23.3%
6	146,175	21.3%	6,777,458	21.0%	6	8.2%
7	17,398	2.5%	695,920	2.2%	1	1.4%
Total	686,824	100%	32,349,433	100%	73	100%

* Individual monthly rental may not sum to same as the total due to rounding effect.

The monthly rental is the rent for the current term of the tenancy.

Note: The above tenancy profile excludes one committed new letting commencing in February 2020, one rental adjustment tenancy due to change of usage commencing in July 2019 and six renewal tenancies for terms of approximately three years to five years commencing in between January 2020 and October 2020.

Valuation Report

8. 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 car parking spaces and the licenced miscellaneous premises) as at 31 December 2019 is set out below:

Occupancy Profile

Type	Gross Rentable Area (sq ft)	% of total
Leased	319,107	99.99%
Landlord Occupied	26	0.01%
Vacant	0	0.0%
Total	319,133	100%

Lease Commencement Profile

Year	Gross Rentable Area (sq ft)	% of total	*Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2014	44,740	14.0%	5,336,391	9.1%	1	0.5%
2015	10,353	3.3%	927,482	1.6%	5	2.5%
2016	18,362	5.8%	3,291,462	5.6%	5	2.5%
2017	52,767	16.5%	8,620,664	14.7%	32	15.9%
2018	75,114	23.5%	19,189,041	32.6%	57	28.4%
2019	117,771	36.9%	21,366,711	36.4%	101	50.2%
Total	319,107	100%	58,731,751	100%	201	100%

Lease Expiry Profile

Year	Gross Rentable Area (sq ft)	% of total	*Monthly Rental# (HK\$)	% of total	No. of Tenancy	% of total
2019	132	0.0%	79,200	0.1%	1	0.5%
2020	72,345	22.7%	11,676,868	19.9%	57	28.4%
2021	75,168	23.6%	18,368,705	31.3%	57	28.4%
2022	91,330	28.6%	18,347,467	31.2%	74	36.8%
2023	16,967	5.3%	2,779,768	4.7%	7	3.4%
2024	53,066	16.6%	6,376,743	10.9%	3	1.5%
2025	10,099	3.2%	1,103,001	1.9%	2	1.0%
Total	319,107	100%	58,731,751	100%	201	100%

Lease Duration Profile

Year	Gross Rentable Area (sq ft)	% of total	*Monthly Rental [#] (HK\$)	% of total	No. of Tenancy	% of total
1	14,264	4.5%	2,349,617	4.0%	13	6.5%
2	22,060	6.9%	2,997,681	5.1%	29	14.4%
3	138,050	43.3%	33,841,014	57.6%	125	62.2%
4	46,372	14.5%	6,773,920	11.5%	18	8.9%
5	38,043	11.9%	5,648,341	9.6%	11	5.5%
6	15,578	4.9%	1,784,788	3.1%	4	2.0%
10	44,740	14.0%	5,336,391	9.1%	1	0.5%
Total	319,107	100%	58,731,751	100%	201	100%

* Individual monthly rental may not sum to same as the total due to rounding effect.

The monthly rental is the rent for the current term of the tenancy.

Note: The above tenancy profile excludes eighteen renewal tenancies for terms of approximately one year to four years commencing in between January 2020 and November 2020 and fifteen committed new lettings for terms of approximately two years to three years commencing in between March 2020 and June 2020.

3 OFFICE MARKET OVERVIEW

3.1 Introduction

The Hong Kong economy and with it, the property sector became unstable in the second half of 2019. Gross Domestic Product figures released by the Hong Kong Government indicated an obvious decrease of 2.9% in real terms in the third quarter of 2019 and that of the whole year is forecast to decrease by 1.3% in real terms.ⁱ Exports are being affected by the weak global economy, the unresolved US-China trade war as well as the prolonged social unrest in Hong Kong. Hong Kong's PMI remained at around 48 in the first half of 2019, but showed a significant drop in the second half of 2019 and reached a record low of 38.5 in November of 2019.ⁱⁱ Private sector expansion remains subdued and enterprises may find themselves losing confidence in doing business in Hong Kong. In addition, the Hong Kong Government, in the Third Quarter Economic Report 2019, changed its prediction of real GDP growth in 2019 from -0.1% in August to -1.3% as at November. In the face of such uncertainties, sales and leasing activity has slowed. More office space stands vacant in core districts. This, together with substantial upcoming supply will mean that vacancy is certain to rise in 2020. Rents and prices overall are foreseeably facing pressure, especially in the CBD.

ⁱSource: Census and Statistics Department

ⁱⁱSource: Trading Economics

Valuation Report

3.2 Office Stock

According to the Rating and Valuation Department, by the end of 2018, the total stock of private offices amounted to over 129 million sq ft, comprising 65% Grade A, 23% Grade B and 12% Grade C. The estimated office completions in 2019 will be around 3.06 million sq ft, representing an increase of 59% from 2018.

Yau Ma Tei/Mong Kok district is a preferred office location for trading, consumer goods and insurance companies. The district has approximately 7% of existing total office stock of all grades (9.2 million sq ft) and 4.2% of the total stock of Grade A offices (3.6 million sq ft). At the end of 2018, Yau Ma Tei/Mong Kok, together with the other decentralised office hubs including North Point, Quarry Bay on Hong Kong Island, Kowloon East, Kwai Tsing and Tsuen Wan in the New Territories, accounted for around 36.9% of total Grade A office stock.ⁱⁱⁱ

3.3 Demand

In the third quarter of 2019, according to Colliers Office Market Research, overall Grade A office rents went down by 2.4% QOQ and leasing momentum was slow with the overall net take-up staying negative.

The overall Grade A office market recorded a negative net take-up of 143,800 sq ft in the third quarter of 2019, despite the realisation of large amounts of pre-committed space in new buildings which were completed in the quarter. Demand further weakened in Hong Kong's CBD, with the fifth consecutive quarter of negative net-take up of 168,680 sq ft in Central and Admiralty.^{iv}

Expansion activities remained slow while relocation demand has been focusing on decentralised areas. Island East recorded a positive net take-up of 194,880 sq ft driven by the completion of K11 Atelier King's Road, while Wan Chai/Causeway Bay recorded another quarter of weak performance, with -110,640 sq ft of net take-up.^v

3.4 Supply

Looking ahead, about 3.06 million sq ft and 709,000 sq ft of new office space are expected to be completed in 2019 and 2020 respectively. Of the supply in 2019, 25% will be on Hong Kong Island, 46% in Kowloon and 29% in the New Territories. Kwun Tong and Shatin together will provide 71% of the newly completed space. In 2020, the supply focus will be on Tsuen Wan and Sai Kung, which will together account for 59% of completions. It is also anticipated that Grade A offices will dominate with forecast completions in 2019 and 2020 at 90% and 72% respectively.^{vi}

It is worth noting that most of the future supply will be located outside the core business districts of Central, Sheung Wan, Wan Chai/Causeway Bay and Tsim Sha Tsui.

ⁱⁱⁱ Source: Rating and Valuation Department

^{iv-v} Source: Colliers Research

^{vi} Source: Rating and Valuation Department

Hong Kong's Grade A office supply trended down from 2007 to 2016 as a result of a general lack of available sites in core office locations, but was slightly up between 2016 and 2018, according to the Rating and Valuation Department. In 2015-2018, supply reached an average of 1.7 million sq ft per annum, 0.2 million sq ft lower than the long-term average. Around 23% of the total supply was located in Central, Hong Kong's traditional CBD. Supply of Grade A offices in 2019 is expected to record a 44% increase compare with that in 2018.

According to Colliers Research, average annual Grade A office supply from 2019 to 2023 will increase to 2.3 million sq ft. Meanwhile, significant supply of 1.9 million sq ft is to be completed in Kowloon, providing opportunities for decentralisation this year. According to the Rating and Valuation Department, new Grade A office supply in 2019 will be over 2.7 million sq ft but will drop sharply in 2020.

3.5 Take-up and vacancy

Vacancy in Grade-A offices has risen moderately since the third quarter of 2011; however, the situation is expected to change in 2020 due to limited new supply in 2020 and 2021. Overall vacancy in Grade-A offices rose to around 6.1%, as at the third quarter of 2019, representing a decrease of 2.4% QOQ.^{viii}

Overall net take-up turned negative in the third quarter of 2019, to 143,800 sq ft, despite the realisation of large amounts of pre-committed space in new buildings which were completed in the quarter. However, due to the completion of K11 Atelier King's Road as well as the effect of decentralisation, demand in Island East increased resulting in a net take-up of 194,880 sq ft. On the other hand, Central/Admiralty recorded a negative net take-up of 168,860 sq ft, in large part due to the deferred expansion plans of multinational companies and large banks.^{viii}

Driven by the cautious market sentiment, Grade A office vacancy in most of the areas in Hong Kong has increased. The vacancy rate in Central/Admiralty increased from 2.7% to 3.5% in the third quarter of 2019; while that in Wan Chai/Causeway Bay increased from 3.0% to 4.1%.^{ix}

3.6 Rental trends

Overall office rents decreased by 2.4% in the third quarter of 2019 compared with the preceding quarter.^x The continuing social unrest, the US-China trade tensions and slower local economic growth are likely to continue to weigh on the office market. Meanwhile, the decentralisation trend is expected to continue in this cost-cautious atmosphere. However, the upcoming high supply of 1.9 million sq ft in Kowloon might have some impact.

Hong Kong's Grade A office rents have experienced continuous increases from 2013 to 2019, with average Grade A office rents in Central having risen 31% since 2015, an average annual increment of about 7.1%. According to the Rating and Valuation Department, the average Grade A office rent in Hong Kong rose by around 24% in the 2015 to early 2019 period. Overall Grade A office rents in core districts reached an all-time high in the first quarter of 2019, with a 2.1% QOQ increase. However, Grade A office rents recorded a decrease of 2.4% QOQ in the third quarter of 2019, the largest QOQ drop since the fourth quarter of 2012.^{xi}

Rents in Central/Admiralty decreased notably by 3.7% QOQ in the third quarter of 2019 as a result of weakening demand in CBD. Rents in Island East remained firm and recorded a slight growth of 0.5% QOQ. It was the only positive rental growth among major Grade A office submarkets. In Tsim Sha Tsui, rents declined by 2.0% QOQ in the third quarter of 2019, following an increase of 1.7% recorded in the prior quarter. Rents in Kowloon East are expected to face pressure due to high supply and softened demand.^{xii}

Valuation Report

3.7 Price trends

Grade A office prices experienced a slight fall in the third quarter of 2019, after experiencing considerable increases in the last five years (2014 to 2018) and a rebound of transactions in both the en bloc and strata title markets in the second quarter of 2019. According to Colliers Research, average prices for strata-titled Grade A offices overall dropped slightly by 1.9% QOQ in the third quarter of 2019. According to the Rating and Valuation Department's price index for Grade A offices in all districts in Hong Kong, prices slid in the first three quarters of 2019 after a continuous upward trend from 2014 to 2018. In the third quarter of 2019, the office sales transaction volume declined significantly by 80% QOQ ^{xiii}.

In the face of the unresolved US-China trade war tensions and the prolonged social unrest in Hong Kong, there were no en bloc office transactions recorded in the third quarter of 2019, which is the first time in Collier's 15 years of data collection. The strata title market remains subdued and its sales volume declined significantly, by 48% QOQ. Two office properties were transacted in Admiralty Centre with unit prices ranging from HK\$30,000 to HK\$33,000, which is on par with market level. A low floor unit in Shun Tak Centre China Merchant Tower in Sheung Wan was sold for HK\$65 million, translating to a unit price of HK\$40,123 per sq ft. A marginal drop in average prices on the back of an inactive market and a slump in transaction volumes indicates that investors stayed financially strong and did not feel the urge to sell at lower prices. ^{xiv}

3.8 Outlook

The overall economy and labour market continue to be affected by US-China trade tensions and continuing social unrest giving rise to investor hesitation. The uncertainties, together with increasing future supply and vacancy, are now impacting negatively on office rents. In the short term, with some expansion plans on hold by multinational companies and large banks, as well as the slow commitment to new supply in Kowloon East, office rents will continue to stay under downward pressure. CBD rents are illustrating a decrement in the face of negative net take-up, and it is therefore likely that the downward trend in office rents will persist in the coming months. Rents in Island East are likely to be flat because of improved accessibility and the relatively attractive rental levels compared to the CBD. Kowloon, however, might feel pressure on rental growth in view of the increased vacancy.

In general, office demand in Hong Kong is likely to be affected by dampened business sentiment. Companies in general appear to be taking a wait and see approach to their expansion plans in the short run. We thus expect rents in Central/Admiralty to decline slightly in 2020 in the light of negative net take-up. Rental growth in Kowloon might face pressure whereas Island East is expected to remain stable.

For the investment market, the prospect of a low yield environment should support long term investment activities as some funds remain cash-rich. However, in the face of the ongoing social unrest and the as yet unresolved US-China trade war, it is expected that prices of Grade A offices will be under pressure in 2020. We forecast strata-titled Grade A office prices to remain subdued in 2020, and we expect the 2020 Grade A office rents in the CBD to adjust downwards.

4 RETAIL MARKET OVERVIEW

4.1 Introduction

The retail market has been experiencing a significant downturn since the second quarter of 2019. According to the Census and Statistics Department, the total retail sales value and index as at the third quarter of 2019 decreased by 18.2% and 20.3% YOY respectively. It is expected that the retail sector will remain weak because of the prolonged social unrest as well as the unresolved US-China trade tensions.

4.2 Retail Stock

According to the Rating and Valuation Department, total stock at the end of 2018 amounted to over 123 million sq ft.

A popular shopping and entertainment spot for both visitors and locals, Yau Tsim Mong (which includes Tsim Sha Tsui, Yau Ma Tei and Mong Kok Districts) hosts a concentration of major shopping malls, including Harbour City in Tsim Sha Tsui and Langham Place in Mong Kok. Mong Kok is particularly popular among local youngsters and tourists, characterised by a balanced mix of street shop clusters. By the end of 2018, total private commercial stock in the Yau Tsim Mong area is expected to amount to 23.2 million sq ft, representing 46% of total stock in Kowloon and 19% of that in Hong Kong as a whole.

4.3 Supply

According to the Rating and Valuation Department, the supply of retail property has undergone continuous growth between 2014 and 2018, providing an average of approximately 1.1 million sq ft per annum. After a slight decrease in 2017, there was an almost 19% increment in completions in 2018. Kowloon area contributed 38% of the total supply in 2018, of which Yau Tsim Mong accounted for the largest proportion at 28%.

Supply is expected to remain flat in the coming two years. According to the Rating and Valuation Department, 1 million sq ft and 1.45 million sq ft of retail space is to be completed in 2019 and 2020 respectively. Supply in 2019 will mainly be concentrated in Yau Tsim Mong and the Island, each at 26%. In 2020, the main source of supply will be located in Sai Kung, Tsuen Wan and Wan Chai. These districts will account for 23%, 16% and 16% of the total completions respectively.

According to Colliers Research, the opening of V Walk in Nam Cheong, K11 Musea in Tsim Sha Tsui, and the extension of Citygate in Tung Chung, which feature retail+art and retailtainment, in the third quarter of 2019 has added a total of 1.7 million sq ft.

Valuation Report

4.4 Take-up and vacancy

Take-up in the past decade averaged 460,053 sq ft per annum. The take-up trended downward between 2013 and 2016 due to softened retail market sentiment. Take up rebounded in 2017 and 2018, reaching about 824,500 sq ft and 491,910 sq ft respectively. Vacancy declined to 7.2% in 2013 but edged up to 9.4% in 2018 in the face of softer retail sales.^{xv}

Retail sales showed a significant drop in the third quarter of 2019 due to slower Chinese economic growth and a relatively weaker RMB, and the continuing demonstrations in Hong Kong. Some retail shops have been forced to close their doors leading to a significant decline in retail sales value. According to Colliers research, the retail sales figure dropped 17.2% YOY based on July and August data. It is therefore expected that take-up will turn negative in 2020 and vacancy will rise.

4.5 Rental trends

The steady rental growth in the retail market came to an end in the third quarter of 2019. According to the Census and Statistics Department, retail sales of electrical goods and other consumer durables declined 16.5% YOY while that of jewellery, watches, clocks and valuable gifts recorded a corresponding fall of 14%. Total tourist arrivals dropped 43.7% YOY in October 2019, of which visitors from the Mainland China represented close to half. It is therefore likely that retail sales levels will remain low in 2020.

Overall high-street rents fell 7.1% QOQ in the third quarter of 2019. Causeway Bay and Mong Kok recorded the highest falls of 8.9% and 8.4% QOQ respectively. Rents in Tsim Sha Tsui were least affected among the core retail areas, declining by 4.3% QOQ in the third quarter. It is expected that the retail market will remain weak and rents will experience a decline in 2020. The uncertainties in both external and local markets will likely continue to weigh on Hong Kong tourism and retail sales performance. Retailers expansion and relocation plans are thus likely to be deferred.

4.6 Price trends

Prices of retail properties experienced robust growth between 2010 and 2013, averaging an increase of 27% per annum, according to the Rating and Valuation Department. Growth slowed in 2014 and picked up again towards the end of 2015. Following a fall in price levels in 2016 in a softened retail market, the market regained momentum in 2017 and 2018. However, prices started to decline from the first quarter of 2019. According to the Rating and Valuation Department, the price index dropped 15.9% YOY in October 2019. Retail investors remained cautious in the face of volatile economics and social unrest. We expect the retail property market to remain quiet in 2020 and prices will remain suppressed.

^{xv}Source: Rating and Valuation Department

4.7 Outlook

The prolonged US-China trade tensions and the continuing demonstrations in Hong Kong have impacted tourist arrivals, causing retail sales to fall significantly. The situation will persist should market conditions continue to worsen. It is expected that the retail market will remain weak and rents will experience a double-digit percentage decline in 2020.

Many retailers are being negatively affected by the social unrest especially those in areas where protests have been most common, and some of them have been forced to close during normal shopping hours. Various mall landlords have been providing rent relief on a one off basis to shore up tenants during such difficult times. It is expected that landlords will need to be more flexible in rental negotiations.

Despite the fact the Hong Kong retail market is facing challenges in the second half of 2019, international brands still view Hong Kong as one of the most valuable retail locations to enter the market if recent continuing social unrest does not continue to drag on sentiment.

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, the sixth supplemental deed dated 23 January 2015 and the seventh supplemental deed dated 1 June 2017 for the financial year ended 31 December 2019.

HSBC Institutional Trust Services (Asia) Limited

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

Hong Kong, 18 February 2020

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES AND FRAMEWORK

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 Board of Directors (the "Board") 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.

The major activities during the year 2019 are set out below:

General Mandate to Buy-back Units	<ul style="list-style-type: none"> A general mandate for buy-back no more than 10% of Units in the open market was granted by the Unitholders at the Annual General Meeting of Champion REIT held on 30 May 2019.
Establishment of a Nomination Committee	<ul style="list-style-type: none"> A Nomination Committee was established on 21 November 2019. The Nomination Committee was splitted from the existing Audit Committee. It is delegated by the Board of the REIT Manager with the responsibility to formulating policy, making recommendations to the Board on nominations, appointment or re-appointment of directors and Board succession planning.
Amendments to the Compliance Manual	<ul style="list-style-type: none"> During the year, the Compliance Manual of the REIT Manager had been updated to reflect the latest roles and responsibilities of executive officers, updates of the compliance procedures for Foreign Account Tax Compliance Act and Anti-Money Laundering and the governance structure in relation to the establishment of Nomination Committee.
Extension of Existing Connected Party Transaction Waiver and Proposed New Annual Caps for Certain Connected Party Transactions	<ul style="list-style-type: none"> An Ordinary Resolution in relation to the extension and modification of existing waiver and new annual caps in respect of the Connected Party Transactions between Champion REIT and Great Eagle Holdings Limited ("Great Eagle") and their respective associates was approved by the independent Unitholders at an Extraordinary General Meeting held on 18 December 2019. An approximately 99.98% of the votes were cast in favour of the Ordinary Resolution. Details of the transactions were set out in the circular to Unitholders dated 28 November 2019.

Corporate Governance Report

AUTHORISATION STRUCTURE

Champion REIT is a collective investment scheme constituted as a unit trust and authorised by the 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 Chief Executive Officer and Executive Director, Mr. Kwong Chi Kwong, the Chief Operating Officer – Risk Management and Ms. Lau Yee Tong, Yvonne, the Chief Operating Officer - Asset Management 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.

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 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.

Under the regulatory regime of SFC by classification of eight core functions, the Board has assigned each of the core functions to the designated management person as the Manager-In-Charge (“MIC”). Each of the MICs has acknowledged the appointment and particular responsibility. The core functions and the respective MICs according to the SFC Circular are set out below:–

Function	MIC(s)
1. Overall Management Oversight	Chief Executive Officer
2. Key Business Line	Chief Executive Officer
3. Operational Control and Review	Chief Operating Officer - Asset Management and Internal Audit Manager
4. Risk Management	Internal Audit Manager
5. Finance and Accounting	Senior Finance Manager and Business Development Director
6. Information Technology	Senior IT Project Manager*
7. Compliance	Compliance Manager
8. Anti-Money Laundering and Counter-Terrorist Financing	Chief Operating Officer – Risk Management and Compliance Manager

* Appointed as MIC on 2 December 2019

Corporate Governance Report

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 Board currently comprises 7 members, with 1 Executive Director and 2 Non-executive Directors and 4 Independent Non-executive Directors.

The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Dr. Lo Ka Shui who is a Non-executive Director provides leadership to the Board. The Chief Executive Officer is Ms. Wong Ka Ki, Ada who is an Executive Director is responsible for running business operations and execution of corporate strategies of Champion REIT. The composition of the Board of the REIT Manager during the year is set out below:

Non-executive Directors

LO Ka Shui (*Chairman*)

IP Yuk Keung, Albert

Executive Director

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

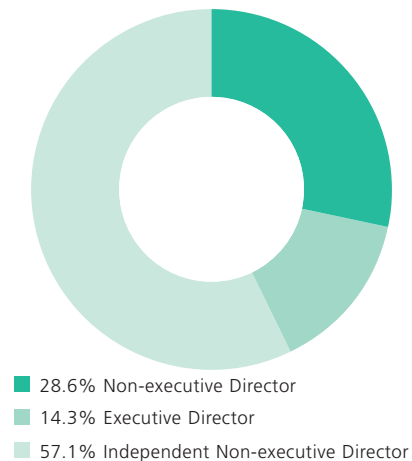
Independent Non-executive Directors

CHA Mou Sing, Payson

CHENG Wai Chee, Christopher

HO Shut Kan

SHEK Lai Him, Abraham



Biographical details of the Directors are set out in this Annual Report on pages 12 to 16 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.

Dr. Lo Ka Shui is the chairman and non-executive director of the manager of the publicly listed trust, Langham Hospitality Investments (the "Trustee-Manager"), of which Great Eagle has a 63.61% interests. Mr. Ip Yuk Keung, Albert was the executive director and chief executive officer of the Trustee-Manager until his retirement on 1 April 2019. 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
Non-executive Directors		
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
Executive Director		
WONG Ka Ki, Ada (<i>Chief Executive 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
Independent Non-executive Directors		
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, property investment and management	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 and investment	Chairing the Nomination Committee; 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

Corporate Governance Report

Board Diversity

The REIT Manager has in place a policy concerning diversity of board members. The REIT Manager believes that increasing diversity at the Board level is an important part of achieving its strategic objectives and to attract and retain the best people. Appointments to the Board shall be on merit, in the context of the skills and experience the Board as a whole requires to be effective, and against objective criteria and with due regard for the benefits of diversity. There are many considerations that factor into the nomination process including legal and regulatory requirements, best practices, and 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. But it will not set any restrictions like gender, age, cultural or educational background when short listing candidates. The REIT Manager believes that a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background and other qualities of Directors. 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.

Nomination

The REIT Manager has in place a Nomination Policy. The objective of the Nomination Policy is to assist the REIT Manager in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the REIT Manager.

The Nomination Committee is delegated by the Board of Directors to shortlist any and all candidates recommended as nominees for Directors to the Committee by any Directors or shareholders of the REIT Manager in accordance with the REIT Manager's Articles of Association and the Compliance Manual. The Nomination Committee was established in 2019 and was splitted from the existing Audit Committee. The Nomination Committee may also undertake its own search process for candidates and may retain the services of professional search firms or other third parties to assist in identifying and evaluating potential nominees. The Nomination Committee shall endeavour to find individuals of high integrity who possess the qualifications, qualities, skills, experience and independence (in case of Independent Non-executive Directors) to effectively represent the best interests of all Unitholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. The Nomination Committee may use any process it deems appropriate for the purpose of evaluating candidates including personal interviews, background checks, written submission by the candidates and third party references. As far as practicable, nominees for each election or appointment of Directors will be evaluated using a substantially similar process.

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 Nomination 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.

Corporate Governance Report

During the year ended 31 December 2019, the Directors received information packages with focus on the topics of the corporate governance, sustainability, shareholder relations, risk management, global business environment, global real estate market prospect, latest update of statutory and regulatory requirements and compliance issues relevant to the Directors. Each of the Directors has confirmed that they have participated in no less than 10 training hours during the year ended 31 December 2019, and all the Directors had provided confirmation on their respective training records to the REIT Manager.

Directors' Time Commitments

During the year ended 31 December 2019, each of the Directors has confirmed that they have spent sufficient time and attention to the affairs of Champion REIT.

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 2019, 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.

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.

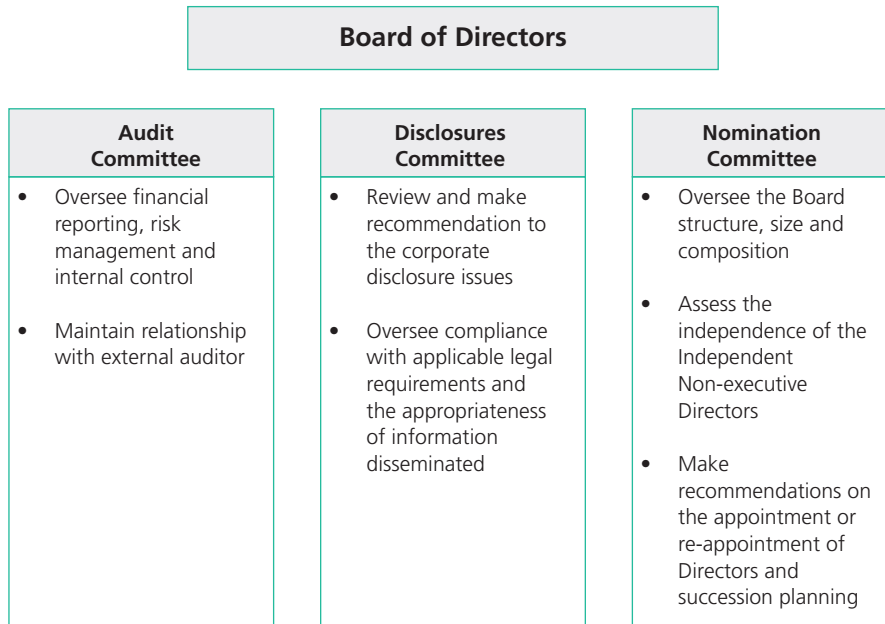
Pursuant to the announcement of Champion REIT dated 30 November 2012 and according to Clause 11.1.2 of the Trust Deed in relation to the notification from the REIT Manager to the Trustee in writing, the REIT Manager elected to receive 50% of the Manager’s Fee arising from the real estate owned by Champion REIT for the financial year 2019 in the form of Units and the remaining 50% in cash. The Manager’s Fee for the year ended 31 December 2019 amounted to approximately HK\$298 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 applicable to include the information about the remuneration of its Directors and its key executives in this report.

Delegation and Board Committees

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



Corporate Governance Report

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

Financial Reporting	<ul style="list-style-type: none"> • Reviewing financial statements
Risk Management and Internal Control	<ul style="list-style-type: none"> • Reviewing internal audit reports • 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
External Audit	<ul style="list-style-type: none"> • 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
Compliance	<ul style="list-style-type: none"> • Monitoring the procedures in place to ensure compliance with applicable legislation, the REIT Code and the Listing Rules • 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)

The Audit Committee currently comprises 3 Independent Non-executive Directors (namely, Mr. Shek Lai Him, Abraham, Mr. Cheng Wai Chee, Christopher and Mr. Ho Shut Kan) 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.

During the year 2019, 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 2019:

Summary of Major Work Done of the Audit Committee in 2019

Financial Reporting	<ul style="list-style-type: none"> • Reviewed the audited financial statements for the year ended 31 December 2018 and the unaudited financial statements for the six months ended 30 June 2019, with particular regard to the qualitative aspects of Champion REIT's accounting practices including the following major judgmental issues: <ol style="list-style-type: none"> (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. • Evaluated the effect on the results and financial position of Champion REIT for applications of new amendments/interpretations issued by The Hong Kong Institute of Certified Public Accountants • Reviewed the Annual Report comprising the Corporate Governance Report and the Sustainability Report; and the Final Results Announcement for the year ended 31 December 2018 • Reviewed the Interim Report and the Interim Results Announcement for the six months ended 30 June 2019 • Reviewed and approved the 2019 annual budget/forecasts and annual business plan prepared by the REIT Manager
Risk Management and Internal Control	<ul style="list-style-type: none"> • Reviewed the Reports of the Internal Auditor; • Reviewed the effectiveness of risk management and internal control systems
External Audit	<ul style="list-style-type: none"> • 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
Compliance	<ul style="list-style-type: none"> • Reviewed the legal and regulatory compliance matters for the year ended 31 December 2018 and for the six months ended 30 June 2019, which included, among others, the Reports on Connected Party Transactions

Corporate Governance Report

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

Corporate Disclosure	<ul style="list-style-type: none"> 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
Compliance	<ul style="list-style-type: none"> 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 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.

During the year 2019, two physical meetings of the Disclosures Committee were held and one written resolution 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 2019:

Summary of Major Work done of the Disclosures Committee in 2019

Corporate Disclosure	<ul style="list-style-type: none">• Reviewed and approved the Sustainability Report for the year ended 31 December 2018• Reviewed the disclosure checklist and approved the 2018 Annual Report of Champion REIT and announcements in relation to the final results for the year ended 31 December 2018, 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 2019 Annual General Meeting• Reviewed the disclosure checklist and approved the 2019 Interim Report of Champion REIT and announcements in relation to the interim results for the six months ended 30 June 2019, the payment of manager's fee in cash and units and the interim distribution.• Reviewed and approved the draft Announcements and Circular to Unitholders in relation to the extension 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 18 December 2019.
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Corporate Governance Report

Nomination Committee

The REIT Manager established a Nomination Committee in November 2019 and adopted the terms of reference in February 2020. The written terms of reference of the Nomination Committee are available upon request. The role of the Nomination Committee is to formulating policy and making recommendations to the Board on nominations, appointment or re-appointment of Directors and Board succession planning.

Nomination Committee's Principal Responsibilities

Board Composition	<ul style="list-style-type: none"> • Reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the strategy of Champion REIT • Identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships • Making recommendations on persons for appointment or re-appointment as Director to, and propose Directors for removal from, the full Board and make recommendations to the Board on the relevant matters relating to succession planning for Directors, in particular the Chairman and the Chief Executive Officer
Corporate Governance	<ul style="list-style-type: none"> • Assessing the independence of Independent Non-executive Directors • Formulating, maintaining and updating the Nomination Policy and Board Diversity Policy of the REIT Manager

The members of the Nomination Committee are appointed by the Board of Directors from among the Directors. It currently comprises a Non-executive Director (namely, Dr. Lo Ka Shui), three Independent Non-executive Directors (namely, Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan and Mr. Shek Lai Him, Abraham). Mr. Ho is the Chairman of the Nomination Committee.

The Nomination Committee did not hold any physical meetings in 2019 as the Committee was established newly in November 2019 and was splitted from the existing Audit Committee.

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.

Corporate Governance Report

The attendance of individual Directors and committee members in 2019 is set out in the table below:

Number of Meeting(s) Attended/Eligible to Attend in 2019

Name of Directors	Board Meeting	Audit Committee Meeting	Disclosures Committee Meeting	2019 Annual General Meeting	Extraordinary General Meeting
Non-executive Directors					
LO Ka Shui (<i>Chairman</i>)	4/4	2/2	2/2	✓	✓
IP Yuk Keung, Albert	4/4	–	–	✓	✓
Attendance Rate	100%	100%	100%		
Executive Director					
WONG Ka Ki, Ada (<i>Chief Executive Officer</i>)	4/4	–	2/2	✓	✓
Attendance Rate	100%	–	100%		
Independent Non-executive Directors					
CHA Mou Sing, Payson	3/4	–	–	–	–
CHENG Wai Chee, Christopher	4/4	2/2	–	✓	✓
HO Shut Kan	3/4	1/2	–	✓	✓
SHEK Lai Him, Abraham	4/4	2/2	2/2	✓	✓
Attendance Rate	88%	83%	100%		
Overall Attendance Rate	93%	88%	100%		

Company Secretary

G. E. Secretaries Limited is the Company Secretary of the REIT Manager. The primary contact person of the Company Secretary is Ms. Wong Mei Ling, Marina who is a fellow both of The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries. The Company Secretary of the REIT Manager comprises a team of qualified company secretarial professionals who work with the Compliance Manager closely to provide a full range of company secretarial support and compliance services 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.

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 currently comprises the Chief Executive Officer, the Investment and Investor Relations Director, the Business Development Director, the Chief Operating Officer – Asset Management, the Chief Operating Officer – Risk Management, the Senior Finance Manager, the Compliance Manager, the Internal Audit Manager and the Senior IT Project 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 2019, 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 provide the management and operating services to Champion REIT respectively. Whereas Longworth Management Limited (“Longworth”) acts as Office Sub-DMC Manager of Langham Place Officer Tower. The Great Eagle Properties Management Company, Limited (“GEPM”) acts as (1) Estate Manager of Langham Place Mall, (2) CAF Estate Manager and DMC Manager of Langham Place and (3) DMC Sub-manager of Three Garden Road. All of the above companies are wholly-owned subsidiaries of Great Eagle. Dr. Lo Ka Shui is a substantial shareholder, the Chairman and Managing Director of Great Eagle and a director of its affiliated companies. Moreover, Mr. Ip Yul Keung, Albert was a director of an affiliated company of Great Eagle until his retirement on 1 April 2019. Thereafter, Mr. Ip is not related to Great Eagle Group. 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”, “Cordis”, “Eaton” and their affiliate brands. Headquartered in Hong Kong, the Group develops, invests in and manages high quality residential, office, retail and hotel properties in Asia, North America, Australasia 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. There are no non-compete agreements between Great Eagle and Champion REIT.

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.

Corporate Governance Report

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 and 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.

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, the Nomination 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 employed a team of senior management and employees on a full time basis who will not maintain any other roles apart from their roles within the REIT Manager.
- 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\$2,590,000 (2018: HK\$2,180,000) for audit and audit related services, and HK\$664,000 (2018: HK\$640,700) 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 2019 annual general meeting of Champion REIT was held on 30 May 2019; Dr. Lo Ka Shui, Mr. Ip Yuk Keung, Albert, Ms. Wong Ka Ki, Ada, Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan 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.

In addition, an extraordinary general meeting of Champion REIT was held on 18 December 2019. Dr. Lo Ka Shui, Mr. Ip Yuk Keung, Albert, Ms. Wong Ka Ki, Ada, Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan and Mr. Shek Lai Him, Abraham attended the meeting and the independent financial advisor also attended the meeting to answer any questions raised by the Unitholders in respect of the extension of existing connected party transaction waiver and proposed new annual caps for certain connected party transactions

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.

Corporate Governance Report

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.

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 meetings, 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 and Trust Deed, the Trust shall distribute to Unitholders as dividends each year an amount not less than 90% of its audited annual net income after tax. Pursuant to the Trust Deed, The REIT Manager will endeavour to ensure that for there is at least one distribution period for each financial year and the last distribution period ends on the last day of the financial year. The effective payout ratio for the year ended 31 December 2019 is 95%.

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 change in the structure of the REIT Manager's fees;
- (d) any increase in the rate of the acquisition fees above the permitted limit or change in the structure of the acquisition fees.
- (e) any increase in the rate of the divestment fees above the permitted limit or change in the structure of the divestment fees.
- (f) any increase in the rate of the Trustee's fees above the permitted limit or change in the structure of the Trustee's fees;
- (g) certain modifications of the Trust Deed;
- (h) termination of Champion REIT;
- (i) merger of Champion REIT;
- (j) removal of Champion REIT's auditors and appointment of new auditors; and
- (k) 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 2019, the total number of issued Units of Champion REIT was 5,872,789,311. As compared with the position of 31 December 2018, a total of 25,696,507 new Units were issued during the year.

Date	Particulars	No. of Units
1 January 2019	Number of issued Units	5,847,092,804
8 March 2019	Issue of new Units to the REIT Manager at the price of HK\$6.46 per Unit (being the Market Price ascribed in the Trust Deed) as payment of 50% of the manager's fee in respect of the real estate held by Champion REIT of approximately HK\$73,714,000 payable by Champion REIT for the six months ended 31 December 2018	11,410,795
29 August 2019	Issue of new Units to the REIT Manager at the price of HK\$5.303 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\$75,757,000 payable by Champion REIT for the six months ended 30 June 2019	14,285,712
31 December 2019	Number of issued Units	5,872,789,311

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;

Corporate Governance Report

- (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 2019.

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 2019 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 2019.

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 "Code on Securities Dealings") 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 Code on Securities Dealings, 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 Code on Securities Dealings 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 Code on Securities Dealings throughout the year ended 31 December 2019.

The REIT Manager has in place a policy on the preservation and prevention of misuse of inside information setting out the principles and procedures for handling and disclosing inside information and such policy has been incorporated in the Compliance Manual and communicated to the REIT Manager's Directors, senior management and licensed representatives.

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 above restrictions on dealings will be regarded as equally applicable to any dealings by the close associates of Directors.

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 30 May 2019. During the year ended 31 December 2019, 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 2019.

Corporate Governance Report

RELEVANT INVESTMENTS

The full investment portfolio of the Relevant Investments (as defined in the Trust Deed) of Champion REIT as at 29 February 2020 is set out below:

As at 29 February 2020	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	61,812,000	0.0746%	N/A
NANFUN 4 ¹ / ₂ 09/ 20/22 EMTN	Bond	Singapore Exchange	BVI	USD	9,797,000	9,861,000	0.0119%	S&P BBB-
NANFUN 4 ⁷ / ₈ 05/29/24 EMTN	Bond	Singapore Exchange	BVI	USD	56,603,000	58,641,000	0.0707%	S&P BBB-
NWDEVL 5 ¹ / ₄ 02/26/21	Bond	HKEX	BVI	USD	41,574,000	40,100,000	0.0484%	N/A
PCCW 3 ³ / ₄ 03/08/23	Bond	Singapore Exchange	BVI	USD	49,641,000	51,523,000	0.0622%	S&P BBB
Total					224,911,000	221,937,000	0.2677%	

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, in all material respects, 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 2019 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 2019. The consolidated financial statements of Champion REIT and its controlled entities for the year ended 31 December 2019 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 2019 is set out in the Independent Auditor's Report on pages 134 to 138 of this Annual 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 Code on Real Estate Investment Trusts ("REIT Code"):

CONNECTED PARTY TRANSACTIONS WITH THE GREAT EAGLE CONNECTED PERSONS GROUP

The following tables set forth information on the connected party transactions between Champion REIT and the Great Eagle Connected Persons Group for the 12 months ended 31 December 2019 ("Year").

Great Eagle Holdings Limited ("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. 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.

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	284,000
Eagle Asset Management (CP) Limited	Subsidiary of Great Eagle	Leasing transaction ¹	375,000
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Leasing transaction ²	9,268,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Car parking fee	59,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Leasing transaction ³	8,281,000
Best Come Limited	Subsidiary of Great Eagle	Leasing transaction ⁴	40,077,000
Ease Treasure Investment Limited	Subsidiary of Great Eagle	Leasing transaction ⁵	11,065,000
Total			69,409,000⁷

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	83,000
Eagle Property Management (CP) Limited	Subsidiary of Great Eagle	Building management fee income ²	990,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Building management fee income ³	928,000
Best Come Limited	Subsidiary of Great Eagle	Building management fee income ⁴	4,078,000
Ease Treasure Investment Limited	Subsidiary of Great Eagle	Building management fee income ⁵	1,315,000
Total			7,394,000⁷

Connected Party Transactions – Estate Management Transactions (Expenditures)

Name of Connected Party	Relationship with Champion REIT	Nature of Connected Transaction	Expenses for the Year HK\$
The Great Eagle Engineering Company Limited	Subsidiary of Great Eagle	Repair and maintenance services	1,717,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Estate management expense	110,195,000 ⁶
Keysen Engineering Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	2,286,000
Toptech Co. Limited	Subsidiary of Great Eagle	Repair and maintenance services	1,232,000
The Great Eagle Properties Management Company, Limited	Subsidiary of Great Eagle	Repair and maintenance services	5,000
GE (LHIL) Lessee Limited	Subsidiary of Great Eagle	Promotion and marketing expense	31,000
Clever Gain Investment Limited	Subsidiary of Great Eagle	Marketing expense	287,000
Total			115,753,000⁷

Notes:

1. A security deposit by way of cash of approximately HK\$117,000 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\$2,661,000 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\$2,103,000 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\$8,236,000 and HK\$8,326,000 respectively provided by Best Come Limited were held by the Trust as at the Year end date.
5. Security deposits by way of corporate guarantee and cash in the amount of HK\$1,601,000 and HK\$1,661,000 respectively provided by Ease Treasure Investment Limited were held by the Trust as at the Year end date.
6. Out of this HK\$110,195,000, approximately HK\$106,997,000 represented the amount of reimbursement of estate management expenses paid under the Langham Place Mall Estate Management Agreement and remaining amount of approximately HK\$3,198,000 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.
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 13 December 2016:

	Annual Limit for the year ended 31 December 2019 HK\$
I. Revenue	
Rental income	86,056,000
Building management fee	10,089,000
Total:	96,145,000
II. Expenditure	
Estate management transactions	282,427,000
Potential property management agreement(s) transactions	48,989,000
Total:	331,416,000

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 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 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	106,997,000
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	3,198,000

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	3,648,000
Office Sub-DMC (sub-deed of mutual covenant) for Langham Place Office Tower	Longworth Management Limited (as Office Sub-DMC Manager of Langham Place Office Tower)	Subsidiary of Great Eagle	Building management fee expense ²	53,286,000
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 and reimbursement	136,263,000 ⁴
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	190,090,000 ⁵

Connected Party Transactions Report

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\$136,263,000, approximately HK\$83,014,000 represented the amount of property and lease management service fee paid, approximately HK\$43,687,000 represented the amount of rental commission paid and approximately HK\$9,562,000 represented the amount of reimbursement paid to The Great Eagle Properties Management Company, Limited as delegate for operating the carparks of Langham Place and Three Garden Road.
5. Out of this HK\$190,090,000, approximately HK\$170,540,000 represented the amount of building management fee paid under the DMC for Three Garden Road, approximately HK\$19,550,000 represented the amount of second cash contribution for footbridge renovation project at Three Garden Road as committed.

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\$297,677,000 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 2019. For the Year, the REIT Manager's fee paid and payable in the form of Units is in the amount of approximately HK\$148,838,000 and the REIT Manager's fee paid and payable in the form of cash is in the amount of approximately HK\$148,839,000.

Other Miscellaneous Expenditure

Each of an amount of HK\$16,000 and HK\$94,000 in respect of the venue rental fee for investor relations events, 2019 annual general meeting and extraordinary general meeting during the Year was paid by Champion REIT to Clever Gain Investment Limited and Best Come Limited respectively, both are 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	14,543,000
HSBC Group	Trustee Connected Persons	Bank charge	147,000
HSBC	Trustee Connected Persons	Interest income of interest rate swap	9,398,000
HSBC	Trustee Connected Persons	Loan interest/expense	5,929,000
Hang Seng Bank Limited ^{1,2} (“Hang Seng”)	Trustee Connected Persons	Loan interest/expense	176,407,000

Champion MTN Limited (a special purpose vehicle wholly-owned and controlled by Champion REIT) maintained currency swap 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) maintained interest rate swap contracts with HSBC during the Year. The total notional amount in respect of such swap contracts with HSBC was HK\$1,900,000,000.

Champion MTN Limited (a special purpose vehicle wholly-owned and controlled by Champion REIT) maintained an interest rate swap contract with HSBC during the Year. The total notional amount in respect of such swap contract with HSBC was HK\$200,000,000.

Connected Party Transactions Report

HSBC is one of the mandated lead arrangers under the Facility Agreement dated 14 June 2019 in respect of HK\$850 million revolving loan facility.

Notes:

1. Hang Seng is a subsidiary of HSBC. It acted as the facility agent for the term loan and revolving credit facilities of HK\$5,500 million which had been repaid in full during the year ended 31 December 2019.
2. Hang Seng is a subsidiary of HSBC. It acts as the facility agent for the term loan facility of HK\$5,800 million, with a total amount of HK\$5,800 million being drawn down on 28 June 2016 and an amount of HK\$2,115 million being repaid up to 31 December 2019. The total outstanding loan as at 31 December 2019 amounted to HK\$3,685 million. Syndicates of lenders of all the facilities include Hang Seng and HSBC. As at 31 December 2019, various portions of Three Garden Road were mortgaged to the syndicates of lenders as security.

Connected Party Transactions-Others

During the Year, the trustee fee of approximately HK\$14,685,000 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 WITH OTHER CONNECTED PERSONS

During the Year, the total amount of approximately HK\$3,959,000 in aggregate were incurred for services rendered by Colliers International (Hong Kong) Limited ("Colliers Hong Kong") and its associate Colliers International Agency Limited ("Colliers Agency"). Among these, approximately HK\$270,000 was the valuation fee incurred for services rendered by Colliers Hong Kong in the capacity as the principal valuer of Champion REIT and approximately HK\$3,689,000 was the rental commission incurred for agency services rendered by Colliers Agency.

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 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 insufficient 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 Securities and Futures Commission of Hong Kong ("SFC"). A copy of auditor's letter has been provided by the REIT Manager to the SFC.

Hong Kong, 18 February 2020

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 2019, 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:

Directors and Chief Executive of the REIT Manager

Name	Capacity	Nature of Interests	Number of Units/ Underlying Units Held	Total Number of Units/ Underlying Units Held ⁸	Percentage of Issued Units ⁹
Lo Ka Shui	Beneficial Owner	Personal Interests	3,592,007	3,914,649,972 ²	66.66
	Interests of Controlled Corporations	Corporate Interests	3,891,942,965 ¹		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	19,115,000		
Cheng Wai Chee, Christopher	Beneficiary of a Trust	Trust Interests	13,424,730	13,424,730 ⁵	0.23
Wong Ka Ki, Ada	Interests of Spouse	Family Interests	400,000	400,000 ⁶	0.01

REIT Manager

(also a substantial Unitholder)

Name	Total Number of Units/ Underlying Units Held ⁸	Percentage of Issued Units ⁹
Eagle Asset Management (CP) Limited	435,766,717	7.42

Substantial Unitholders

Name	Total Number of Units/ Underlying Units Held ⁸	Percentage of Issued Units ⁹
Great Eagle Holdings Limited ("Great Eagle")	3,888,684,355 ³	66.22
HSBC International Trustee Limited	3,874,225,462 ⁴	66.00
HKSCC Nominees Limited	2,319,805,089 ⁷	39.50
Top Domain International Limited	1,420,416,628	24.19
Keen Flow Investments Limited	1,071,375,933	18.24
Bright Form Investments Limited	680,232,558	11.58

Notes:

1. Among these 3,891,942,965 Units:
 - (a) 50,000 Units, 940,000 Units, 589,000 Units and 1,679,610 Units were respectively held by Alexander C H Limited, Elizabeth B K Limited, Katherine B L 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) 3,888,684,355 Units and/or underlying Units were indirectly held by Great Eagle as explained in Note 3 below. Dr. Lo Ka Shui is a substantial shareholder, the Chairman and Managing Director of Great Eagle.
2. The unitholdings of Dr. Lo Ka Shui and his associates increased by 20,728,329 Units/underlying Units in aggregate as compared with the position as at 30 June 2019.
3. The 3,888,684,355 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 2019 and 30 June 2019 respectively:

Name	Number of Units/ Underlying Units Held As at 31 December 2019	Number of Units/ Underlying Units Held As at 30 June 2019
Top Domain International Limited	1,420,416,628	1,420,416,628
Keen Flow Investments Limited	1,071,375,933	1,071,375,933
Bright Form Investments Limited	680,232,558	680,232,558
Eagle Asset Management (CP) Limited	435,766,717	421,481,005
Fine Noble Limited	200,007,503	200,007,503
Great Eagle Nichemusic Limited	61,345,743	61,345,743
The Great Eagle Company, Limited	16,444,273	14,273,273
Ecobest Ventures Limited	3,095,000	3,095,000

4. The disclosure was based on the latest Disclosure of Interest Form (with the date of relevant event as at 8 March 2019) received from HSBC International Trustee Limited ("HITL"). When compared with the position as at 30 June 2019, the unitholdings of HITL remained unchanged.

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 33.36% interests in Great Eagle as at 31 December 2019. Dr. Lo Ka Shui (a director 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 (all being directors of Great Eagle) are among the discretionary beneficiaries of the discretionary trust. Dr. Lo Ka Shui in his personal capacity, as controlling shareholder of certain companies and as the founder of another discretionary trust held 27.96% voting right in the capital of Great Eagle as at 31 December 2019.
5. The unitholdings of Mr. Cheng Wai Chee, Christopher remained unchanged as compared with the position as at 30 June 2019.
6. The unitholdings of Ms. Wong Ka Ki, Ada remained unchanged as compared with the position as at 30 June 2019.
7. 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 increased by 104,047 Units when compared with the position as at 30 June 2019.
8. Unless otherwise stated, the interests in Units disclosed above represent long positions in Units and/or underlying Units.
9. This percentage has been compiled based on the total number of issued Units of Champion REIT of 5,872,789,311 as at 31 December 2019.

Disclosure of Interests

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 2019 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 PERSON

As at 31 December 2019, 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 connected person (as defined under the REIT Code) of Champion REIT, held Units and/or underlying Units of Champion REIT:

Name	Total Number of Units Held	Percentage of Issued Units ²
HSBC Group	618,863 ¹	0.01

Notes:

1. 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 72,396 Units as compared with the position as at 30 June 2019.
2. This percentage has been compiled based on the total number of issued Units of Champion REIT of 5,872,789,311 as at 31 December 2019.

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 2019.

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 2019, Great Eagle owned 3,888,684,355 Units and/or underlying Units (66.22%) in Champion REIT and 1,354,942,495 share stapled units (63.45%) 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 2019 are disclosed as follows:

Great Eagle

Name of Directors and Chief Executive of the REIT Manager	Capacity	Nature of Interests	Number of Ordinary Shares/ Underlying Shares Held	Total Number of Ordinary Shares/ Underlying Shares Held
Lo Ka Shui	Beneficial Owner	Personal Interests	53,310,916	
	Interests of Controlled Corporations	Corporate Interests	83,082,446	
	Founder of a Discretionary Trust	Trust Interests	61,705,359	
	Discretionary Beneficiary of a Discretionary Trust	Discretionary Trust Interests	236,340,550	434,439,271
Ip Yuk Keung, Albert	Beneficial Owner	Personal Interests	60,000	60,000
Wong Ka Ki, Ada	Beneficial Owner	Personal Interests	347,909	347,909

Disclosure of Interests

Langham

Name of Directors and Chief Executive of the REIT Manager	Capacity	Nature of Interests	Number of Share Stapled Units/Underlying Share Stapled Units Held	Total Number of Share Stapled Units/Underlying Share Stapled Units Held
Lo Ka Shui	Beneficial Owner	Personal Interests	8,073,500	
	Interests of Controlled Corporations	Corporate Interests	1,357,002,495 ¹	
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	44,100,000	1,409,175,995
Ip Yuk Keung, Albert	Beneficial Owner and Jointly with Spouse	Joint Interests	2,015,000	2,015,000

Note:

- Among these 1,357,002,495 Units, Dr. Lo Ka Shui had a corporate interest in 2,060,000 share stapled units of Langham and was deemed to be interested in 1,354,942,495 share stapled units of Langham held by Great Eagle as at 31 December 2019 by virtue of being a substantial shareholder, the Chairman and Managing Director of Great Eagle.

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Independent Auditor's Report

Deloitte.

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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 139 to 194, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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
Valuation of investment properties	
<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 in determining the fair value. As disclosed in note 14 to the consolidated financial statements, the Group's investment properties amounted to HK\$81,178,000,000, representing 97% of the Group's total assets, with its change in fair value included in the consolidated income statement. During the year, a decrease in fair value of investment properties amounted to HK\$1,994,379,000.</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 with 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.
<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 14 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>	

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 Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are 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 HKSAs 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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.
- 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.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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 Chan Ching Chu.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 February 2020

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Rental income	6	2,742,400	2,641,489
Building management fee income	6	302,527	287,726
Rental related income	7	35,742	35,757
Total revenue		3,080,669	2,964,972
Property operating expenses	8	(600,027)	(559,649)
Net property income		2,480,642	2,405,323
Interest income		41,317	28,182
Manager's fee	9	(297,677)	(288,639)
Trust and other expenses		(23,895)	(27,399)
(Decrease) increase in fair value of investment properties	14	(1,994,379)	6,411,601
Finance costs	10	(485,470)	(428,187)
(Loss) profit before tax and distribution to unitholders	11	(279,462)	8,100,881
Income taxes	12	(290,860)	(288,824)
(Loss) profit for the year, before distribution to unitholders		(570,322)	7,812,057
Distribution to unitholders		(1,565,536)	(1,530,045)
(Loss) profit for the year, after distribution to unitholders		(2,135,858)	6,282,012
Basic (loss) earnings per unit	13	HK\$(0.10)	HK\$1.34

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
(Loss) profit for the year, after distribution to unitholders	(2,135,858)	6,282,012
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 and interest rate swaps designated as cash flow hedges	57,113	(8,540)
Reclassification of fair value adjustments to profit or loss	2,668	(509)
	59,781	(9,049)
Total comprehensive (expense) income for the year	(2,076,077)	6,272,963

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment properties	14	81,178,000	83,135,000
Notes receivables	15	215,093	218,705
Derivative financial instruments	21	61,007	39,399
Total non-current assets		81,454,100	83,393,104
Current assets			
Trade and other receivables	16	259,364	296,849
Tax recoverable		608	1,022
Derivative financial instruments	21	3,419	–
Time deposit with original maturity over three months	17	200,000	200,000
Bank balances and cash	17	1,761,655	1,399,530
Total current assets		2,225,046	1,897,401
Total assets		83,679,146	85,290,505
Current liabilities			
Trade and other payables	18	1,393,805	1,337,168
Deposits received		799,552	761,175
Tax liabilities		279,194	30,363
Distribution payable		783,505	799,023
Bank borrowings	19	843,510	3,696,715
Medium term notes	20	199,929	–
Total current liabilities		4,299,495	6,624,444
Non-current liabilities, excluding net assets attributable to unitholders			
Bank borrowings	19	8,597,553	5,771,097
Medium term notes	20	5,326,277	5,536,292
Derivative financial instruments	21	–	17,860
Deferred tax liabilities	22	621,499	579,884
Total non-current liabilities, excluding net assets attributable to unitholders		14,545,329	11,905,133
Total liabilities, excluding net assets attributable to unitholders		18,844,824	18,529,577
Net assets attributable to unitholders		64,834,322	66,760,928
Number of units in issue ('000)	23	5,872,789	5,847,093
Net asset value per unit	25	HK\$11.04	HK\$11.42

The consolidated financial statements on pages 139 to 194 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 18 February 2020 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 2019

	Issued units HK\$'000 (note 23)	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 2018	24,278,216	(6,187)	5,757,943	30,321,270	60,351,242
Profit for the year, after distribution to unitholders	–	–	–	6,282,012	6,282,012
Cash flow hedges	–	(9,049)	–	–	(9,049)
Total comprehensive (expense) income for the year	–	(9,049)	–	6,282,012	6,272,963
Issue of units	136,723	–	–	–	136,723
Net assets attributable to unitholders as at 31 December 2018	24,414,939	(15,236)	5,757,943	36,603,282	66,760,928
Loss for the year, after distribution to unitholders	–	–	–	(2,135,858)	(2,135,858)
Cash flow hedges	–	59,781	–	–	59,781
Total comprehensive income (expense) for the year	–	59,781	–	(2,135,858)	(2,076,077)
Issue of units	149,471	–	–	–	149,471
Net assets attributable to unitholders as at 31 December 2019	24,564,410	44,545	5,757,943	34,467,424	64,834,322

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 2019

	2019 HK\$'000	2018 HK\$'000
(Loss) profit for the year, before distribution to unitholders	(570,322)	7,812,057
Adjustments:		
– Decrease (increase) in fair value of investment properties	1,994,379	(6,411,601)
– Manager's fee paid and payable in units	148,838	144,319
– Non-cash finance costs	33,422	24,525
– Deferred tax	41,615	41,273
Total distributable income to unitholders (note (i))	1,647,932	1,610,573
Interim distribution, paid to unitholders (note (ii))	782,031	731,022
Final distribution, to be paid to unitholders (note (iii))	783,505	799,023
Total distributions for the year	1,565,536	1,530,045
Payout ratio	95.0%	95.0%
Distributions per unit:		
Interim distribution per unit, paid to unitholders (note (ii))	HK\$0.1332	HK\$0.1250
Final distribution per unit, to be paid to unitholders (note (iii))	HK\$0.1334	HK\$0.1364
	HK\$0.2666	HK\$0.2614

Notes:

- (i) Pursuant to the Trust Deed, the total distributable income is (loss) 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 year. Champion REIT is required to distribute to unitholders not less than 90% of its distributable income of each financial period.
- (ii) The interim distribution per unit of HK\$0.1332 (2018: HK\$0.1250) for the six months ended 30 June 2019 is calculated based on the interim distribution of HK\$782,031,000 (2018: HK\$731,022,000) for the period and 5,872,789,311 units (2018: 5,847,092,804 units) in issue as of 20 September 2019 (2018: 21 September 2018), which was the record date for the period. The distribution was paid to unitholders on 4 October 2019.
- (iii) The final distribution per unit of HK\$0.1334 for the year ended 31 December 2019 is calculated based on the final distribution to be paid to unitholders of HK\$783,505,000 for the period and 5,872,789,311 units in issue as at 31 December 2019. The final distribution per unit for the year ended 31 December 2019 will be subject to further adjustments upon the issuance of units between 1 January 2020 and 7 May 2020, which is the record date set for such period. The final distribution will be paid to unitholders on 15 May 2020.

The final distribution per unit of HK\$0.1364 for the year ended 31 December 2018 was calculated based on the final distribution of HK\$799,023,000 for the period and 5,858,503,599 units in issue as at 9 May 2019.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
OPERATING ACTIVITIES		
(Loss) profit before tax and distribution to unitholders	(279,462)	8,100,881
Adjustments for:		
Decrease (increase) in fair value of investment properties	1,994,379	(6,411,601)
Manager's fee paid and payable in units	148,838	144,319
Interest income	(41,317)	(28,182)
Finance costs	485,470	428,187
Exchange difference	843	(449)
Operating cash flow before movements in working capital	2,308,751	2,233,155
Decrease in trade and other receivables	38,903	2,395
Increase (decrease) in trade and other payables	56,215	(23,550)
Increase in deposits received	38,377	108,490
Cash generated from operations	2,442,246	2,320,490
Interest paid	(450,839)	(392,428)
Hong Kong Profits Tax paid	–	(250,710)
NET CASH FROM OPERATING ACTIVITIES	1,991,407	1,677,352
INVESTING ACTIVITIES		
Placement of time deposit with original maturity over three months	(200,000)	(200,000)
Release of time deposit with original maturity over three months	200,000	–
Additions to investment properties	(37,379)	(19,399)
Interest received	42,668	26,216
NET CASH FROM (USED IN) INVESTING ACTIVITIES	5,289	(193,183)
FINANCING ACTIVITIES		
Distribution paid	(1,581,356)	(1,461,999)
Repayment of bank loan	(5,815,000)	(725,000)
New bank loan raised	5,813,635	–
Bank origination fees paid	(51,850)	–
Medium term notes issue cost	–	(13,029)
Proceeds from issuance of medium term notes	–	925,000
NET CASH USED IN FINANCING ACTIVITIES	(1,634,571)	(1,275,028)
NET INCREASE IN CASH AND CASH EQUIVALENTS	362,125	209,141
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,399,530	1,190,389
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	1,761,655	1,399,530

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, the application of the new and 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.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The adjustment has had no material financial impact on the consolidated financial statements for the current period.
- (c) Effective on 1 January 2019, the Group has applied HKFRS 15 “Revenue from Contracts with Customers” to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the Manager anticipates that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in HKFRS 9 and HKAS 39 “Financial Instruments: Recognition and Measurement”, which require forward-looking analysis. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities’ hedging relationships are affected by the amendments. There are also amendments to HKFRS 7 “Financial Instruments: Disclosures” regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Manager anticipates that the application of this amendments to HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are prepared accordance with the relevant provisions of the Trust Deed and include applicable disclosures required by 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 at the end of each reporting period, 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.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation of consolidated financial statements (Continued)

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.

As at 31 December 2019, the Group's current liabilities exceeded its current assets by HK\$2,074,449,000 (2018: HK\$4,727,043,000). The Manager is of the opinion that, taking into account the internal financial resources and presently available banking facilities of the Group, the Group has sufficient working capital for its present requirement within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, adjusted to exclude any prepaid or accrued operating lease income. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. 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.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. 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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of HKFRS 16 on 1 January 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

In the event that lease incentives, including rent free periods, are given to enter into operating leases, such incentives are recognised as deferred lease payments. 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.

Rental income which are derived from the Group's ordinary course of business is presented as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Groups as lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Groups apply HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 market place. Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets

The Group recognises a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, notes receivables, time deposits with original maturity over three months and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on financial instruments has not increased significantly since initial recognition if financial instruments are determined to have low credit risk at the reporting date. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group consider that default has occurred when a financial asset is more than 90 days past due unless the Group have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a. significant financial difficulty of the issuer or the borrower;
- b. a breach of contract, such as a default or past due event;
- c. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- e. the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group write off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Financial liabilities

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.

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

Equity instruments

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.

Unit issue costs are 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

Derivatives are initially recognised at fair value at the date when 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges and cash flow hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the 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 is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income ("FVTOCI") in which case it is recognised in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI under HKFRS 9, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI under HKFRS 9, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Hedge accounting (Continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Derecognition of financial liabilities

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.

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 from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 arising on the settlement of monetary items, and on the retranslation of 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.

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 (loss) profit before tax and distribution to unitholders 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

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, the Manager 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 underlying 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 qualified valuers to perform the valuation. The Manager works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Manager 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 14.

In addition, as described in note 21, 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 and interest rate 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, cross currency swaps and interest rate swaps may arise. In relying on the valuation reports, the Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

5. 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, 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 2019

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Revenue	1,674,848	428,264	977,557	3,080,669
Segment results – Net property income	1,374,544	341,735	764,363	2,480,642
Interest income				41,317
Manager's fee				(297,677)
Trust and other expenses				(23,895)
Decrease in fair value of investment properties				(1,994,379)
Finance costs				(485,470)
Loss before tax and distribution to unitholders				(279,462)
Income taxes				(290,860)
Loss for the year, before distribution to unitholders				(570,322)
Distribution to unitholders				(1,565,536)
Loss for the year, after distribution to unitholders				(2,135,858)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
(Decrease) increase in fair value of investment properties	(1,397,379)	518,000	(1,115,000)	(1,994,379)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the year ended 31 December 2018

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Revenue	1,548,766	400,361	1,015,845	2,964,972
Segment results – Net property income	1,270,470	321,896	812,957	2,405,323
Interest income				28,182
Manager's fee				(288,639)
Trust and other expenses				(27,399)
Increase in fair value of investment properties				6,411,601
Finance costs				(428,187)
Profit before tax and distribution to unitholders				8,100,881
Income taxes				(288,824)
Profit for the year, before distribution to unitholders				7,812,057
Distribution to unitholders				(1,530,045)
Profit for the year, after distribution to unitholders				6,282,012
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss:				
Increase in fair value of investment properties	3,715,881	460,000	2,235,720	6,411,601

5. SEGMENT INFORMATION (CONTINUED)

Other segment information

Set out below is the reconciliation of the revenue from contracts with customers for the years with the amounts disclosed in the segment information.

For the year ended 31 December 2019

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Building management fee income	163,185	53,197	86,145	302,527
Rental related income	10,303	414	38,871	49,588
Revenue from contracts with customers	173,488	53,611	125,016	352,115
Rental income and other rental related income	1,501,360	374,653	852,541	2,728,554
	1,674,848	428,264	977,557	3,080,669

For the year ended 31 December 2018

	Three Garden Road HK\$'000	Langham Place Office Tower HK\$'000	Langham Place Mall HK\$'000	Consolidated HK\$'000
Building management fee income	158,293	50,584	78,849	287,726
Rental related income	12,824	291	40,108	53,223
Revenue from contracts with customers	171,117	50,875	118,957	340,949
Rental income and other rental related income	1,377,649	349,486	896,888	2,624,023
	1,548,766	400,361	1,015,845	2,964,972

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

The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice an amount that corresponds directly with the value to customer of the entity's performance completed to date on a time basis. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied performance obligation in relation to the building management service as at the end of the reporting period is not disclosed.

Total revenue arising from leases for the year ended 31 December 2019 includes variable lease payments that do not depend on an index or a rate of HK\$114,511,000, the remaining amounts are lease payments that are fixed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

	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 2019				
Additions to non-current assets	37,379	–	–	37,379
For the year ended 31 December 2018				
Additions to non-current assets	13,119	–	6,280	19,399

Segment assets and liabilities

For the purpose of performance assessment, fair values of investment properties are reviewed by the CODM. As at 31 December 2019, the fair value of Three Garden Road, Langham Place Office Tower and Langham Place Mall was HK\$48,530,000,000 (2018: HK\$49,890,000,000), HK\$10,428,000,000 (2018: HK\$9,910,000,000) and HK\$22,220,000,000 (2018: HK\$23,335,000,000), 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 both years.

6. RENTAL INCOME AND BUILDING MANAGEMENT FEE INCOME

	2019 HK\$'000	2018 HK\$'000
Property rental income	2,696,697	2,593,753
Car park income	45,703	47,736
Rental income	2,742,400	2,641,489

	2019 HK\$'000	2018 HK\$'000
Building management fee income	302,527	287,726

7. RENTAL RELATED INCOME

	2019 HK\$'000	2018 HK\$'000
Interest income from tenants	682	306
Promotional levy income	13,809	13,058
Sundry income	21,251	22,393
	35,742	35,757

8. PROPERTY OPERATING EXPENSES

	2019 HK\$'000	2018 HK\$'000
Building management expenses	336,025	321,956
Car park operating expenses	11,356	11,657
Government rent and rates	81,371	76,098
Legal cost and stamp duty	4,780	3,370
Promotion expenses	18,783	17,397
Property and lease management service fee	83,014	80,329
Property miscellaneous expenses	3,668	2,707
Rental commission	51,911	40,553
Repairs and maintenance	9,119	5,582
	600,027	559,649

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. 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 2019 and 31 December 2019, the Manager is entitled to receive 12% of the net property income for each of the six months ended 30 June 2019 and 31 December 2019 as remuneration.

	2019 HK\$'000	2018 HK\$'000
Manager's fee:		
In the form of units	148,838	144,319
In the form of cash	148,839	144,320
	297,677	288,639

Based on the election results on 30 November 2012, the Manager continued to receive 50% of the Manager's fee for each of the six months ended 30 June and 31 December 2019 arising from the properties currently owned by Champion REIT in the form of units calculated based on the issue price per unit as determined in accordance with the Trust Deed, and the balance of 50% in the form of cash.

10. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Finance costs represent:		
Interest expense on bank borrowings	281,174	246,034
Interest expense on medium term notes	202,824	181,961
Other borrowing costs	1,472	192
	485,470	428,187

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

	2019 HK\$'000	2018 HK\$'000
(Loss) profit before tax and distribution to unitholders has been arrived at after charging (crediting):		
Auditors' remuneration	2,590	2,180
Trustee's remuneration	14,685	14,084
Principal valuer's fee	270	312
Other professional fees and charges	2,779	9,105
Roadshow and public relations expenses	1,510	1,832
Bank charges	288	285
Exchange difference	843	(449)

12. INCOME TAXES

	2019 HK\$'000	2018 HK\$'000
Hong Kong Profits Tax:		
Current tax		
– Current year	249,435	247,375
– (Over)underprovision in prior years	(190)	176
	249,245	247,551
Deferred tax (note 22)		
– Current year	41,615	41,273
	290,860	288,824

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 (loss) profit before tax and distribution to unitholders as follows:

	2019 HK\$'000	2018 HK\$'000
(Loss) profit before tax and distribution to unitholders	(279,462)	8,100,881
Tax at the domestic income tax rate of 16.5%	(46,111)	1,336,645
Tax effect of income not taxable for tax purpose	(6,817)	(1,062,609)
Tax effect of expenses not deductible for tax purpose	344,001	15,166
(Over)underprovision in prior years	(190)	176
Utilisation of tax loss previously not recognised	(23)	(554)
Income taxes for the year	290,860	288,824

13. BASIC (LOSS) EARNINGS PER UNIT

The calculation of the basic (loss) earnings per unit before distribution to unitholders is based on the loss for the year before distribution to unitholders of HK\$570,322,000 (2018: profit for the year before distribution to unitholders of HK\$7,812,057,000) with the weighted average number of units of 5,864,870,564 (2018: 5,840,508,339) in issue during the year, taking into account the units issuable as Manager's fee for its service for each of the years ended 31 December 2019 and 2018.

There were no dilutive potential units in issue during the years ended 31 December 2019 and 2018, therefore the diluted (loss) earnings per unit has not been presented.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

14. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
FAIR VALUE		
At the beginning of the year	83,135,000	76,704,000
Additions during the year	37,379	19,399
(Decrease) increase in fair value	(1,994,379)	6,411,601
At the end of the year	81,178,000	83,135,000

The fair value of the Group's investment properties at 31 December 2019 and 31 December 2018 has been arrived at on the basis of valuation carried out by Colliers International (Hong Kong) Ltd., 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.

The Group leases the three investment properties, namely Three Garden Road, Langham Place Office Tower and Langham Place Mall, for generating rental income. Further details of the lease arrangements are set out in note 28.

As at 31 December 2019, certain investment properties with total fair value of HK\$24,861,360,000 (2018: HK\$49,890,000,000) have been mortgaged as security for credit facilities as detailed in note 19.

15. NOTES RECEIVABLES

As at 31 December 2019, the Group held unsecured bonds with aggregate carrying amounts of HK\$215,093,000 (2018: HK\$218,705,000), which are denominated in United States dollar ("US\$") with nominal values ranging from US\$1,200,000 to US\$7,640,000 (2018: 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% (2018: 3.75% to 5.875%) per annum and have maturity dates ranging from February 2021 to May 2024 (2018: February 2021 to May 2024).

16. TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	10,467	27,736
Deferred lease payments	166,052	169,575
Deposits, prepayments and other receivables	82,845	99,538
	259,364	296,849

Rental receivables from tenants, which are included in trade receivables, 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:

	2019 HK\$'000	2018 HK\$'000
0 – 3 months	10,467	27,736

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$10,467,000 (2018: HK\$27,736,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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For the year ended 31 December 2019

17. TIME DEPOSIT WITH ORIGINAL MATURITY OVER THREE MONTHS AND BANK BALANCES AND CASH

	2019 HK\$'000	2018 HK\$'000
Cash at bank	529,259	445,774
Time deposits with original maturity of three months or less	1,232,396	953,756
Bank balances and cash	1,761,655	1,399,530
	2019 HK\$'000	2018 HK\$'000
Time deposit with original maturity over three months but not exceeding one year	200,000	200,000

Bank balances carry interest at market rates of 0.125% to 1.1% (2018: 0.125% to 0.425%) per annum. Time deposits with original maturity of three months or less carry interest at market rates ranging from 2.34% to 3.12% (2018: 2.5% to 3.285%) per annum. Time deposit with original maturity over three months but not exceeding one year carries interest at market rate of 2.505% per annum (2018: 2.91%).

18. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	101,835	79,127
Rental received in advance	50,077	19,852
Other payables and accruals	278,418	274,714
Accrued stamp duty	963,475	963,475
	1,393,805	1,337,168

The accrual for stamp duty is based on the current stamp duty rate of 4.25% (2018: 4.25%) and the stated consideration of HK\$22,670,000,000 in the property sale and purchase agreements for the legal assignment of the investment properties which Champion REIT acquired the property 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:

	2019 HK\$'000	2018 HK\$'000
0 – 3 months	101,835	79,127

19. BANK BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Secured term loan	3,685,000	9,500,000
Unsecured term loan	4,963,635	–
Unsecured revolving loan	850,000	–
	9,498,635	9,500,000
Loan front-end fees	(57,572)	(32,188)
	9,441,063	9,467,812
The maturity of the bank borrowings is as follows:		
Within one year	843,510	3,696,715
More than one year but not more than two years	3,674,006	–
More than two years but not exceeding five years	4,923,547	5,771,097
	9,441,063	9,467,812
Less: Amount due within one year shown under current liabilities	(843,510)	(3,696,715)
	8,597,553	5,771,097

During 2018, the Group early repaid a total amount of HK\$725,000,000 of its secured term loan which fall due in June 2019. As at 31 December 2018, secured bank loans amounted to HK\$3,700,000,000 and HK\$5,800,000,000, bear interest at a floating rate of HIBOR plus 0.83% per annum and HIBOR plus 0.95% per annum and are repayable in full in June 2019 and June 2021, respectively.

During 2019, the Group arranged two unsecured banking facilities in a total amount of HK\$5,813,635,000 to fully refinance an outstanding amount of HK\$3,700,000,000 of its secured term loan which fall due in June 2019 and early repaid an amount of HK\$2,115,000,000 of its secured term loan which fall due in June 2021.

As at 31 December 2019, unsecured term loan and revolving loan facilities amounted to HK\$5,813,635,000 in aggregate, bear interest at a floating rate of HIBOR plus margin ranging from 0.938% to 0.95% per annum. Both the unsecured term loan and revolving loan facilities have a maturity date of June 2024.

As at 31 December 2019, secured term loan amounted to HK\$3,685,000,000, bears interest at a floating rate of HIBOR plus 0.95% per annum and is repayable in full in June 2021. As security for the term loan granted to the Group, investment properties with an aggregate fair value of HK\$24,861,360,000 as at 31 December 2019 (2018: HK\$49,890,000,000) together with the assignments of sales proceeds, insurance proceeds, rental income, revenue and all other income generated from these properties have been pledged to the banks.

Notes to the Consolidated Financial Statements

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20. MEDIUM TERM NOTES

	2019 HK\$'000	2018 HK\$'000
Medium term notes	5,552,670	5,569,091
Origination fees	(26,464)	(32,799)
	5,526,206	5,536,292
The maturity of the medium term notes is as follows:		
Within one year	199,929	–
More than one year but not more than two years	–	199,755
More than two years but not exceeding five years	3,839,407	3,651,822
Over five years	1,486,870	1,684,715
	5,526,206	5,536,292
Less: Amount due within one year shown under current liabilities	(199,929)	–
	5,326,277	5,536,292

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 interest 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 2019, the outstanding medium term notes comprised the following:

Notional amount	Maturity	Interest rate (p.a.)	Interest period
HK\$200,000,000	May 2020	2.85% ⁽ⁱ⁾	Annually
HK\$643,000,000	March 2022	3-month HIBOR plus 1.275%	Quarterly
US\$386,400,000	January 2023	3.75% ⁽ⁱⁱ⁾	Semi-annually
HK\$200,000,000	October 2024	2.75%	Annually
HK\$775,000,000	June 2025	2.85%	Annually
HK\$450,000,000	July 2025	4.00%	Semi-annually
HK\$275,000,000	April 2028	3.73%	Quarterly

(i) The fixed rate of 2.85% per annum is swapped to floating rate at 1-month HIBOR plus 0.67% per annum by the use of an interest rate swap as mentioned in note 21.

(ii) The foreign currency rate and interest rate are fixed by the use of cross currency swaps as mentioned in note 21.

The carrying amounts of the medium term notes approximate their fair values.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 HK\$'000	2018 HK\$'000
Non-current assets		
Cash flow hedge – interest rate swaps (note i)	34,344	35,268
Cash flow hedge – cross currency swaps (note ii)	26,663	–
Fair value hedge – interest rate swaps (note i)	–	4,131
	61,007	39,399
Current assets		
Fair value hedge – interest rate swap (note i)	3,419	–
Non-current liabilities		
Cash flow hedge – cross currency swaps (note ii)	–	17,860

Notes:

(i) Interest rate swaps

The Group entered into interest rate swap contracts of a total notional amount of HK\$4,950,000,000 (2018: HK\$3,450,000,000), out of which a total notional amount of HK\$1,900,000,000 (2018: HK\$1,900,000,000) were entered with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), a connected person as defined in the REIT Code, to minimise its exposure to fluctuations in interest rates of its bank borrowings which bear interest at a floating rate of HIBOR plus 0.95% per annum. The interest rate swaps and the corresponding bank borrowings have similar terms and the Manager considered that the interest rate swaps were highly effective hedging instruments and qualified as cash flow hedges. As at 31 December 2019, the interest rate swap contracts carry a weighted average swap rate (before interest margin) of 1.537% (2018: 1.550%) per annum and a weighted average tenure of 2.4 years (2018: 2.5 years).

During the year, the gain in change in fair values of the cross currency swaps and interest rate swaps under cash flow hedge amounting to HK\$57,113,000 (2018: loss in changes of HK\$8,540,000) has been recognised in other comprehensive income of which the fair value of the hedging instruments amounting to HK\$2,668,000 (2018: HK\$509,000) 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 and interest payments.

The Group also entered into an interest rate swap contract of a notional amount of HK\$200,000,000 to convert the fixed rate under the medium term notes as mentioned in note 20(i) to floating rate of 1-month HIBOR plus 0.67% per annum with HSBC. The interest rate swap qualifying as fair value hedge has a maturity date in May 2020, the same maturity date as the corresponding medium term notes. The loss in change in fair values of the interest rate swap under fair value hedge amounting to HK\$688,000 (2018: gain in changes of HK\$758,000) has been recognised directly in the consolidated income statement.

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21. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Cross currency swaps

The Group entered into cross currency swap contracts of a total notional amount of US\$386,400,000 with HSBC to minimise its exposure to fluctuations in foreign currency exchange rates and interest rate of the US\$ MTN, 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 notes have similar terms and the Manager considered that the cross currency swaps were highly effective hedging instruments and qualified as cash flow hedges. As at 31 December 2019, the medium term notes denominated in US\$ are fully hedged at a weighted average exchange rate of HK\$7.7595 to US\$1.00 and a fixed interest rate of 3.75% per annum. The cross currency swap contracts will be due in January 2023.

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

22. 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 2018	538,741	(130)	538,611
Charge to consolidated income statement during the year	41,143	130	41,273
As at 31 December 2018	579,884	–	579,884
Charge (credit) to consolidated income statement during the year	41,890	(275)	41,615
As at 31 December 2019	621,774	(275)	621,499

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 2019, the Group has unutilised tax losses amounting to HK\$499,943,000 (2018: HK\$498,418,000) available to offset against future profits. A deferred tax asset of HK\$1,665,000 (2018: HK\$ nil) has been recognised during the year. No deferred tax asset has been recognised in respect of the remaining HK\$498,278,000 (2018: HK\$498,418,000) due to unpredictability of future profit stream. Tax losses may be carried forward indefinitely.

23. ISSUED UNITS

	Number of units	HK\$'000
Balance at 1 January 2018	5,823,028,120	24,278,216
Payment of Manager's fee through issuance of new units during the year (note (i))	24,064,684	136,723
Balance at 31 December 2018	5,847,092,804	24,414,939
Payment of Manager's fee through issuance of new units during the year (note (i))	25,696,507	149,471
Balance at 31 December 2019	5,872,789,311	24,564,410

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\$	Number of units issued	Aggregate issue price HK\$'000
In 2019				
8 March 2019	1.7.2018 to 31.12.2018	6.460	11,410,795	73,714
29 August 2019	1.1.2019 to 30.6.2019	5.303	14,285,712	75,757
			25,696,507	149,471
In 2018				
1 March 2018	1.7.2017 to 31.12.2017	5.570	11,870,272	66,117
31 August 2018	1.1.2018 to 30.6.2018	5.790	12,194,412	70,606
			24,064,684	136,723

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24. MAJOR NON CASH TRANSACTIONS

During the year ended 31 December 2019, 25,696,507 (2018: 24,064,684) units were issued as payment for the Manager's fee, amounting to HK\$149,471,000 (2018: HK\$136,723,000).

25. 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 2019 of HK\$64,834,322,000 (2018: HK\$66,760,928,000) by the number of units in issue of 5,872,789,311 as at 31 December 2019 (2018: 5,847,092,804).

26. NET CURRENT LIABILITIES

At 31 December 2019, the Group's net current liabilities, calculated as current liabilities less current assets, amounted to HK\$2,074,449,000 (2018: HK\$4,727,043,000).

27. TOTAL ASSETS LESS CURRENT LIABILITIES

At 31 December 2019, the Group's total assets less current liabilities amounted to HK\$79,379,651,000 (2018: HK\$78,666,061,000).

28. OPERATING LEASE COMMITMENTS

At 31 December 2019, minimum lease payments receivable on leases are as follows:

	2019 HK\$'000
Within one year	2,416,172
In the second year	1,752,788
In the third year	1,153,944
In the fourth year	603,133
In the fifth year	349,847
Over five years	90,805
	6,366,689

At 31 December 2018, minimum lease payments receivable on leases are as follows:

	2018 HK\$'000
Within one year	2,332,632
In the second to fifth year inclusive	3,518,694
Over five years	193,298
	6,044,624

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\$114,511,000 (2018: HK\$188,050,000) 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.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

29. CAPITAL COMMITMENT

	2019 HK\$'000	2018 HK\$'000
Capital expenditure in respect of the improvement works of investment properties contracted for but not provided in the consolidated financial statements	–	19,551

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

30. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with connected and related parties:

	Notes	2019 HK\$'000	2018 HK\$'000
<i>Rental income</i>			
The Great Eagle Properties Management Company, Limited	(a)	8,340	7,216
Eagle Asset Management (CP) Limited	(a)	659	821
Eagle Property Management (CP) Limited	(a)	9,268	5,827
Best Come Limited	(a)	40,077	14,843
Ease Treasure Investment Limited	(a)	11,065	922
<i>Interest income</i>			
HSBC Group ^{1,3}	(b)	14,543	5,704
<i>Building management fee income</i>			
The Great Eagle Properties Management Company, Limited	(a)	928	884
Eagle Asset Management (CP) Limited	(a)	83	79
Eagle Property Management (CP) Limited	(a)	990	707
Best Come Limited	(a)	4,078	1,811
Ease Treasure Investment Limited	(a)	1,315	104
<i>Building management expenses and car park operating expenses</i>			
The Great Eagle Properties Management Company, Limited	(a)	293,945	282,921
Longworth Management Limited	(a)	53,286	50,741
<i>Property and lease management service fee</i>			
Eagle Property Management (CP) Limited	(a)	83,014	80,329
<i>Rental commission</i>			
Eagle Property Management (CP) Limited	(a)	43,687	27,845
Knight Frank Petty Limited ³	(c)	–	322
Colliers International Agency Limited ³	(c)	3,689	–
<i>Repairs and maintenance fee</i>			
The Great Eagle Engineering Company Limited	(a)	728	573
Toptech Co. Limited	(a)	1,139	1,673
Keysen Engineering Company, Limited	(a)	822	1,855
The Great Eagle Properties Management Company, Limited	(a)	5	8

30. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

	Notes	2019 HK\$'000	2018 HK\$'000
<i>Repairs and maintenance and improvement works contracted to</i>			
The Great Eagle Engineering Company Limited ³	(a)	1,717	421
Toptech Co. Limited ³	(a)	1,232	–
Keysen Engineering Company, Limited ³	(a)	2,286	2,101
The Great Eagle Properties Management Company, Limited ³	(a)	19,555	8
<i>Promotion expenses</i>			
GE (LHIL) Lessee Limited	(a)	21	–
<i>Property miscellaneous expenses</i>			
GE (LHIL) Lessee Limited	(a)	10	10
Clever Gain Investment Limited	(a)	287	268
<i>Trustee's fee and other expenses</i>			
HSBC Institutional Trust Services (Asia) Limited ³	(b)	14,685	14,084
Clever Gain Investment Limited	(a)	16	–
Best Come Limited	(a)	94	126
Great Eagle Hotels (UK) Limited	(a)	–	98
上海禮興酒店有限公司	(a)	–	15
HSBC Group ^{1,3}	(b)	147	135
<i>Manager's fee</i>			
Eagle Asset Management (CP) Limited	(a) & (d)	297,677	288,639
<i>Finance costs</i>			
Hang Seng Bank Limited ³	(b)	197,602	240,068
The Hongkong and Shanghai Banking Corporation Limited ³	(b)	(5,379)	200
<i>Valuation fee</i>			
Knight Frank Petty Limited ³	(c)	–	17
Colliers International (Hong Kong) Limited ³	(c)	270	295
<i>Additions to investment properties</i>			
The Great Eagle Properties Management Company, Limited	(a)	37,379	–

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30. CONNECTED AND RELATED PARTY TRANSACTIONS (CONTINUED)

Balances with connected and related parties are as follows:

	Notes	2019 HK\$'000	2018 HK\$'000
<i>Amount due from (included in trade and other receivables)</i>			
The Great Eagle Properties Management Company, Limited	(a) & (e)	40,970	55,105
Longworth Management Limited	(a) & (e)	15,311	15,311
Toptech Co. Limited	(a) & (e)	–	948
<i>Amount due to (included in trade and other payables)</i>			
Eagle Property Management (CP) Limited	(a) & (e)	18,875	20,678
Eagle Asset Management (CP) Limited	(a) & (e)	146,287	147,772
The Great Eagle Engineering Company Limited	(a) & (e)	1,247	376
The Great Eagle Properties Management Company, Limited	(a) & (e)	7,035	19,263
Keysen Engineering Company, Limited	(a) & (e)	1,007	1,632
Toptech Co. Limited	(a) & (e)	519	–
GE (LHIL) Lessee Limited	(a) & (e)	21	–
<i>Deposits placed with the Group for the lease of the Group's properties</i>			
Eagle Property Management (CP) Limited	(a) & (f)	1,414	559
The Great Eagle Properties Management Company, Limited	(a)	2,103	2,103
Best Come Limited	(a)	8,326	7,669
Eagle Asset Management (CP) Limited	(a)	117	117
Ease Treasure Investment Limited	(a)	1,661	1,661

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 associates² of the Trustee.
- (c) This company is the principal valuer of Champion REIT or its associates².
- (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 months period ended 30 June 2019 and 31 December 2019.
- (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 HK1,247,000 (2018: HK\$1,247,000) was received in lieu of deposit.
- 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 As defined in the REIT Code.
- ³ Connected party transactions as defined in the REIT Code.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Cross currency swaps	26,663	–
Interest rate swaps	37,763	39,399
	64,426	39,399
<i>Financial assets at amortised costs</i>		
Notes receivables	215,093	218,705
Trade and other receivables	19,955	40,371
Time deposit with original maturity over three months	200,000	200,000
Bank balances and cash	1,761,655	1,399,530
	2,196,703	1,858,606
Financial liabilities		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Cross currency swaps	–	17,860
<i>Financial liabilities at amortised costs</i>		
Trade and other payables	268,678	244,954
Rental deposits received	695,706	–
Distribution payable	783,505	799,023
Bank borrowings	9,441,063	9,467,812
Medium term notes	5,526,206	5,536,292
	16,715,158	16,048,081

(b) Financial risks management objectives and policies

The Group's major financial instruments include bank borrowings, medium term notes, notes receivables, trade and other receivables, bank balances and cash, time deposit with original maturity over three months, trade and other payables, rental deposits received, distribution payable 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements

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31. 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 21 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 is mainly concentrated on the fluctuations of HIBOR arising from the Group's variable-rate bank borrowings and medium term notes (see notes 19 and 20 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 manages its interest rate risk for variable-rate bank borrowings by entering into interest rate swaps to hedge against its exposures to interest rate on certain variable-rate bank borrowings. The Manager will continue to monitor the interest rate risk to the Group and take further actions by entering interest rate swaps 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 notes, 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 (2018: 50) basis point increase or decrease is used which represents the Manager's assessment of the reasonably possible change in interest rates.

If the interest rates have been higher or lower and all other variables were held constant, the Group's (loss) profit before tax and distribution to unitholders for the year ended 31 December 2019 would increase/decrease by HK\$26,958,000 (2018: decrease/increase by HK\$34,465,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate term loans and medium term notes which are not hedged and has an aggregate amount of HK\$5,392,000,000 (2018: HK\$6,893,000,000).

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iii) *Credit risk and impairment assessment*

As at 31 December 2019, 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 regularly reviews the recoverable amount of each individual trade debtor and the credit ratings of notes receivables 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 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.

The credit risk on derivative financial instrument is limited because the counterparties are banks with external high credit rating assigned by international credit-rating agencies.

Based on the ECL assessment, the credit exposures for all the financial assets, which are subject to ECL assessment, are considered as low risk because the counterparties have a low risk of default and does not have material past-due amounts. During the year ended 31 December 2019, no loss allowance provision for the amounts was recognised.

(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 issued by the Securities and Futures Commission of Hong Kong concerning limits on total borrowings and monitors the level of borrowings to be within the permitted limit.

The Group has cash and cash equivalents and time deposits with original maturity over three months of a total of HK\$1,961,655,000 as at 31 December 2019 (2018: HK\$1,599,530,000). In addition to the cash resources, the Group has available borrowing facilities amounting to HK\$9,785,000,000 (2018: HK\$9,800,000,000), of which HK\$9,498,635,000 (2018: HK\$9,500,000,000) was drawn as at 31 December 2019. The undrawn committed facility in the form of revolving credit facility amounted to HK\$286,365,000 as at 31 December 2019 (2018: HK\$300,000,000).

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31. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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\$2,543,000,000 and US\$386,400,000 as at 31 December 2019 (2018: HK\$2,543,000,000 and US\$386,400,000).

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 revolving credit facility of HK\$286,365,000 (2018: HK\$300,000,000) and a balance of approximately HK\$2,236,000,000 (2018: HK\$2,262,000,000) 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 2019, the Group's current liabilities exceeded its current assets by HK\$2,074,449,000 (2018: HK\$4,727,043,000). The Manager is of the opinion that, taking into account the internal financial resources and presently available banking facilities of the Group, the Group has sufficient working capital for its present requirement within one year from the end of the reporting period. Hence, the 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 2019, the gearing ratio was 18.0% (2018: 17.6%). The ratio is calculated as total borrowings (principal amounts of bank borrowings and medium term notes) divided by total assets of the Group.

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.

31. 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 2019							
<i>Non-interest bearing</i>							
Trade and other receivables	–	19,955	–	–	–	19,955	19,955
<i>Variable interest rate</i>							
Bank balances and cash	2.10	1,761,705	–	–	–	1,761,705	1,761,655
<i>Fixed interest rate</i>							
Notes receivables	4.95	7,944	106,089	121,543	–	235,576	215,093
Time deposit with original maturity over three months	2.51	200,000	–	–	–	200,000	200,000
		207,944	106,089	121,543	–	435,576	415,093
Total		1,989,604	106,089	121,543	–	2,217,236	2,196,703
<i>Non-interest bearing</i>							
Trade and other payables		(268,678)	–	–	–	(268,678)	(268,678)
Rental deposits received		(250,171)	(142,010)	(303,525)	–	(695,706)	(695,706)
Distribution payable		(783,505)	–	–	–	(783,505)	(783,505)
		(1,302,354)	(142,010)	(303,525)	–	(1,747,889)	(1,747,889)
<i>Variable interest rate instruments</i>							
Bank borrowings	3.35	(1,145,546)	(3,919,742)	(5,051,114)	–	(10,116,402)	(9,441,063)
Medium term notes	3.70	(23,809)	(23,809)	(648,952)	–	(696,570)	(643,000)
		(1,169,355)	(3,943,551)	(5,700,066)	–	(10,812,972)	(10,084,063)
<i>Fixed interest rate instruments</i>							
Medium term notes	3.56	(374,409)	(168,709)	(3,546,500)	(1,575,989)	(5,665,607)	(4,883,206)
Total		(2,846,118)	(4,254,270)	(9,550,091)	(1,575,989)	(18,226,468)	(16,715,158)

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31. 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 2018							
<i>Non-interest bearing</i>							
Trade and other receivables	-	40,371	-	-	-	40,371	40,371
<i>Variable interest rate</i>							
Bank balances and cash	1.68	1,399,642	-	-	-	1,399,642	1,399,530
<i>Fixed interest rate</i>							
Notes receivables	4.95	7,987	10,463	173,840	55,034	247,324	218,705
Time deposit with original maturity over three months	2.91	200,000	-	-	-	200,000	200,000
		207,987	10,463	173,840	55,034	447,324	418,705
Total		1,648,000	10,463	173,840	55,034	1,887,337	1,858,606
<i>Non-interest bearing</i>							
Trade and other payables	-	(244,954)	-	-	-	(244,954)	(244,954)
Distribution payable	-	(799,023)	-	-	-	(799,023)	(799,023)
		(1,043,977)	-	-	-	(1,043,977)	(1,043,977)
<i>Variable interest rate instruments</i>							
Bank borrowings	3.13	(3,940,336)	(185,247)	(5,891,081)	-	(10,016,664)	(9,467,812)
Medium term notes	3.66	(23,559)	(23,559)	(672,449)	-	(719,567)	(643,000)
		(3,963,895)	(208,806)	(6,563,530)	-	(10,736,231)	(10,110,812)
<i>Fixed interest rate instruments</i>							
Medium term notes	3.55	(175,024)	(375,024)	(3,477,324)	(1,831,834)	(5,859,206)	(4,893,292)
Total		(5,182,896)	(583,830)	(10,040,854)	(1,831,834)	(17,639,414)	(16,048,081)

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

(iv) Liquidity and capital risk management (Continued)

Liquidity and interest risk tables (Continued)

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. 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.

	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 2019						
<i>Derivatives – net settlement</i>						
Cross currency swaps	(495)	(700)	44,095	–	42,900	26,663
Interest rate swaps	32,350	27,536	39,888	–	99,774	37,763
As at 31 December 2018						
<i>Derivatives – net settlement</i>						
Cross currency swaps	785	(495)	(10,339)	–	(10,049)	(17,860)
Interest rate swaps	20,755	25,775	11,626	–	58,156	39,399

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

32. 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 assets and liabilities are measured at fair value at the end of the reporting period.

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
	2019 HK\$'000	2018 HK\$'000		
Cross currency swaps classified as derivative financial instruments in the consolidated statement of financial position	26,663	(17,860)	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 (if applicable), discounted at a rate that reflects the credit risk of various counterparties.
Interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	37,763	39,399	Level 2	Discounted cash flow. Future cash flows are estimated based on interest rates (from observable interest rates at the end of the reporting period) and contracted forward rates (if applicable), discounted at a rate that reflects the credit risk of various counterparties.

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

The fair values of financial assets and financial liabilities that are not measured at fair value on a recurring basis 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.

33. RECONCILIATION OF LIABILITIES AND RELATED ASSETS ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities and related assets arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Derivative financial instruments HK\$'000	Interest payable HK\$'000	Bank borrowings HK\$'000	Medium term notes HK\$'000	Distribution payable HK\$'000	Total HK\$'000
At 1 January 2018	(18,913)	66,443	10,172,623	4,612,054	730,979	15,563,186
Cash flows	(11,166)	(381,262)	(725,000)	911,971	(1,461,999)	(1,667,456)
Finance costs (note)	–	396,189	20,189	5,093	–	421,471
Foreign exchange translations	–	143	–	7,174	–	7,317
Other changes						
Fair value adjustments	8,540	–	–	–	–	8,540
Distribution declared	–	–	–	–	1,530,045	1,530,045
Other non-cash changes	–	–	–	–	(2)	(2)
At 31 December 2018	(21,539)	81,513	9,467,812	5,536,292	799,023	15,863,101
Cash flows	14,226	(465,065)	(53,215)	–	(1,581,356)	(2,085,410)
Finance costs (note)	–	466,423	26,466	6,269	–	499,158
Foreign exchange translations	–	–	–	(16,355)	–	(16,355)
Other changes						
Fair value adjustments	(57,113)	–	–	–	–	(57,113)
Distribution declared	–	–	–	–	1,565,536	1,565,536
Other non-cash changes	–	–	–	–	302	302
At 31 December 2019	(64,426)	82,871	9,441,063	5,526,206	783,505	15,769,219

Note: The amounts reclassified from hedging reserve are excluded in the reconciliation.

34. EVENT AFTER THE END OF THE REPORTING PERIOD

Office demand and retail sentiments are expected to be severely impacted by the recent outbreak of a coronavirus (COVID-19). Therefore, the Group expects weak performance from commercial properties in Hong Kong in 2020. Given the dynamic nature of the circumstances, the related impact on our Group's consolidated results of operations, cash flows and financial condition could not be reasonably estimated at this stage. The related impacts will be reflected in the Group's 2020 interim and annual consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF CHAMPION REIT

The following principal subsidiaries are wholly-owned by Champion REIT as at 31 December 2019 and 2018.

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	HK\$1,000	Property investment
CP (A1) Limited	HK\$1	Property investment
CP (B1) Limited	HK\$1	Property investment
CP (MC) Limited	HK\$1	Property investment
CP (PH) Limited	HK\$1	Property investment
CP (SH) Limited	HK\$1	Property investment
CP (WC) Limited	HK\$1	Property investment
CP Finance Limited	HK\$1	Financing
CP (Portion A) Limited	HK\$2	Property investment
CP (Portion B) Limited	HK\$2	Property investment
CP Success Limited	HK\$1	Financing
CP Wealth Limited	HK\$1	Financing and Treasury
Elegant Wealth Limited	HK\$1	Property investment
Maple Court Limited	HK\$2	Property investment
Panhy Limited	HK\$2	Property investment
Renaissance City Development Company Limited	HK\$20	Property investment
Shine Hill Development Limited	HK\$1,000,000	Property investment
Trump Treasure Limited	HK\$1	Treasury
Well Charm Development Limited	HK\$2	Property investment
Incorporated in the Cayman Islands and indirectly owned and controlled by Champion REIT:		
Champion MTN Limited	US\$1	Medium term notes issuer
Ernest Limited	US\$100	Investment holding
Incorporated in the British Virgin Islands and indirectly owned and controlled by Champion REIT:		
EAM-Champion REIT Limited	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.

Except for Champion MTN Limited which has issued medium term notes as detailed in note 20, no other subsidiaries had issued any debt securities at 31 December 2019 and 2018 at any time during both years.

Major Real Estate Agents and Contractors

TOP FIVE ESTATE AGENTS

The top five real estate agents and their respective commission paid for the reporting period were given below:

Real estate agents	Nature of service	Commission paid (HK\$'000)	Relevant cost (%)
Eagle Property Management (CP) Limited	Leasing	43,687	84.2
Colliers International Agency Limited	Leasing	3,689	7.1
Cushman & Wakefield (HK) Limited	Leasing	2,528	4.9
Midland Realty (Comm.) Limited	Leasing	577	1.1
Century 21 Alliances Realty Limited	Leasing	505	1.0
Total		50,986	98.3

TOP FIVE CONTRACTORS

The top five contractors and their respective value of service for the reporting period were given below:

Contractors	Nature of service	Value of contract (HK\$'000)	Relevant cost (%)
The Great Eagle Properties Management Company, Limited	Building management	313,500	65.1
Eagle Property Management (CP) Limited	Property and lease management	83,014	17.2
Longworth Management Limited	Building management	53,286	11.1
Makeitloud Marketing Limited	Promotion expenses	5,022	1.0
Keysen Engineering Company, Limited	Repairs and maintenance expenses	2,286	0.5
Total		457,108	94.9

Performance Table

	2019	2018	2017	2016	2015
As at 31 December:					
Net asset value (HK\$'000)	64,834,322	66,760,928	60,351,242	50,534,753	48,468,147
Net asset value per unit (HK\$)	11.04	11.42	10.36	8.72	8.40
The highest traded price during the period (HK\$)	6.89	5.86	6.25	5.00	4.59
The highest premium of the traded price to net asset value per unit ¹	N/A	N/A	N/A	N/A	N/A
The lowest traded price during the period	4.88	5.13	4.18	3.35	3.57
The highest discount of the traded price to net asset value per unit	55.8%	55.1%	59.7%	61.6%	57.5%
For the year ended 31 December:					
The distribution yield per unit ²	5.2%	4.9%	4.2%	5.5%	5.1%
The net (loss) profit yield per unit ³	(1.9%)	24.9%	33.4%	13.1%	14.8%

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\$0.2666 (which calculation was set out in the Distribution Statement) for the year ended 31 December 2019 over the closing unit price of HK\$5.15 recorded on 31 December 2019.
3. Net loss yield per unit is calculated based on the loss for the year before distribution to unitholders per unit for the year ended 31 December 2019 over the closing unit price of HK\$5.15 recorded on 31 December 2019.

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
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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

Executive Director

WONG Ka Ki, Ada (*Chief Executive 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
HO Shut Kan
LO Ka Shui

DISCLOSURES COMMITTEE OF THE REIT MANAGER

WONG Ka Ki, Ada (*Chairman*)
LO Ka Shui
SHEK Lai Him, Abraham

NOMINATION COMMITTEE OF THE REIT MANAGER

HO Shut Kan (*Chairman*)
CHENG Wai Chee, Christopher
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
DBS Bank Ltd., Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited
Oversea-Chinese Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISOR

Baker & McKenzie

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

UNIT REGISTRAR AND TRANSFER OFFICE

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