
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution licensed to deal in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your units in Champion REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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ChampionREIT

冠君產業信託

Champion Real Estate Investment Trust

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

(Stock Code: 2778)

Managed by

Eagle Asset Management
Eagle Asset Management (CP) Limited

CIRCULAR TO UNITHOLDERS IN RELATION TO

(1) EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONNECTED PARTY TRANSACTIONS

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING AND CLOSURE OF REGISTER OF UNITHOLDERS

**Independent Financial Adviser to the
Independent Board Committee of the REIT Manager,
the Independent Unitholders and the Trustee**



Alliance Capital Partners Limited
同人融資有限公司

A letter from the Board is set out on pages 6 to 21 of this Circular.

A notice convening the extraordinary general meeting (“EGM”) to be held at Eaton Club, 5/F Champion Tower, Three Garden Road, Central, Hong Kong on Wednesday, 18 December 2019 at 3:30 p.m. is set out on pages N1 to N3 of this Circular.

Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to the registered office of the REIT Manager at Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

28 November 2019



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CORPORATION INFORMATION

Champion REIT	Champion Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time
REIT Manager	Eagle Asset Management (CP) Limited Suite 3008, 30th Floor, Great Eagle Centre 23 Harbour Road Wanchai Hong Kong
Directors of the REIT Manager	
<i>Non-executive Directors:</i>	Dr. Lo Ka Shui (<i>Chairman</i>) Mr. Ip Yuk Keung, Albert
<i>Executive Director:</i>	Ms. Wong Ka Ki, Ada (<i>Chief Executive Officer</i>)
<i>Independent Non-executive Directors:</i>	Mr. Cha Mou Sing, Payson Mr. Cheng Wai Chee, Christopher Mr. Ho Shut Kan Mr. Shek Lai Him, Abraham
Trustee	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
Unit Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Legal Adviser to the REIT Manager	Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road, Quarry Bay Hong Kong
Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee	Alliance Capital Partners Limited Unit 1502-03A, 15th Floor, Wing On House 71 Des Voeux Road Central Hong Kong

DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:

2008 Circular	the circular dated 16 February 2008 issued by Champion REIT to the Unitholders
2008 CPT Waiver	the waiver from strict compliance with the requirements of Chapter 8 of the REIT Code granted by the SFC on 28 February 2008 in respect of certain connected party transactions of Champion REIT
2010 Circular	the circular dated 30 November 2010 issued by Champion REIT to the Unitholders
2010 Extended Waiver	has the meaning given to this term in the section headed “2019 Waiver Extension — Background”
2013 Circular	the circular dated 21 November 2013 issued by Champion REIT to the Unitholders
2013 Extended Waiver	has the meaning given to this term in the section headed “2019 Waiver Extension — Background”
2016 Circular	the circular dated 25 November 2016 issued by Champion REIT to the Unitholders
2016 Extended and Modified Waiver	has the meaning given to this term in the section headed “2019 Waiver Extension — Background”
2016 Waiver Extension and Modification	has the meaning given to this term in the 2016 Circular
2019 Extended Waiver	the resulting extended 2016 Extended and Modified Waiver, if the proposed 2019 Waiver Extension is approved by the Independent Unitholders at the EGM
2019 Waiver Extension	has the meaning given to this term in the section headed “2019 Waiver Extension — Extension of the 2016 Extended and Modified Waiver and New Annual Caps”
Board	the board of Directors
Champion REIT	Champion Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time
Connected Party Transactions	has the meaning given to this term in the section headed “2019 Waiver Extension — Background”

DEFINITIONS

connected person	has the meaning ascribed to this term in the REIT Code
Directors	the directors of the REIT Manager
EGM	the extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice
EGM Notice	the notice included in this Circular in respect of the extraordinary general meeting of Unitholders to consider and, if thought fit, approve the 2019 Waiver Extension and the New Annual Caps
GE Entities	each of the subsidiaries (as defined under the SFO) of Great Eagle
GE Holders	collectively, Top Domain International Limited, Keen Flow Investments Limited and Bright Form Investments Limited, all being wholly owned subsidiaries of Great Eagle and each being a significant holder of Champion REIT holding more than 10% of the total issued Units of Champion REIT
Great Eagle	Great Eagle Holdings Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 41)
Great Eagle Connected Persons Group	any person who is a connected person of Champion REIT by virtue of its relationship (including but not limited to a director, holding company, subsidiary or associate company) with the GE Holders or the REIT Manager
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China
Independent Board Committee	the independent committee established by the Board of the REIT Manager to advise the Independent Unitholders on the 2019 Waiver Extension and the New Annual Caps, comprising Mr. Cha Mou Sing, Payson, Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan and Mr. Shek Lai Him, Abraham, being all of the independent non-executive Directors of the REIT Manager
Independent Financial Adviser	Alliance Capital Partners Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO and in its capacity as the independent financial adviser for the purpose of paragraph 10.10(p) of the REIT Code

DEFINITIONS

Independent Unitholders	Unitholders other than those who have a material interest in the relevant transactions, within the meaning of paragraph 8.11 of the REIT Code
Latest Practicable Date	18 November 2019, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular
New Annual Caps	the proposed new annual monetary limits for the Connected Party Transactions for the years ending 31 December 2020, 2021 and 2022 respectively, as set out in the section headed “New Annual Caps” of this Circular
Ordinary Resolution	a resolution of Unitholders passed by a simple majority of the votes of those present, whether in person or by proxy, and entitled to vote, where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of Units in issue
PMA Transactions	has the meaning given to this term in the 2016 Circular
Potential PMA Transactions	has the meaning given to this term in the 2016 Circular
Potential Property Management Agreement(s)	has the meaning given to this term in the 2016 Circular
Record Date	18 December 2019
Relevant Company	SFK Construction Holdings Limited, a company incorporated in Bermuda with limited liability
Relevant Company Connected Persons Group	the related trust and companies of the Relevant Company, or any person who is a connected person of Champion REIT as a result of its relationship with Relevant Company
REIT Code	the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being
REIT Manager	Eagle Asset Management (CP) Limited, as manager of Champion REIT
SFC	The Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being
significant holder	has the meaning ascribed to this term in the REIT Code

DEFINITIONS

Specified PMA Transactions	has the meaning given to this term in the 2016 Circular
Specified Property Management Agreement	the property management agreement dated 26 April 2006 entered into between the REIT Manager and Eagle Property Management (CP) Limited
Stock Exchange	The Stock Exchange of Hong Kong Limited
Trust Deed	the deed of trust constituting Champion REIT dated 26 April 2006 entered into between the Trustee and the REIT Manager, as amended by a first supplemental deed dated 5 December 2006, a second supplemental deed dated 4 February 2008, a third supplemental deed dated 9 March 2009, a fourth supplemental deed dated 23 July 2010, a fifth supplemental deed dated 13 March 2012, a sixth supplemental deed dated 23 January 2015 and a seventh supplemental deed dated 1 June 2017 as the same may be supplemented or amended from time to time
Trustee	HSBC Institutional Trust Services (Asia) Limited, in its capacity as trustee of Champion REIT. All references to the Trustee in this Circular are, as the context may require, to the Trustee acting on behalf of Champion REIT and on the instruction of the REIT Manager
Unit	one undivided unit in Champion REIT
Unit Registrar	Computershare Hong Kong Investor Services Limited
Unitholder	any person registered as holding a Unit
Waiver Connected Persons	collectively, the Great Eagle Connected Persons Group and the Relevant Company Connected Persons Group
%	per centum or percentage

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

LETTER FROM THE BOARD

ChampionREIT
冠君產業信託

Champion Real Estate Investment Trust

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

(Stock Code: 2778)

Managed by

Eagle Asset Management
Eagle Asset Management (CP) Limited

Directors of the REIT Manager:

Non-executive Directors:

Dr. Lo Ka Shui (*Chairman*)

Mr. Ip Yuk Keung, Albert

Executive Director:

Ms. Wong Ka Ki, Ada (*Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Cha Mou Sing, Payson

Mr. Cheng Wai Chee, Christopher

Mr. Ho Shut Kan

Mr. Shek Lai Him, Abraham

Registered Office of the REIT Manager:

Suite 3008, 30th Floor

Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

28 November 2019

To: Unitholders of Champion REIT

Dear Sir/Madam,

CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION
WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN
CONNECTED PARTY TRANSACTIONS
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING AND
CLOSURE OF REGISTER OF UNITHOLDERS

LETTER FROM THE BOARD

Reference is made to the announcement dated 28 November 2019 by the REIT Manager in relation to the proposed extension of the 2016 Extended and Modified Waiver in respect of the Connected Party Transactions and the proposed New Annual Caps. The purposes of this Circular are to: (a) provide you with information on the proposed 2019 Waiver Extension and the New Annual Caps; (b) provide you with further information as is necessary to enable you to make an informed decision on whether to vote for or against the Ordinary Resolution to be proposed at the EGM relating to the 2019 Waiver Extension and the New Annual Caps; (c) set out the recommendation of the Independent Board Committee to the Independent Unitholders relating to the 2019 Waiver Extension and the New Annual Caps; (d) set out the recommendation of the Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee relating to the 2019 Waiver Extension and the New Annual Caps; and (e) serve notice of the EGM.

1. 2019 WAIVER EXTENSION

(i) Background

As disclosed in the 2008 Circular, the REIT Manager had obtained the 2008 CPT Waiver from strict compliance with the disclosure requirements and the requirements for approval of Unitholders, under Chapter 8 of the REIT Code, in respect of certain categories of connected party transactions between Champion REIT and: (i) Great Eagle Connected Persons Group; and/or (ii) Relevant Company Connected Persons Group (the “**Connected Party Transactions**”). As disclosed in subsequent circulars and announcements, this waiver was extended on 15 December 2010 (the resulting extended waiver being the “**2010 Extended Waiver**”) and 10 December 2013 (the resulting extended waiver being the “**2013 Extended Waiver**”), and further extended and modified on 13 December 2016 (the resulting extended and modified waiver being the “**2016 Extended and Modified Waiver**”).

Details of the Connected Party Transactions, the 2010 Extended Waiver, the 2013 Extended Waiver and the 2016 Extended and Modified Waiver are set out in the 2008 Circular, the 2010 Circular, the 2013 Circular and the 2016 Circular, respectively.

(ii) Expiration of the 2016 Extended and Modified Waiver

The 2016 Extended and Modified Waiver will expire on 31 December 2019. In accordance with the terms of the 2016 Extended and Modified Waiver, the 2016 Extended and Modified Waiver may be extended beyond 31 December 2019, and/or the terms and conditions of the 2016 Extended and Modified Waiver may be modified from time to time, provided that:

- (a) the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and

LETTER FROM THE BOARD

- (c) any extension of the period of the 2016 Extended and Modified Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Champion REIT after the date on which the approval in (a) above is obtained.

(iii) Extension of the 2016 Extended and Modified Waiver and New Annual Caps

In light of the above and the upcoming expiration of the 2016 Extended and Modified Waiver, the REIT Manager has made a submission to the SFC to seek an extension of the 2016 Extended and Modified Waiver so that it applies for the three financial years ending 31 December 2022 (the “**2019 Waiver Extension**”). As part of its submission, the REIT Manager has also proposed New Annual Caps for the extended period. The REIT Manager confirms that the conditions of the 2016 Extended and Modified Waiver will continue to apply to Champion REIT until 31 December 2022 (including, for the avoidance of doubt, the existing annual caps for the year ending 31 December 2019). The waiver conditions of the 2019 Extended Waiver will be as follows:

(a) Approval by Independent Unitholders

Due approval by Independent Unitholders of Champion REIT and adoption of the Ordinary Resolution set out in the EGM Notice, without any material amendment thereto.

(b) Extensions or modifications

The 2019 Extended Waiver is for a period to expire on 31 December 2022 and may be extended beyond 31 December 2022, and/or the terms and conditions of the 2019 Extended Waiver may be modified from time to time, provided that:

- (A) the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (B) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (C) any extension of the period of the 2019 Extended Waiver shall, on each occasion of such extension, for a period which shall expire not later than the third full financial year-end date of Champion REIT after the date on which the approval in paragraph (b)(A) above is obtained.

For the avoidance of doubt, any material change to the transactions covered by the 2019 Waiver Extension (including without limitation on the scope or nature of such transactions) as set out in this Circular and the announcement based on which the waiver is sought and granted must be approved by Independent Unitholders pursuant to the paragraph 1(iii)(b)(A) condition above, and details of the proposed changes shall be disclosed in the manner as referred to in the paragraph 1(iii)(b)(B) condition above.

LETTER FROM THE BOARD

(c) Annual Monetary Limits

The annual value of the Connected Party Transactions shall not exceed the respective annual monetary limits set out in the section headed “New Annual Caps” below.

Provided that there is no variation to the terms and conditions governing the Specified PMA Transactions, whether during the term of the Specified Property Management Agreement or upon any renewal thereof or during the term of any such renewed agreement(s):

- (A) the fees payable to any member of the Great Eagle Connected Persons Group under the Specified Property Management Agreement will not be subject to the annual monetary limits referred to above in this paragraph for the purpose of the 2019 Extended Waiver; and
- (B) any entry into by Champion REIT of a renewed Specified Property Management Agreement during the waiver period (or any extension thereof pursuant to paragraph (b) above) will be exempt from all reporting, disclosure and Unitholders’ approval requirements under Chapter 8 of the REIT Code.

(d) Disclosure in semi-annual and annual reports

Details of the Connected Party Transactions will be disclosed in Champion REIT’s semi-annual and annual reports, as required under paragraph 8.14 of the REIT Code.

(e) Auditors’ review procedures

The REIT Manager shall engage and agree with the auditors of Champion REIT to perform certain review procedures on all of the Connected Party Transactions in respect of each relevant financial year. The auditors shall then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report will be provided to the SFC), confirming whether all the Connected Party Transactions:

- (A) have received the approval of the Directors of the REIT Manager (including the independent non-executive Directors);
- (B) are in accordance with the pricing policies of Champion REIT;
- (C) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (D) the total value in respect of which has not exceeded the respective annual monetary limits (where applicable) as set out above.

LETTER FROM THE BOARD

(f) Review by the independent non-executive Directors of the REIT Manager

The independent non-executive Directors of the REIT Manager shall review the relevant Connected Party Transactions annually and confirm in Champion REIT's annual report for the relevant financial period that such transactions have been entered into:

- (A) in the ordinary and usual course of business of Champion REIT;
- (B) 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 favourable to Champion REIT than terms available to or from (as appropriate) independent third parties; and
- (C) in accordance with the relevant agreement 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 as a whole.

(g) Auditors' access to books and records

The REIT Manager shall allow, and shall procure the counterparty to the relevant Connected Party Transactions to allow, the auditors of Champion REIT sufficient access to their records for the purpose of reporting on the transactions.

(h) Notification to the SFC

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors of the REIT Manager will not be able to confirm the matters set out in paragraphs (e) and (f) above.

(i) Independent valuation for tenancy agreements and licence agreements

An independent valuation shall be conducted for each of the relevant tenancy agreements with members of the Great Eagle Connected Persons Group and licence agreements with members of the Great Eagle Connected Persons Group, except where they are conducted on standard or published rates. In the case of such tenancy agreements or licence agreements with no fixed terms (for example, tenancies with monthly rollover), an independent valuation shall be conducted no less than once every 24 months.

(j) Subsequent increases in annual caps with Independent Unitholders' approval

If necessary, for example, where there are further asset acquisitions by Champion REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the REIT Manager may, from time to time in the future, seek to increase one or more of the New Annual Caps, provided that:

- (A) the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;

LETTER FROM THE BOARD

- (B) disclosure of details of the proposal to increase the cap amounts shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (C) the requirements referred to in paragraphs (c) to (i) above shall continue to apply to the relevant transactions, save that the increased annual monetary limits shall apply.

(k) Paragraph 8.14 of the REIT Code

The REIT Manager shall comply with all requirements under paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant Connected Party Transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders' approval.

Details of the Connected Party Transactions will be disclosed in the semi-annual and annual report of Champion REIT as required under paragraph 8.14 of the REIT Code. The independent non-executive Directors of the REIT Manager shall review the Connected Party Transactions annually and confirm whether such transactions are carried out in the ordinary and usual course of business of Champion REIT based on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Unitholders.

(l) Limitations on Potential PMA Transactions

The REIT Manager shall ensure that the terms of any Potential Property Management Agreement shall only cover the same PMA Transactions as the existing Specified PMA Transactions and adopt the same terms as the Specified Property Management Agreement, unless inconsistent with the common market requirements applicable to the subject property having regard to its asset class, quality, stage of development and location, which therefore would necessitate a deviation from the terms of the existing Specified Property Management Agreement. The terms of the Potential Property Management Agreement shall be: (i) normal commercial terms carried out on arm's length basis, which are no less favourable to Champion REIT than terms available from independent third parties; (ii) carried out in the ordinary and usual course of business for Champion REIT; and (iii) fair and reasonable and in the best interests of Unitholders. In addition, an independent expert will opine on whether the scope of services and the fee scale under the Potential Property Management Agreement are reasonable and at market levels. Where the terms of the Potential Property Management Agreement do not comply with the limitations set out in (i), (ii) and (iii) above, or the independent expert cannot give the requisite opinion, the REIT Manager shall comply with Chapter 8 of the REIT Code and, if required thereunder, seek Independent Unitholders' approval for the Potential Property Management Agreement.

LETTER FROM THE BOARD

2. NEW ANNUAL CAPS

(i) Revenue transactions

The types of transactions that fall in the category of revenue transactions is described in the section headed “2008 Continuing Connected Party Transactions — Revenue Transactions” in the 2008 Circular. The REIT Manager confirms that the types of revenue transactions in respect of which the 2019 Waiver Extension is sought are the same as those referred to in the 2008 Circular.

It is proposed that the New Annual Caps for the financial years ending 31 December 2020, 2021 and 2022 for the revenue transactions shall not exceed the respective annual monetary limits set out in the following table. No change is proposed for the annual caps in respect of the financial year ending 31 December 2019, although the annual caps and actual transaction amounts in respect of the financial years ending 31 December 2017, 2018 and 2019 is set out below for ease of comparison. The differences between the annual caps and historical transaction amounts are due to the variables (taken into account in calculating the respective annual cap) differing from the REIT Manager’s assumed levels.

	Annual Caps			New Annual Caps		
	for the year ended 31 December 2017 <i>(HK\$'000)</i>	for the year ended 31 December 2018 <i>(HK\$'000)</i>	for the year ending 31 December 2019 <i>(HK\$'000)</i>	for the year ending 31 December 2020 <i>(HK\$'000)</i>	for the year ending 31 December 2021 <i>(HK\$'000)</i>	for the year ending 31 December 2022 <i>(HK\$'000)</i>
Rental income						
<i>Annual caps</i>	69,251	70,593	86,056	151,943	144,117	154,419
<i>Annual cap year-on-year increment</i>		2%	22%	77% ³	-5%	7%
<i>Actual transaction amount</i>	26,270	29,629	53,102 ¹	N/A	N/A	N/A
<i>Annual cap utilisation</i>	38%	42%	62% ¹²	N/A	N/A	N/A
Building management fee						
<i>Annual caps</i>	8,338	9,172	10,089	17,083	17,333	19,066
<i>Annual cap year-on-year increment</i>		10%	10%	69% ³	1%	10%
<i>Actual transaction amount</i>	3,286	3,585	6,162 ¹	N/A	N/A	N/A
<i>Annual cap utilisation</i>	39%	39%	61% ¹²	N/A	N/A	N/A
TOTAL						
<i>Annual caps</i>	77,589	79,765	96,145	169,026	161,450	173,485
<i>Annual cap year-on-year increment</i>		3%	21%	76% ³	-4%	7%
<i>Actual transaction amount</i>	29,556	33,214	59,264 ¹	N/A	N/A	N/A
<i>Annual cap utilisation</i>	38%	42%	62% ¹²	N/A	N/A	N/A

LETTER FROM THE BOARD

Notes:

- (1) The transaction amounts for the year ending 31 December 2019 relate to annualised transaction amounts based on the actual amount for the period ended 30 June 2019.
- (2) The significant increases in annual cap utilisation from 2018 to 2019 are largely attributable to new connected leases entered into in respect of Champion REIT's existing portfolio, including for additional floors of Three Garden Road and Langham Place Office Tower (which formed part of the assumptions when calculating the 2016 Extended and Modified Waiver annual caps).
- (3) The significant increases in annual cap year-on-year increment from 2019 to 2020 are largely attributable to the higher actual transaction amounts used as a base to calculate the annual caps for 2020 to 2022 (which are based on subsisting contracts as at 2019) compared to the actual transaction amounts used as a base to calculate the annual caps for 2017 to 2019 (which are based on subsisting contracts as at 2016). Specially, the actual transaction amount and annual cap utilisation in 2019 (being HK\$53,102,000 and 62% for rental income and HK\$6,162,000 and 61% for building management fees, respectively) is significantly higher compared to the actual transaction amount and annual cap utilisation in 2016 (being HK\$15,690,000 and 18.5% for rental income and HK\$2,218,000 and 20.9% for building management fees, respectively). In calculating the 2017 to 2019 annual caps, it was assumed that an additional floor of Three Garden Road and Langham Place Office Tower would be leased to connected persons. Such area was leased to connected persons in 2019, and in calculating the 2020 to 2022 annual caps, it is assumed that a further additional floor will be leased to connected persons. Both the 2019 and 2020 annual caps also accounted for new connected leases resulting from potential future acquisitions. For further details, please see calculation methodology below.

The proposed annual caps for the years ending 31 December 2020, 2021 and 2022 in relation to the rental income component have been determined in the following manner:

- (a) Using as a base the actual amount of rental income receivable in accordance with the terms of the subsisting connected party leases for the financial years ending 31 December 2020, 2021 and 2022, on the assumption that: (i) if any such leases are due to expire within such period, such leases are assumed to be renewed upon expiry (except those leases which the parties do not expect to be renewed); and (ii) an average annual rental growth rate ranging from 6% to 10% (for office leases) and 4% to 5% (for other leases), depending on when the relevant lease is due for expiry and assumed to be renewed, will be applied to determine the rental income payable under the renewed leases.

The use of the above annual growth rates is principally based on: (a) the high volatility of property rental rates in Hong Kong; (b) the potential increases in property rental rates of comparable Grade-A office buildings by reference to historical figures; and (c) the expected continued shortage of new supply of Hong Kong Grade A office spaces in core Central in the next few years.

- (b) Applying an increment of approximately HK\$37,572,000 to the amounts resulting from paragraph (a) above for each of the financial years ending 31 December 2020, 2021 and 2022, as a contingency buffer for new connected party leases to be entered into in respect of Champion REIT's existing portfolio.

The amount of the buffer assumes one additional floor of Three Garden Road and one additional floor of Langham Place Office Tower will be leased to Waiver Connected Persons during the relevant years at the prevailing effective rent.

LETTER FROM THE BOARD

- (c) Applying a further increment of approximately HK\$29,572,000 to the relevant amounts resulting from paragraph (b) above, for each of the financial years ending 31 December 2020, 2021 and 2022, to take into account any increased rental income as a result of future acquisitions that Champion REIT may undertake.

This increment is based on an assumption that Champion REIT will acquire one or more properties in a single transaction from an independent third party during the waiver period which has a purchase price equal to 10% of the gross asset value (adjusted for dividend payable) of Champion REIT (as at the date of the latest published audited financial report). Such assumed purchase price has been estimated having regard to present market conditions, borrowing conditions and Champion REIT's investment mandate for property development and related activities. The future increment for rental income was then calculated assuming: (i) the acquired property has a gross rental income yield of 5% per annum; and (ii) 7% of the acquired property's gross rental income is attributable to Waiver Connected Persons, which the REIT Manager considers to be reasonable in light of current market conditions.

For the avoidance of doubt, the above assumptions are solely for the purpose of calculating the New Annual Caps. There is no assurance that Champion REIT will acquire one or more properties during the waiver period, or that any properties to be acquired will have the abovementioned characteristics as to their size, development stage, gross rental income yield, rental profile or otherwise. Unitholders, as well as any prospective investors of the REIT, should be aware that the proposed annual caps are not indicative of Champion REIT's future acquisition strategy, and are therefore advised to exercise caution when dealing in the Units.

The proposed annual caps for the years ending 31 December 2020, 2021 and 2022 in relation to the building management fees component have been determined in the following manner:

- (a) Using as a base the actual amount of building management fees receivable in accordance with the terms of the subsisting connected party leases for the financial years ending 31 December 2020, 2021 and 2022, on the assumption that: (i) if any such leases are due to expire within such period, such leases are assumed to be renewed upon expiry (except those leases which the parties do not expect to be renewed); and (ii) an annual building management fee growth rate of 10% will be applied to determine the building management fees for the financial years ending 31 December 2020, 2021 and 2022.

The REIT Manager's use of an annual building management fee growth rate of 10% is to take into account any future asset enhancements of Champion REIT's existing portfolio that would result in the growth of building management fee income.

- (b) Applying increments of approximately HK\$3,869,000 (for 2020), HK\$4,255,000 (for 2021) and HK\$4,681,000 (for 2022) to the amounts resulting from paragraph (a) above, as a contingency buffer for new connected party leases to be entered into in respect of Champion REIT's existing portfolio.

LETTER FROM THE BOARD

The amount of the buffer assumes one additional floor of Three Garden Road and one additional floor of Langham Place Office Tower will be leased to Waiver Connected Persons during the relevant years, assuming an annual building management fee growth rate of 10% will be applied to determine the building management fees in respect of such additional floors for the financial years ending 31 December 2020, 2021 and 2022.

- (c) Applying a further increment of HK\$3,844,000 (for 2020), HK\$4,229,000 (for 2021) and HK\$4,652,000 (for 2022) to the amounts resulting from paragraph (b) above, to take into account any increased building management fee income as a result of future acquisitions that Champion REIT may undertake.

This increment is based on an assumption that Champion REIT will acquire one or more properties in a single transaction from an independent third party during the waiver period which has the same characteristics as described in the calculation methodology for the rental income annual caps as set out in paragraph (c) under the section headed “New Annual Caps — (i) Revenue Transactions”. The increment for 2020 shall be 13% (being the prevailing building management fee as a percentage of gross rental income) of the rental income increment for future acquisitions calculated above, with an annual growth rate of 10% for 2021 and 2022.

(ii) Expenditure transactions

The types of transactions that fall in the category of expenditure transactions include: (a) estate management transactions, which are described in the section headed “2008 Continuing Connected Party Transactions — Expenditure Transactions” in the 2008 Circular; and (b) Potential PMA Transactions, which are described in the section headed “2016 Waiver Extension and Modification — Extension and modification of the 2013 Extended Waiver and New Annual Caps” in the 2016 Circular. The REIT Manager confirms that the types of expenditure transactions in respect of which the 2019 Waiver Extension is sought are the same as those respectively referred to in the 2008 Circular and the 2016 Circular.

It is proposed that the New Annual Caps for the financial years ending 31 December 2020, 2021 and 2022 for: (i) the estate management transactions; and (ii) Potential PMA Transactions, shall not exceed the respective annual monetary limits set out in the following table. No change is proposed for the annual caps in respect of the financial year ending 31 December 2019 in respect of these expenditure transactions, although the same are set out below for ease of comparison. Differences between the annual caps and historical transaction amounts are due to the variables (taken into account in calculating the respective annual cap) differing from the REIT Manager’s assumed levels.

LETTER FROM THE BOARD

	Annual Caps			New Annual Caps		
	for the year ended 31 December 2017 <i>(HK\$'000)</i>	for the year ended 31 December 2018 <i>(HK\$'000)</i>	for the year ending 31 December 2019 <i>(HK\$'000)</i>	for the year ending 31 December 2020 <i>(HK\$'000)</i>	for the year ending 31 December 2021 <i>(HK\$'000)</i>	for the year ending 31 December 2022 <i>(HK\$'000)</i>
Estate management transactions						
<i>Annual caps</i>	213,555	245,588	282,427	226,167	260,093	299,106
<i>Annual cap year-on-year increment</i>		15%	15%	-20%	15%	15%
<i>Actual transaction amount</i>	114,143	111,435	89,942 ¹	N/A	N/A	N/A
<i>Annual cap utilisation</i>	53%	45%	32% ¹	N/A	N/A	N/A
Potential PMA Transactions						
<i>Annual caps</i>	37,042	42,599	48,989	47,879	55,060	63,319
<i>Annual cap year-on-year increment</i>		15%	15%	-2%	15%	15%
<i>Actual transaction amount</i>	—	—	—	N/A	N/A	N/A
<i>Annual cap utilisation</i>	—	—	—	N/A	N/A	N/A
TOTAL						
<i>Annual caps</i>	250,597	288,187	331,416	274,046	315,153	362,425
<i>Annual year-on-year increment</i>		15%	15%	-17%	15%	15%
<i>Actual transaction amount</i>	111,143	111,435	89,942 ¹	N/A	N/A	N/A
<i>Annual cap utilization</i>	46%	39%	27% ¹	N/A	N/A	N/A

Note:

- (1) The transaction amounts for the year ending 31 December 2019 relate to annualised transaction amounts based on the actual amount for the period ended 30 June 2019.

The proposed cap for estate management transactions for the year ending 31 December 2020 has been determined in the following manner:

- (a) Using the projected amount of estate management transactions for the year ending 31 December 2019, being HK\$119,129,000 (representing 42% of the relevant annual cap for the year ending 31 December 2019).
- (b) Applying an increment of 25% to the amount resulting from paragraph (a) above, as a contingency buffer.

The use of a contingency buffer of 25% is to cope with possible new unforeseen events during 2020 which may result in additional estate management expenses, including but not limited to changes in market conditions and possible occasional increases in estate management transactions (such as for repair, renovation, promotion and future asset enhancement).

LETTER FROM THE BOARD

- (c) Applying an increment of 15% to the amount resulting from paragraph (b) above, as assumed growth in the cost of estate management expenses over the year.

The use of an assumed annual growth rate of 15% is based on expected inflationary increases in the cost of building management and reinstatement works (such as increases in the cost of building materials and/or cleaning contracts), and the historical growth of such expenses.

- (d) Applying an increment of approximately HK\$54,919,000 to the amount resulting from paragraph (c) above, to take into account the increase in building management fees as a result of future acquisitions that Champion REIT may undertake.

This increment is based on an assumption that Champion REIT will acquire one or more properties in a single transaction from an independent third party during the waiver period which has the same characteristics as described in the calculation of the future acquisition increment for rental income as set out in paragraph (c) under the section headed “New Annual Caps — (i) Revenue transactions” above. The increment shall be 13% (being the prevailing building management fee as a percentage of gross rental income) of the total projected gross rental income for the acquired property.

The proposed cap for Potential PMA Transactions for the year ending 31 December 2020 has been determined in the following manner:

- (a) determining the rental income for a proposed acquisition during the waiver period in the same manner as the calculation of the future acquisition increment for rental income in the section headed “New Annual Caps — Revenue transactions” above; and
- (b) basing the proposed cap on the aggregate of a leasing services fee of 3% per annum of the gross property revenue of the property and a marketing services fee of 1 month’s base rent, such fees being consistent with those charged under the Specified Property Management Agreement.

The proposed caps for estate management transactions and Potential PMA Transactions for the years ending 31 December 2021 and 2022 have been determined by applying an increment of 15% (in line with the growth rate used to calculate the 2020 annual cap for estate management transactions) to the proposed cap for the preceding year, as assumed growth over the year.

(iii) Specified PMA Transactions

The REIT Manager confirms that there has been no variation to the terms and conditions governing the Specified PMA Transactions, whether during the term of the Specified Property Management Agreement or upon any renewal thereof. On this basis and pursuant to the 2016 Extended and Modified Waiver, the fees payable under the Specified Property Management Agreement will not be subject to the annual monetary limits referred to therein, and the renewal of the Specified Property Management Agreement will be exempt from all reporting, disclosure and Unitholders’ approval requirements under Chapter 8 of the REIT Code. Accordingly, the value of the fees payable under the Specified Property Management Agreement has not been taken into account in calculating the proposed annual caps above.

LETTER FROM THE BOARD

(iv) Historical transaction amounts

The annual value of Champion REIT's Connected Party Transactions with Waiver Connected Persons for the past two financial years and for the six months ended 30 June 2019 have been published in the reports as follows:

- (a) the annual value of the Connected Party Transactions of Champion REIT for the year ended 31 December 2017 is disclosed in the annual report of Champion REIT for the year ended 31 December 2017 published on 15 March 2018, from pages 98 to 105;
- (b) the annual value of the Connected Party Transactions of Champion REIT for the year ended 31 December 2018 is disclosed in the annual report of Champion REIT for the year ended 31 December 2018 published on 21 March 2019, from pages 112 to 120; and
- (c) the value of the Connected Party Transactions of Champion REIT for the six months ended 30 June 2019 is disclosed in the interim report of Champion REIT for the six months ended 30 June 2019 published on 27 August 2019, from pages 22 to 28.

3. DISCLOSURE AND INDEPENDENT UNITHOLDERS' APPROVAL REQUIREMENTS

Pursuant to the 2016 Extended and Modified Waiver, the REIT Manager is required to issue an announcement and to issue a circular and notice to Unitholders in accordance with Chapter 10 of the REIT Code to seek Independent Unitholders' approval to further extend the 2016 Extended and Modified Waiver beyond 31 December 2019, and/or to modify the terms and conditions of the 2016 Extended and Modified Waiver. Accordingly, the REIT Manager intends to seek the Independent Unitholders' approval for the 2019 Waiver Extension and the New Annual Caps at the EGM.

4. RESTRICTIONS ON VOTING

Paragraph 8.11 of the REIT Code provides that where a Unitholder has a material interest in a connected party transaction tabled for approval at a general meeting, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under Paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the business to be conducted at a general meeting of Champion REIT, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units at, or being counted in the quorum for, the general meeting.

Pursuant to the REIT Code and the Trust Deed, by virtue of Great Eagle's material interest or deemed material interest in the 2019 Waiver Extension, the Waiver Connected Persons shall abstain from voting on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps. Great Eagle has agreed that it will abstain, and will procure each of the GE Entities to abstain, from voting at the EGM on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps, except pursuant to a proxy given by Independent Unitholders where a specific direction as to voting is given.

LETTER FROM THE BOARD

So far as the REIT Manager is aware, as at the Latest Practicable Date: (a) Great Eagle was interested or deemed to be interested in 3,886,954,355 Units representing approximately 66.19% of the Units in issue and (b) the Relevant Company was not interested or deemed to be interested in any Units.

As at the Latest Practicable Date, to the best of the REIT Manager's knowledge, information and belief, after having made reasonable enquiries, the REIT Manager takes the view that, save as disclosed above, no other Unitholder is required to abstain from voting at the EGM in respect of the 2019 Waiver Extension and the New Annual Caps.

5. OPINION OF THE BOARD

The Board (including all the independent non-executive Directors) confirms that, in its opinion:

1. the 2019 Waiver Extension and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole;
2. each of the Connected Party Transactions subsisting as at the date of this Circular has been entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; and
3. each of the Connected Party Transactions to be entered into for the years ending 31 December 2020, 2021 and 2022 after the date of this Circular will be entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

6. OPINION OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser confirms that it is of the view that: (1) the 2019 Waiver Extension, its relevant New Annual Caps, and the bases for determining them, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; and (2) each of the Connected Party Transactions is entered into: (a) in the ordinary and usual course of business of Champion REIT; (b) on normal commercial terms at arm's length basis; and (c) are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole. Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" in this Circular.

LETTER FROM THE BOARD

7. RECOMMENDATIONS

The Independent Board Committee has been established by the Board to advise the Independent Unitholders on the 2019 Waiver Extension and the New Annual Caps. Alliance Capital Partners Limited has been appointed as Independent Financial Adviser to provide its opinion to the Independent Board Committee, the Independent Unitholders and the Trustee on whether: (1) the 2019 Waiver Extension, its relevant New Annual Caps, and the bases for determining them, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; and (2) each of the Connected Party Transactions is entered into: (a) in the ordinary and usual course of business of Champion REIT; (b) on normal commercial terms at arm's length basis; and (c) are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

Your attention is drawn to the "Letter from the Independent Board Committee" set out in this Circular, which contains the Independent Board Committee's recommendation to the Independent Unitholders, and the "Letter from the Independent Financial Adviser" set out in this Circular, which contains among other things: (1) the Independent Financial Adviser's advice to the Independent Board Committee, the Independent Unitholders and the Trustee; and (2) the principal factors taken into consideration by the Independent Financial Adviser, and assumptions and qualifications adopted by the Independent Financial Adviser in arriving at such opinion.

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the 2019 Waiver Extension and the New Annual Caps, as described in this Circular, the Directors (including the independent non-executive Directors) and the Independent Board Committee consider that: (1) the 2019 Waiver Extension and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; (2) each of the Connected Party Transactions subsisting as at the date of this Circular has been entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; and (3) each of the Connected Party Transactions to be entered into after the date of this Circular will be entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole. The Independent Board Committee recommends that the Independent Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps.

Based and in sole reliance on: (1) the information and assurances provided by the REIT Manager; (2) the opinion of the Independent Financial Adviser; and (3) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that the 2019 Waiver Extension and the New Annual Caps are fair and reasonable so far as the Independent Unitholders are concerned and in the interests of Champion REIT and the Independent Unitholders as a whole. This view is being furnished for the sole purpose of complying with Clause 10.10(o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the 2019 Waiver Extension and the New Annual Caps.

LETTER FROM THE BOARD

The Trustee has not made any assessment of the merits or impact of the 2019 Waiver Extension and the New Annual Caps, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, Unitholders who are in any doubt as to the merits or impact of the 2019 Waiver Extension and the New Annual Caps should seek their own financial or other professional advice.

8. EXTRAORDINARY GENERAL MEETING

The EGM will be held at Eaton Club, 5/F Champion Tower, Three Garden Road, Central, Hong Kong on Wednesday, 18 December 2019 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the Ordinary Resolution set out in the EGM Notice, which is set out on pages N1 to N3 of this Circular.

In order to determine which Unitholders will qualify to attend and vote at the EGM, the Register of Unitholders will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019 (both days inclusive) during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar of Champion REIT, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 12 December 2019.

You can vote at the EGM if you are a Unitholder on Wednesday, 18 December 2019 which is referred to in this Circular as the Record Date. You will find enclosed with this Circular the EGM Notice (see pages N1 to N3 of this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, whether or not you plan to attend the EGM in person, in accordance with the instructions printed on the form of proxy, and return it to the registered office of the REIT Manager at Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

9. RESPONSIBILITY STATEMENT

The REIT Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

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

ChampionREIT

冠君產業信託

Champion Real Estate Investment Trust

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

(Stock Code: 2778)

Managed by

Eagle Asset Management
Eagle Asset Management (CP) Limited

28 November 2019

To: The Independent Unitholders

Dear Sirs/Madam,

EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONNECTED PARTY TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the 2019 Waiver Extension and the New Annual Caps, details of which are set out in the “Letter from the Board” in the circular dated 28 November 2019 (the “**Circular**”) from the REIT Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Alliance Capital Partners Limited has been appointed by the REIT Manager to advise us, the Independent Unitholders and the Trustee as to whether: (1) the 2019 Waiver Extension, its relevant New Annual Caps, and the bases for determining them, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; and (2) each of the Connected Party Transactions is entered into: (a) in the ordinary and usual course of business of Champion REIT; (b) on normal commercial terms at arm’s length basis; and (c) are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the “Letter from the Independent Financial Adviser” the text of which is contained in the Circular.

Having taken into account the opinion of Alliance Capital Partners Limited and the principal factors and reasons considered by them, we consider that: (1) the 2019 Waiver Extension and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole; (2) each of the Connected Party Transactions subsisting as at the date of the Circular has been entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm’s length and are fair and reasonable and in the interests of Champion REIT and the Independent

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Unitholders as a whole; and (3) each of the Connected Party Transactions to be entered into after the date of the Circular will be entered into: (a) in the ordinary and usual course of business of Champion REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

Accordingly, we recommend that the Independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the 2019 Waiver Extension and the New Annual Caps.

Yours faithfully,
for and on behalf of
the Independent Board Committee of
Eagle Asset Management (CP) Limited

**Cha Mou Sing,
Payson**
*Independent
Non-executive
Director*

**Cheng Wai Chee,
Christopher**
*Independent
Non-executive
Director*

Ho Shut Kan
*Independent
Non-executive
Director*

**Shek Lai Him,
Abraham**
*Independent
Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Alliance Capital Partners Limited, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee, Independent Unitholders and the Trustee in connection with the 2019 Waiver Extension and the New Annual Caps.



Alliance Capital Partners Limited
同人融資有限公司

Unit 1502-03A, 15th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

28 November 2019

To: The Independent Board Committee, the Independent Unitholders and the Trustee

Dear Sir or Madam:

EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONNECTED PARTY TRANSACTIONS

Introduction

We refer to our engagement to advise the Independent Board Committee, the Independent Unitholders and the Trustee in connection with the 2019 Waiver Extension and its related New Annual Caps, details of which are set out in the circular of Champion REIT to the Unitholders dated 28 November 2019 (the “Circular”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As mentioned in the 2008 Circular, the REIT Manager obtained the 2008 CPT Waiver under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions between Champion REIT and : (i) Great Eagle Connected Persons Group; and/or (ii) Relevant Company Connected Persons Group (the “Connected Party Transactions”). As disclosed in subsequent circulars and announcements, this waiver was extended on 15 December 2010 (the resulting extended waiver being the “2010 Extended Waiver”), 10 December 2013 (the resulting extended waiver being the “2013 Extended Waiver”), and further extended and modified on 13 December 2016 (the resulting extended and modified waiver being the “2016 Extended and Modified Waiver”).

Details of the Connected Party Transactions, the 2010 Extended Waiver, the 2013 Extended Waiver and the 2016 Extended and Modified Waiver are set out in the 2008 Circular, the 2010 Circular, the 2013 Circular and the 2016 Circular, respectively.

The 2016 Extended and Modified Waiver will expire on 31 December 2019. In accordance with the terms of the 2016 Extended and Modified Waiver, the 2016 Extended and Modified Waiver may be extended beyond 31 December 2019, and/or the terms and conditions of the 2016 Extended and Modified Waiver may be modified from time to time, provided that:

- (a) the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) disclosure of details of the proposed extension and/or modification (as the case may be) is made by way of an announcement by the REIT Manager of such proposal, and a circular and notice are issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) any extension of the period of the 2016 Extended and Modified Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Champion REIT after the date on which the approval in (a) above is obtained.

We understand the REIT Manager has made a submission to the SFC to seek the 2019 Waiver Extension. As part of its submission, the REIT Manager has also proposed New Annual Caps for the extended period. The REIT Manager confirms that the conditions of the 2016 Extended and Modified Waiver will continue to apply to Champion REIT until 31 December 2022 (including, for the avoidance of doubt, the existing annual caps for the year ending 31 December 2019).

Pursuant to the REIT Code and the Trust Deed, by virtue of Great Eagle's material interest or deemed material interest in the 2019 Waiver Extension, the Waiver Connected Persons shall abstain from voting on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps.

The Independent Board Committee has been established to advise the Independent Unitholders on the 2019 Waiver Extension and the New Annual Caps. We, Alliance Capital Partners Limited, have been appointed as Independent Financial Adviser to advise the Independent Board Committee, the Independent Unitholders and the Trustee on the 2019 Waiver Extension and the New Annual Caps.

We are independent from, and are not associated with (i) Champion REIT; (ii) the Trustee; (iii) the REIT Manager; (iv) GE Entities; and (v) the Waiver Connected Persons. Apart from normal professional fees payable to us relating to our appointment as Independent Financial Adviser, no arrangement exists whereby we will receive any fee or benefit from parties mentioned above, regardless of outcome at the EGM. In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations made or referred to in the Circular and provided to us by the REIT Manager. We have assumed that all such information and representations were true at the time they were made and will continue to be true up to the date of the Circular. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the REIT Manager and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the REIT Manager nor have we conducted any form of investigation into the business, affairs or future prospects of Champion REIT and the Waiver Connected Persons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the 2019 Waiver Extension and the New Annual Caps, we have taken into consideration the following principal factors and reasons:

Terms of the Connected Party Transactions

The Connected Party Transactions comprise the revenue transactions and the expenditure transactions.

(a) Revenue transactions

The types of transactions that fall in the category of revenue transactions are described in the section headed “2008 Continuing Connected Party Transactions - Revenue Transactions” in the 2008 Circular. The REIT Manager confirms that the types of revenue transactions in respect of which the 2019 Waiver Extension is sought are the same as those referred to in the 2008 Circular.

Current arrangement provides that in the case where tenancy agreement and licensing agreement is to be entered into with connected person, an independent valuation shall be conducted for each of the relevant tenancy agreements and licensing agreements with members of the Waiver Connected Persons, except where they are conducted on standard or published rates; in which case, independent valuation will not be required.

We have reviewed all of existing tenancy agreements and licensing agreements for the revenue transactions entered into with the Waiver Connected Persons during the 2016 Extended and Modified Waiver period and the independent valuation report of each of the tenancy agreements with members of the Waiver Connected Persons. We note that those licensing agreements, which were on standard or published rates, were those in relation to car parks. We have compared the terms of these agreements with those entered into by Champion REIT with third parties independent of the Waiver Connected Persons (the “Independent Third Parties”) during the same period.

Based on our review, we note (i) the key terms of the tenancy agreements for the revenue transactions, such as rental and management fee, are generally on market rates and on three-year or five-year term similar and comparable to those tenancy agreements entered into with other Independent Third Parties; (ii) the agreements for the revenue transactions were entered into on terms no less favorable to Champion REIT than terms as stated in the relevant independent valuation reports or conducted under standard or published rates; and (iii) independent valuation reports as mentioned above had confirmed that the fees under the revenue transactions were at prevailing market level and on normal commercial terms. Consequently, we are of the view that the terms of the revenue transactions are fair and reasonable so far as Independent Unitholders are concerned.

(b) Expenditure transactions

The types of transactions that fall in the category of expenditure transactions were generally described in the section headed “2008 Continuing Connected Party Transactions - Expenditure Transactions” in the 2008 Circular.

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Under the Langham Place Mall Estate Management Agreement and the CAF Management Agreement (as defined in the 2008 Circular), Champion REIT would reimburse Waiver Connected Persons as estate manager of its properties all costs and out of pocket expenses incurred in the course of performing building management functions. Such costs and out of pocket expenses include staff salaries, cleaning and security guard services, lift repairs and maintenance as well as electricity and other utilities services. In this respect, payments made to Waiver Connected Persons, which are based on annual budgets negotiated and agreed between the respective estate manager and Champion REIT each year under the respective property management agreements, are considered on normal commercial terms and are similar to property management agreements undertaken by third party property managers.

As mentioned in 2016 Circular, the REIT Manager modified the scope of the 2013 Extended Waiver to add a new category of transactions under the expenditure transactions, to cover not just the Specified PMA Transactions but also Potential PMA Transactions. Services to be covered under the Potential Property Management Agreement if required (being the Potential PMA Transactions) would be substantially similar to those services presently provided under the Specified Property Management Agreement and would include among other things, property management, leasing and marketing services.

Reason for this new category was that Champion REIT may want to consider entering into a new property management agreement in respect of a newly acquired property in Hong Kong or overseas, and/or into a property development project where terms of the property management agreement have to be negotiated having regard to the nature and location of the property to be managed, instead of having that property managed pursuant to the existing Property Management Agreement.

In the event of the above mentioned scenario, the REIT Manager would ensure that the terms of any Potential Property Management Agreement would cover the same PMA Transactions as the existing Specified PMA Transactions and would adopt the same terms as the Specified Property Management Agreement, unless inconsistent with the common market requirements applicable to the subject property having regard to its asset class, quality, stage of development and location, which therefore would necessitate a deviation from the terms of the existing Specified Property Management Agreement. The terms of the Potential Property Management Agreement shall be: (i) normal commercial terms carried out on arm's length basis, which are no less favourable to Champion REIT than terms available from independent third parties; (ii) carried out in the ordinary and usual course of business for Champion REIT; and (iii) fair and reasonable and in the best interests of Unitholders. In addition, an independent expert will opine on whether the scope of services and the fee scale under the Potential Property Management Agreement are reasonable and at market levels. Where the terms of the Potential Property Management Agreement do not comply with the limitations set out in (i), (ii) and (iii) above, or the independent expert cannot give the requisite opinion, the REIT Manager shall comply with Chapter 8 of the REIT Code and, if required thereunder, seek Independent Unitholders' approval for the Potential Property Management Agreement.

We have reviewed (i) randomly selected samples of recent agreements related to estate management services for the Expenditure Transactions entered into with the Waiver Connected Persons during the current waiver period; (ii) the relevant tendering or quotation documents, which were related to the determination of the pricing terms of the Expenditure Transactions; and (iii) randomly selected samples of relevant agreements entered into with Independent Third Parties during

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the same period. Based on our review, we note that, other than public utilities such as electricity and water services, terms of Expenditure Transactions with respect to basic property management services such as building works, lifts and escalators maintenances etc. were based on tendering results and/or quotations obtained from Independent Third Parties. Consequently, we are of the view that the terms of the Expenditure Transactions are fair and reasonable so far as Unitholders are concerned.

As rental and management fee paid by Waiver Connected Persons under the revenue transactions are on market terms as confirmed by independent property valuer and on rates payable by other independent third party tenants respectively and that, with respect to the Expenditure Transactions, payments made to Waiver Connected Persons are on normal commercial terms, we are of the view that the Connected Party Transactions during the current waiver period have been entered into (i) in the ordinary and usual course of business of Champion REIT; and (ii) on terms which are normal commercial and arm's length terms, fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

New Annual Caps

It is proposed that the New Annual Caps for the three financial years ending 31 December 2022 for the revenue transactions and expenditure transactions shall not exceed the respective annual monetary limits set out in the following table.

	Annual Caps	New Annual Caps		
	For the year ending 31 December 2019 <i>(Rounded to nearest HK\$'000)</i>	For the year ending 31 December 2020 <i>(Rounded to nearest HK\$'000)</i>	For the year ending 31 December 2021 <i>(Rounded to nearest HK\$'000)</i>	For the year ending 31 December 2022 <i>(Rounded to nearest HK\$'000)</i>
<u>Revenue Transactions</u>				
Rental income	86,056	151,943	144,117	154,419
Building management fee	10,089	17,083	17,333	19,066
	96,145	169,026	161,450	173,485
<u>Expenditure Transactions</u>				
Estate management transactions	282,427	226,167	260,093	299,106
Potential PMA Transactions	48,989	47,879	55,060	63,319
	331,416	274,046	315,153	362,425

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Revenue Transactions

Rental income

The New Annual Caps in respect of rental income under the revenue transactions are determined based on the following:

1. Using as a base the actual amount of rental income receivable in accordance with the terms of existing connected party leases for the three financial years ending 31 December 2022, on the assumption that if any such leases are due to expire within such period, such leases are assumed to be renewed upon expiry at the market rate (except those leases which the parties do not expect to be renewed).

Over the past 10 years, rental situation of Hong Kong's Grade A office spaces in core districts as published by the Rating and Valuation Department is set out below:

	Hong Kong Grade A office rental indices									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>% change</i>										
All districts	-15%	6%	18%	11%	7%	4%	5%	3%	5%	5%
Core districts:										
Central & Sheung Wan	-19%	5%	27%	9%	-2%	1%	4%	5%	7%	7%
Wanchai & Causeway										
Bay	-13%	3%	19%	12%	6%	1%	4%	4%	6%	4%
Tsim Sha Tsui	-16%	7%	17%	11%	9%	4%	7%	1%	3%	5%

Source: Hong Kong Rating and Valuation Department

Government's statistics above showed that Grade A offices in Central and Sheung Wan fluctuated significantly over the years, from negative growth rate in 2009 (resulted from the lingering effects of the global financial crisis between 2007 and 2009) to positive growth of 27% p.a. in 2011, whereas rental growth rate for the past three years from 2016 to 2018 were between 3% and 5% p.a. However, based on provisional figures released by the Government, rents for such offices had not shown any growth over eight months to 31 August 2019. We believe the onset of US-China trade war, which started in 2018, coupled with socio-political events in Hong Kong in June 2019 had had a dampening effect on Grade A office rents in general.

However, according to property research published by Jones Lang Lasalle (an independent real estate valuer) in September 2019, Central's Grade A office vacancy stood at 2.8% at the end of August 2019. Such low vacancy rate coupled with the fact that there will be no new Grade A office supply in Central before completion of the redevelopment of old Murray Road Carpark site towards end of 2022 is expected to provide support to Grade A office rents in Central.

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Over the past six years to 2019, the compound annual growth rate of the passing rent of office leases at Three Garden Road and Langham Place were approximately 5.7% and 4.1% p.a. respectively.

For Three Garden Road, the Company has assumed no market rental growth in 2020 and 10% p.a. growth thereafter in 2021 and 2022, or an average rental increase of approximately 6.7% p.a. for the three years to 2022. For Langham Place, average market rental growth for the three years to 2022 is expected to be around 9.0 % p.a., indicating continued tight supply of Grade A offices in that area.

Balancing out the effect between previous upward rental trend and the current market situation leading to no market rental growth in 2020 but with office rents starting to pick up again in 2021 and 2022 particularly for Three Garden Road, we are of the view that the above assumption is fair and reasonable for determining rental income derived from Waiver Connected Persons for the above mentioned period.

2. As a contingency buffer to cope with possible business expansion needs of Waiver Connected Persons during the three financial years ending 31 December 2022, additional office spaces of 16,679 sq. ft. at Three Garden Road and of 17,398 sq. ft. at Langham Place office will be taken up by Waiver Connected Person(s) under three-year leases (typical office leasing term) at market rent in 2020.

We understand rental assumption used by Champion REIT in the projection of office rents to Waiver Connected Persons in 2020 is in the same as rent under the latest lease signed with the same in June 2019. During the existing waiver period, we note Waiver Connected Persons had leased additional spaces at Three Garden Road and Langham Place to cater for their additional business needs. Consequently, in order to provide a buffer for their business expansion needs, an increment of approximately HK\$37,572,000 has been added to each of three financial years ending 31 December 2022 for new connected party leases to be entered into in respect of Champion REIT's existing portfolio. As the above expected incremental amount is calculated based on the assumption that market rent and lease terms for Three Garden Road office and Langham Place from for the three years to 2022 are similar to office leases with independent third parties, we are of the view that the basis for determining the above contingency buffer is on normal commercial terms and is fair and reasonable.

3. A further increment of approximately HK\$29,572,000 to the relevant amounts for each of the three financial years ending 31 December 2022, to take into account increased rental income as a result of future acquisitions that Champion REIT may undertake locally or overseas.

Apart from proactively managing existing property portfolio, Champion REIT's corporate objective is to make selective acquisition of new income producing commercial properties globally that will enhance distribution to Unitholders. Investment criteria used in the

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evaluation of acquisition opportunities include (i) yield accretion: properties to be acquired should either have strong existing rental income or the potential for higher rental income; (ii) potential for asset growth; (iii) tenant characteristics; as well as (iv) location and accessibility.

Champion REIT has a history of making acquisitions. In early 2007, Champion REIT acquired from Great Eagle three floors of Three Garden Road with total gross area of 52,655 sf. for HK\$994.6 million. In February 2008, it acquired from Great Eagle the retail, car parks and office portions of Langham Place for approximately HK\$12,500 million. In May 2013, Champion REIT acquired additional office spaces at Three Garden Road that it did not already own from The Financial Secretary Incorporated for a consideration of approximately HK\$2,155 million.

The above increment amount was calculated based on the assumptions that (i) Champion REIT would acquire during the new waiver period one or more properties in a single transaction from an independent third party which has a purchase price equal to 10% of the gross asset value (adjusted for dividend payable) of Champion REIT and with a gross rental yield of approximately 5% p.a.; and (ii) 7% of the acquired property's gross rental income will be attributable to Waiver Connected Persons.

We note the historic distribution yield of the Unit was approximately 5.2% (calculated based on total distribution of HK\$0.2614 per Unit for year ended 31 December 2018 and on market price of HK\$5.00 per Unit as at Latest Practicable Date). Given the historic distribution yield of the Unit was around 5.2% p.a., we are of view that the 5% gross rental yield assumption adopted by Champion REIT for new property acquisition, if made, is fair and reasonable. The assumption of 7% of the acquired property's gross rental income would be attributable to Waiver Connected Persons is on the basis that such persons are presently leasing 7% of total office spaces available at Langham Place. As such, we are of the view that the second assumption mentioned above is fair and reasonable.

In summary, taking into consideration the above background and reasons for (i) expectation of market rent upon renewal of existing leases with Waiver Connected Persons following their respective expiries; (ii) contingency buffer to cater for expected additional office spaces to be leased to Waiver Connected Persons at then market rents, with such additional floor spaces estimated based on their possible business expansion needs; (iii) additional rental derived from Waiver Connected Persons resulting from new properties expected to be acquired going forward and (iv) current arrangement where leasing agreement entered into with Waiver Connected Persons with have to be conducted under an independent valuation for each of such relevant tenancy agreement, we consider the bases for determining the New Annual Caps in respect of rental income under the revenue transactions for the three years to 31 December 2022 are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

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Building management fee

The proposed annual caps for the three years ending 31 December 2022 in relation to the building management fees component under the revenue transactions have been determined in the following manner:

1. Using as a base the actual amount of building management fees receivable in accordance with the terms of the subsisting connected party leases for the financial years ending 31 December 2020, 2021 and 2022, on the assumption that: (i) if any such leases are due to expire within such period, such leases are assumed to be renewed upon expiry except those leases which the parties do not expect to be renewed; and (ii) an annual building management fee growth rate of 10% will be applied to determine the building management fees for the financial years ending 31 December 2020, 2021 and 2022.

We understand the projected annual management fee growth rate of 10% is primarily based on inflation as well as on renovation and property improvement works of Champion REIT's existing portfolio that may require, resulting in the growth of management fee income.

We have reviewed the relevant economic statistics published by the Census and Statistics Department of Hong Kong.

	Annual Percentage Change									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Producer price index of retail estate management, brokerage & agency services	-0.5%	+7.4%	+6.8%	+6.8%	+8.3%	+3.1%	+5.9%	+2.2%	+2.7%	+5.9%

We note from the table above, annual percentage change ranged from -0.5% to 8.3% p.a. during the past ten years. For the first two quarters to 30 June 2019, the above price index increased by an average of 2.2% p.a.

As the current projected annual management fee growth rate of 10% is estimated based on historic inflation rate (which could be as high as 8.3% in 2013) and on additional renovation and alteration works which may be required in order to maintain property standards, we are of the view that the assumption of an annual compound management fee growth rate of 10% for the period from 2019 to 2022 is fair and reasonable, bearing in mind that (1) management fee payable to Waiver Connected Persons are the same compared to those payable by independent third parties at Three Garden Road and Langham Place offices; and (2) management fee for Three Garden Road and Langham Place Office Tower had increased between 5% and 8% during the past four years from 2015 to 2019.

2. Applying increments of approximately HK\$3,869,000 (for 2020), HK\$4,255,000 (for 2021) and HK\$4,681,000 (for 2022) as a contingency buffer for new connected party leases to be entered into in respect of Champion REIT's existing portfolio.

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The amount of the buffer assumes one additional floor of Three Garden Road and one additional floor of Langham Place Office Tower would be leased to a Waiver Connected Person, starting from 2020 and assumes a 10% annual building management fee growth rate in respect of such additional floors for the financial years ending 31 December 2020, 2021 and 2022.

We have reviewed the existing office leases of Three Garden Road and Langham Place by all Waiver Connected Persons and note that their leasing terms are on normal commercial terms similar to leases with other independent third parties. As such, we are of the opinion the basis for determining the above increments is fair and reasonable.

3. Applying a further increment of HK\$3,844,000 (for 2020), HK\$4,229,000 (for 2021) and HK\$4,652,000 (for 2022) to take into account any increased building management fee income as a result of additional properties that Champion REIT may acquire, beginning from 2020.

This increment is calculated based on an assumption that Champion REIT will acquire additional properties during the new waiver period which has the same investment characteristics (such as gross rental income yield of 5%) as described in the calculation methodology for rental income under the section headed “Revenue Transactions” above. The increment for 2020 shall be 13% (being the prevailing building management fee as a percentage of gross rental income) of the rental income increment for future acquisitions calculated above, with an annual growth rate of 10% for 2021 and 2022.

As the basis for calculating the above cap amount is based on the existing building management fee payable to the REIT Manager, we are of the view that the basis for such calculation is fair and reasonable.

Considering the reasons and assumptions made above for (i) building management fee growth rate, which is in line with growth rates for Three Garden Road and Langham Place offices for the past five years to 2019 and to cater for potential renovation and alteration works needed for the properties to maintain standards; (ii) buffer to cope with expected additional office spaces expected to be leased to Waiver Connected Persons; and (iii) additional contingent management fee to be derived from Waiver Connected Persons resulting from properties expected to be acquired in 2020, we are of the view that the basis for the New Annual Caps in respect of building management fee under the revenue transactions is fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

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Expenditure Transactions

Estate management transactions

The proposed annual caps for estate management transactions for the three years ending 31 December 2022 has been determined in the following manner:

- (a) Using as a base the latest projected amount of estate management transactions for the year ending 31 December 2019, being HK\$119,129,000, and applying to it an increment of 25% as a contingency buffer for the year ending 31 December 2020. The use of a contingency buffer of 25% is primarily to cater for possible expected upgrades, repairs and renovation works of Champion REIT's existing property portfolio, primarily being Langham Place, in order to maintain required standards. The above contingency works include but not limited to the provision for (i) strengthening security controls in Champion REIT's properties which would include installing additional CCTVs and other security system upgrades; (ii) installation of energy saving equipment and lighting systems; and (iii) installation of safety devices in lifts and escalators to comply with latest Code and/or recommended practices of Electrical and Mechanical Services Department.

Under the Langham Place Mall Estate Management Agreement and the CAF Management Agreement (as defined in the 2008 Circular), Champion REIT would reimburse the Waiver Connected Persons costs and expenses incurred in the course of its performing building management functions. Given these costs and expenses such as staff salaries, cleaning and security guard services, utilities expenses, lift repairs and maintenance can be estimated with reasonable certainty, we are of the view that the basis upon which the estate management transactions are estimated under the New Annual Caps is on normal commercial terms and is fair and reasonable.

- (b) Applying an annual increment of 15% to the amount as the growth rate from 2020 to 2022. We understand the use of an assumed annual growth rate of 15% is based on expected inflationary increases in building management and tenancy work expenses, and has considered the growth of such expenses which is expected to increase by 12.9% for the full year of 2019, as compared to the year before. On that basis, we are of the view that the projected 15% annual growth rate for the waiver period is fair and reasonable.
- (c) Applying an increment of approximately HK\$54,919,000 to the amount derived from paragraph (b) above, to take into account the increase in building management fees as a result of future acquisitions that Champion REIT may undertake.

The above increment is calculated based on the assumption that Champion REIT will acquire one or more properties in a single transaction from an independent third party during the waiver period which has the same investment characteristics (such as gross rental income yield of 5%) as described in the calculation of the future acquisition increment for rental income in the section headed "Revenue Transactions" above and on 13% of the total projected gross rental income for the acquired property (being the prevailing building management fee as a percentage of gross rental income). As mentioned

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in the paragraph headed “Revenue Transactions” above, we note the historic distribution yield of the Unit was around 5% p.a.; as such, we are of view that the 5% gross rental yield assumption adopted by Champion REIT for new property acquisition is fair and reasonable.

Having considered the fact that (i) most of the costs and expenses such as staff salaries, utilities expenses, cleaning and security guard services are basically reimbursement of the same incurred by the Waiver Connected Persons in the course of its performing of building management function; (ii) the annual increment of 15% was mainly to cater for inflationary increases in building management and tenancy work expenses; (iii) the need for having a contingency buffer to cope with additional upgrades and renovation works necessary for the properties; and (iv) an increment of approximately HK\$54,919,000 to the amount derived from paragraph (b) above, to take into account the increase in building management fee as a result of future acquisition that Champion REIT may undertake, we are of the view that the basis for determining the New Annual Caps with respect to estate management transactions under the Expenditure Transactions are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

Potential PMA Transactions

Reason for Potential PMA Transactions is to cater for situations where Champion REIT needs to enter into new property management agreement in respect of newly acquired property. It is expected that the services to be covered under the new property management agreements (being the Potential PMA Transactions) will be substantially the same as those services provided under the Specified Property Management Agreement which will include property management and leasing services.

As a result of potential acquisition of properties locally or overseas, Champion REIT may need to engage Waiver Connected Persons, other than the existing REIT Manager, to conduct leasing services and related services to Champion REIT for those new properties.

The REIT Manager shall ensure that the terms of any Potential Property Management Agreement shall only cover the same PMA Transactions as the existing Specified PMA Transactions and adopt the same terms as the Specified Property Management Agreement, unless inconsistent with the common market requirements applicable to the subject property having regard to its asset class, quality, stage of development and location, which therefore would necessitate a deviation from the terms of the existing Specified Property Management Agreement. In addition, the terms of the Potential Property Management Agreement shall be: (i) normal commercial terms carried out on arm’s length basis, which are no less favourable to Champion REIT than terms available from independent third parties; (ii) carried out in the ordinary and usual course of business for Champion REIT; and (iii) fair and reasonable and in the best interests of Unitholders. Furthermore, an independent expert will opine on whether the scope of services and the fee scale under the Potential Property Management Agreement are reasonable and at market levels. Where the terms of the Potential Property Management Agreement do not comply with the limitations set out in (i), (ii) and (iii) above, or the independent expert cannot give the requisite opinion, the REIT Manager shall comply with Chapter 8 of the REIT Code and, if required thereunder, seek Independent Unitholders’ approval for the Potential Property Management Agreement.

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We are of the view that, with the above mentioned safeguards in place, the Potential PMA Transactions would be conducted in the normal course of business and in the best interests of Champion REIT and its Unitholders.

We note the proposed cap amount for Potential PMA Transactions for the year ending 31 December 2020 was determined in the following manner:

- estimating the rental income for the proposed acquisition during the waiver period in the same manner as in the calculation of the future acquisition increment for rental income in the section headed “Revenue transactions” above; and basing the proposed cap on the aggregate of an annual leasing service fee of 3% of such rental income and an annual marketing service fee of 1 month base rent, such fees being consistent with those charged under the existing Specified Property Management Agreement.

Based on agreements that we have reviewed, we note, for leasing activities, the marketing service fee of 1 month base rent and, for leasing services (such as liaising with leasees and collecting rents), leasing service fee of 3% of base rent are not only under the same terms as in the Specified Property Management Agreement but also on market rates similar and comparable to those with Independent Third Parties in the ordinary course of business and on normal commercial terms. Consequently, we are of the opinion that the basis for determining the New Annual Caps for Potential PMA Transactions is fair and reasonable.

The proposed caps for 2021 and 2022 have been determined by applying an increment of 15% to the proposed cap for the preceding year. Given the nature of the Potential PMA Transactions relates to leasing and related services to be provided by Waiver Connected Persons, cap amounts for this category of connected transactions, in our opinion, should be estimated based on expected rental growth for the three years to 2022. It is currently expected that, in relation to Champion REIT’s existing portfolio, market rent in 2021 will increase by 10% p.a., compared to 2020. However, as potential acquisition may be conducted in other countries or cities, an additional buffer of 5% may be reasonable to cater for needs of Waiver Connected Persons in those cities. That being the case, we are of the view that the basis for determining the proposed cap amounts for such connected transactions are fair and reasonable.

Given our preceding views as set out above and that the cap amounts for Potential PMA Transactions will be calculated based on market rates in the ordinary and usual course of business and on normal commercial terms, we are of the opinion that the above Potential PMA Transactions and the basis for New Annual Caps in respect of the Potential PMA Transactions are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

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RECOMMENDATION

Having taken into consideration the principal factors and reasons set out above, we are of the opinion that:

- each of the Connected Party Transactions is entered into (i) in the ordinary and usual course of business of Champion REIT; (ii) on normal commercial terms at arm's length basis; and (iii) are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole and
- the 2019 Waiver Extension, its relevant New Annual Caps, and the bases for determining them, are fair and reasonable and in the interests of Champion REIT and the Independent Unitholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Unitholders, and we ourselves also recommend the Independent Unitholders, to vote in favour of the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps at the EGM.

Yours faithfully,

For and on behalf of

Alliance Capital Partners Limited

Danielle Yau
Vice President

David Tsang
Managing Director

NOTICE OF EXTRAORDINARY GENERAL MEETING

ChampionREIT
冠君產業信託

Champion Real Estate Investment Trust

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

(Stock Code: 2778)

Managed by

Eagle Asset Management
Eagle Asset Management (CP) Limited

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of unitholders (“Unitholders”) of Champion Real Estate Investment Trust (“Champion REIT”) will be held at Eaton Club, 5/F Champion Tower, Three Garden Road, Central, Hong Kong on Wednesday, 18 December 2019 at 3:30 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution:

ORDINARY RESOLUTION

Words and expressions that are not expressly defined in this notice of extraordinary general meeting shall bear the same meaning as that defined in the unitholder circular dated 28 November 2019 (“Circular”).

“That:

- (a) the 2019 Waiver Extension and the New Annual Caps as more particularly set out in the sections headed “2019 Waiver Extension” and “New Annual Caps” of the Circular respectively be and are hereby approved; and
- (b) the REIT Manager, and any director of the REIT Manager, each be and is hereby severally authorised to complete and do or cause to be done all such acts and things as the REIT Manager or any director of the REIT Manager, as the case may be, may consider expedient or necessary or in the interest of Champion REIT to give effect to the above approval.”

By Order of the Board

Eagle Asset Management (CP) Limited

(as manager of Champion Real Estate Investment Trust)

Lo Ka Shui

Chairman

Hong Kong, 28 November 2019

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office of the REIT Manager:

Suite 3008, 30th Floor, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Notes:

1. A Unitholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on poll in his/her stead. The person appointed to act as proxy need not be a Unitholder.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of such power of attorney or authority, if any, must be deposited at the registered office of the REIT Manager of Suite 3008, 30th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude Unitholders from attending and voting in person should they so wish. In the event that Unitholders attend the EGM or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
3. In the case of joint holders of a Unit, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the Register of Unitholders.
4. For the purposes of determining entitlements to attend and vote at the EGM, the Register of Unitholders will be closed from Friday, 13 December 2019 to Wednesday, 18 December 2019 (both days inclusive), during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all Unit certificates accompanied by the duly completed transfer forms must be lodged with Champion REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at 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 Thursday, 12 December 2019.
5. In compliance with the Trust Deed and the REIT Code, the Waiver Connected Persons shall abstain from voting on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps. Great Eagle has agreed that it will abstain, and will procure each of the GE Entities to abstain, from voting at the EGM on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps, except pursuant to a proxy given by Independent Unitholders where a specific direction as to voting is given.
6. A form of proxy for use at the EGM is sent to the Unitholders together with the Circular on Thursday, 28 November 2019. The form of proxy is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and can also be downloaded from Champion REIT's website at www.ChampionReit.com.
7. If a black rainstorm warning signal or a tropical cyclone warning signal no.8 or above is in force in Hong Kong at 1:30 p.m. on Wednesday, 18 December 2019, the EGM will be rescheduled. The REIT Manager will publish an announcement on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and Champion REIT's website at www.ChampionReit.com to notify Unitholders of the date, time and venue of the rescheduled meeting.
8. The EGM venue has wheelchair access. Anyone accompanying a Unitholder in need of assistance will be admitted to the EGM. If any member with a disability has a question regarding attendance, please contact the Company Secretarial Division of the REIT Manager by email at ChampionReit.ecom@eam.com.hk.

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the Board of Directors of the REIT Manager comprises:

Non-executive Directors:

Dr. Lo Ka Shui (*Chairman*) and Mr. Ip. Yuk Keung, Albert

Executive Director:

Ms. Wong Ka Ki, Ada (*Chief Executive Officer*)

Independent Non-executive Directors:

Mr. Cha Mou Sing, Payson, Mr. Cheng Wai Chee, Christopher, Mr. Ho Shut Kan and Mr. Shek Lai Him, Abraham