



# Langham Hospitality Investments And Langham Hospitality Investments Limited

3Q 2020



# THE LANGHAM

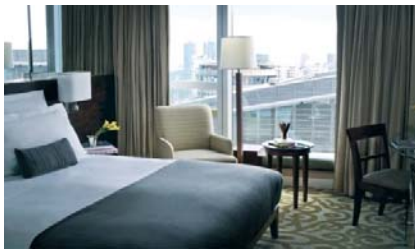
HONG KONG



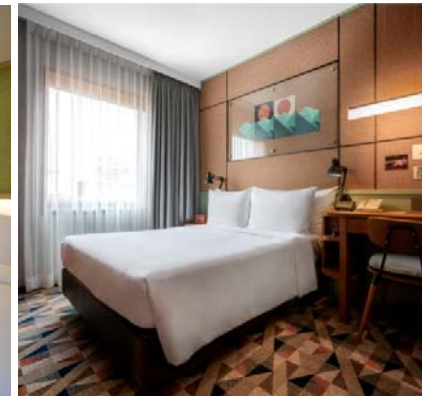
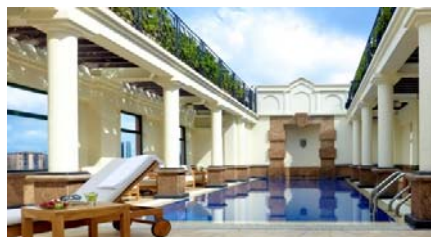


# CORDIS

HONG KONG  
AT LANGHAM PLACE









**Social unrest and COVID-19  
have devastated our hotels'  
business**

**To avoid breaching of Financial  
Covenants  
LHIL announced a Rights Issue**



# Difficult environment for the hotel sector in Hong Kong

Challenging environment	1 The Hong Kong hotel sector has encountered <b>significant headwind</b> since the beginning of 2020 primarily due to the impact of <b>the COVID-19 pandemic</b>
	2 Overnight visitor arrivals in Hong Kong has decreased by over <b>91.2% year-on-year<sup>1</sup></b> in the first half of 2020
	3 There are <b>no signs</b> that international travel and tourism activities will <b>revert to normal soon</b> : <ul style="list-style-type: none"><li>- As at 16 July 2020, 218 countries and areas had reported infections with a total of approximately 13 million COVID-19 cases reported globally<sup>2</sup></li><li>- Travel restrictions, quarantine measures and social distancing measures remain in force in many countries across the world</li></ul>

Negative impact on our income stream	<ul style="list-style-type: none"><li>◆ We receive a <b>fixed rental income of HKD225 million per annum</b> and a variable rental income equal to 70% of the Adjusted Gross Operating Income of the hotels held by us</li><li>◆ The operating performance of the hotels has declined significantly amid the COVID-19 pandemic. Average room rate, occupancy and revenue per available room (“RevPAR”) of our hotels this year has decreased significantly as compared with the corresponding period in the preceding year</li><li>◆ While we <b>continue to receive the fixed rental income</b> from the Master Lessee, the weaker underlying performance of the hotels has led to a decrease in their Adjusted Gross Operating Income and in turn a <b>decrease in the variable rent receivable by us</b></li></ul>
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Notes:

1. According to statistics published by the Hong Kong Tourism Board
2. According to statistics published by the Department of Health of the HKSAR Government



# Impact on Loan Agreements and financial covenants

## Financial Covenants

- ◆ Pursuant to the Loan Agreements, we are required to satisfy certain financial covenants, including but not limited to maintaining:
  - A minimum interest coverage ratio
  - A maximum loan to valuation ratio of the hotel properties held by us (the “LTV Ratio”)

## Mitigation Mechanism

- ◆ If these financial covenants are not met, we are required to undertake Mitigation Mechanism, including but not limited to:
  - Depositing additional cash into an account to be charged to the security agent (to restore the minimum interest coverage ratio), and/or
  - Prepaying part of the outstanding loan (to restore the maximum LTV Ratio)

- ◆ As of 16 July 2020, we are in compliance with the provisions under the Loan Agreements. As long as the requirements of the Mitigation Mechanism are satisfied, the financial covenants will not be considered as breached
- ◆ We are taking a number of steps in response, including tightening of **expense control**, **deferring various renovation plans**, applying for and receiving **COVID-19 subsidies** announced from the HKSAR Government and **not paying any interim distribution** for the six-month period ending 30 June 2020
- ◆ We are also paying close attention to our **ability to meet the financial covenants**, especially the **LTV Ratio**, as deterioration that might be prolonged in market conditions and the earnings of our hotels are expected to have a **negative impact on the valuation of our property interests**

# Key terms of the Rights Issue

Number of SSUs in issue <sup>1</sup>	2,145,487,833 SSUs		
Rights ratio	1 Rights SSU for every 2 SSUs held on the Record Date		
	Assuming all Rights SSUs are taken up ("Scenario A")	Assuming (i) No Rights SSUs are taken up by the Qualifying Holders other than Great Eagle Group pursuant to the Irrevocable Undertaking and (ii) no excess applications made by Qualifying Holders ("Scenario B")	Assuming (i) no Rights SSUs are taken up by the Qualifying Holders other than Great Eagle Group pursuant to the Irrevocable Undertaking and (ii) excess application is made by Great Eagle as adjusted by the Waived Excess SSUs ("Scenario C")
Gross proceeds (HKD)	c.HKD1,019 million	c.HKD648 million	c.HKD720 million
Number of Rights SSUs	1,072,743,916	682,411,916	757,534,167
As % of the existing issued SSUs <sup>1</sup>	50.0%	31.8%	35.3%
As % of the issued SSUs <sup>1</sup> (as enlarged by the Rights Issue)	33.3%	24.1%	26.1%
Rights subscription price	HKD0.95		
Theoretical ex-rights price ("TERP")	HKD1.05		
Discount to TERP	9.5%		
Last closing price	HKD1.10		
Discount to last close price	13.6%		
Underwriting	Non-underwritten		

- ◆ Great Eagle Group has undertaken to take up the number of Rights SSUs under its assured entitlement; it also intends to apply, by way of excess application, for the maximum number of Rights SSUs allowed under Listing Rules (the number it can take up being subject to the public float requirement)
- ◆ **Estimated net proceeds:** HKD638 million (*Scenario B*) – HKD1,009 million (*Scenario A*)

Notes:

1. As at the date of the announcement of the Rights Issue (16 July 2020)



# Use of proceeds

◆ Based on the minimum amount of estimated Net Proceeds of HK\$638 million as set out in Scenario B:

<u>Net Proceeds</u>	<u>Usage</u>	
At least 80% (i.e. HKD510 million)	<ul style="list-style-type: none"> <li>◆ Prepaying part of the outstanding loans</li> </ul>	<ul style="list-style-type: none"> <li>◆ Key terms of the loans: <ul style="list-style-type: none"> <li>• Bear interest rate at HIBOR plus 0.83% per annum</li> <li>• Mature in December 2023</li> <li>• Secured by our investment properties</li> </ul> </li> </ul>
Not more than 20% (i.e. HKD128 million)	<ul style="list-style-type: none"> <li>◆ In part for additional security deposits under the Mitigation Mechanism</li> <li>◆ In part for settlement of finance costs and general working capital purpose<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>◆ Additional security deposits under the Mitigation Mechanism: <ul style="list-style-type: none"> <li>• Current intention: Approx. HK\$45 million<sup>2</sup>, taking into account the minimum interest coverage ratio we are required to maintain and our recent financial performance</li> <li>• For general working capital upon release<sup>3</sup></li> </ul> </li> <li>◆ The remainder will be set aside for future settlement of finance costs and general working capital</li> </ul>

◆ If additional net proceeds are raised above the minimum amount:

In the case where further Right SSUs are taken up by the Unitholders or excess applications on EAFs are made by the Qualifying Holders, we will consider **utilising such proceeds in prepaying part of the outstanding loans further under the Loan Agreements.**

Notes:

1. Including the settlement of operating, finance and trust level expenses, as well as payment to reserves for furniture, fixtures and equipment and potentially renovation payments
2. Given the uncertainty how the COVID-19 situation may develop, we may utilise more than HK\$45 million for the Mitigation Mechanism if the future situation requires. If that happens, the amount for settlement of finance costs and general working capital will reduce accordingly
3. The release date of the security deposits will depend on our ability to maintain a minimum interest coverage ratio, which in turn is subject to various factors contributing to the operating performance of our hotel properties. Upon release of the security deposits, taking into account future business outlook and financial performance, we will consider payments in relation to, among others, the renovation of its hotel properties, settlement of finance costs and general working capital purpose

## Key objectives and takeaway

**1**

**Enlarge our equity base, and lower our gearing and interest expenses**

**2**

**Create additional headroom regarding the LTV Ratio and enhance our ability to satisfy the financial covenants**

**3**

**Strengthen our financial position to weather the COVID-19 pandemic and benefit from future business recovery**

**4**

**Strong support by Great Eagle Group with its Irrevocable Undertaking and intention to make excess application**



# Key investment highlights of the Trust Group

1

The hotels are strategically located on the Kowloon Peninsula in Hong Kong

- ✓ Close proximity of key tourist and shopping belts, existing and expanding commercial districts
- ✓ Easily accessible via major roads, MTR stations, the Hong Kong International Airport and rail to mainland China

2

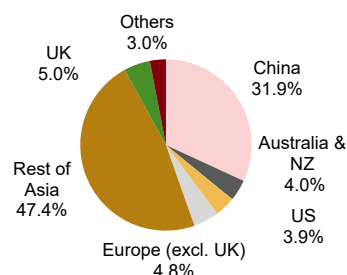
High quality portfolio with a balanced mix of room and non-room revenue

- ✓ Wide range of non-room revenue sources including food and beverage, banquet services, meeting and conference facilities and spa facilities
- ✓ Award-winning restaurants (Michelin star-rated) and quality conference spaces

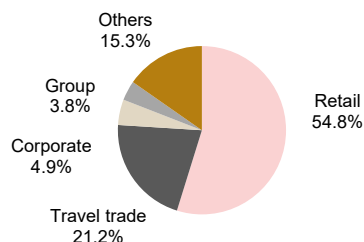
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Customer base in terms of geography and customer segments

1H 2020 customer base  
(by geography)



1H 2020 customer base  
(by segment)



4

Managed under the internationally recognised Langham brands by the hotel manager, which has presence across four continents

- ◆ Our hotels are managed by **Langham Hotels International Limited**, a wholly-owned subsidiary of Great Eagle

- ✓ Has an operating track record of over 20 years
- ✓ It currently manages a portfolio of over 20 hotels located in major cities over four continents, including:



The Langham,  
London



The Langham,  
Shanghai,  
Xintiandi



The Langham,  
New York,  
Fifth Avenue



The Langham,  
Melbourne



## Expected Transaction Timeline



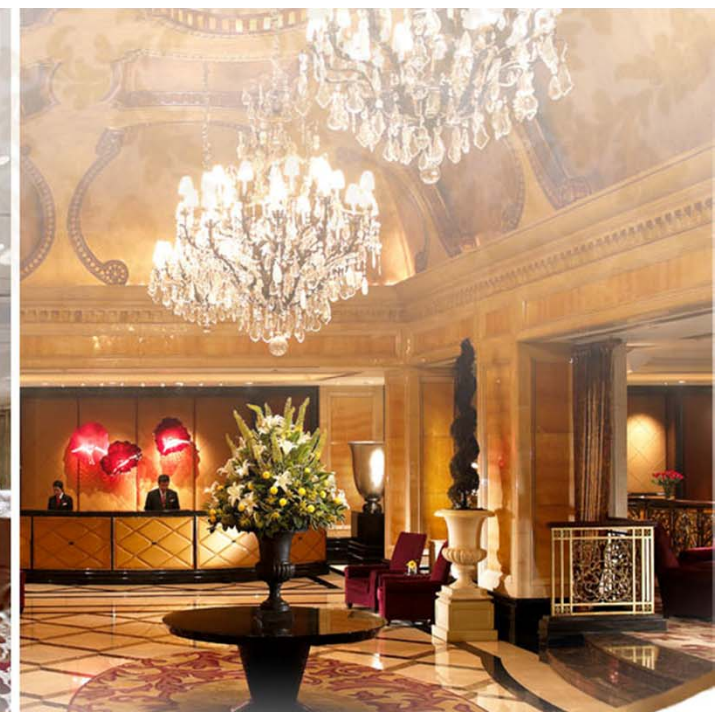
# Expected transaction timeline

	Date <sup>1,2,3</sup>	Event
July – August	16 Jul 2020	Date of Rights Issue announcement
	<b>11 Aug 2020</b>	<b>Last day of dealing in the SSUs on a cum-rights basis</b>
	12 Aug 2020	First day of dealing in the SSUs on an ex-rights basis
	<b>4:30pm on 13 Aug 2020</b>	<b>Latest time for lodging transfers of SSUs to qualify for the Rights Issue</b>
	14 - 20 Aug 2020	Closure of the Registers (both dates inclusive)
	<b>20 Aug 2020</b>	<b>Record Date</b>
	21 Aug 2020	Registers re-open
	21 Aug 2020	Despatch of Prospectus Documents
	<b>9:00am on 25 Aug 2020</b>	<b>First day of dealing in nil-paid Rights SSUs</b>
	4:30pm on 27 Aug 2020	Latest time for splitting nil-paid Rights SSUs
September	4:00pm on 1 Sep 2020	Last day of dealing in nil-paid Rights SSUs
	1 Sep 2020	First day for free exchange of existing certificates of SSUs in board lots of 500 SSUs each for new certificates of SSUs in board lots of 2,000 SSUs each
	<b>4:00pm on 4 Sep 2020</b>	<b>Latest time for acceptance of and payment for the Rights SSUs and for application and payment for excess Rights SSUs</b>
	4:30pm on 9 Sep 2020	Rights Issue expected to become unconditional
	<b>11 Sep 2020</b>	<b>Announcement of the allotment results of the Rights Issue to be published on the respective websites of the Stock Exchange and the Trust and the Company</b>
	14 Sep 2020	Despatch of refund cheques for wholly and partially unsuccessful excess applications
	14 Sep 2020	Despatch of certificates of fully-paid Rights SSUs
	14 Sep 2020	Last day for trading in the SSUs in board lots of 500 SSUs each in the original counter
	<b>9:00am on 15 Sep 2020</b>	<b>Dealings in fully-paid Rights SSUs commence</b>
	15 Sep 2020	Effective date of the change in board lot size from 500 SSUs to 2,000 SSUs
	9:00am on 15 Sep 2020	Designated broker commences standing in the market to provide matching services for the sale and purchase of odd lot of SSUs
October	4:00pm on 7 Oct 2020	Designated broker ceases standing in the market to provide matching services for the sale and purchase of odd lot of SSUs
	4:30pm on 9 Oct 2020	Last day (and latest time for submission of certificates of SSUs to the Registrar) for free exchange of existing certificates of SSUs in board lots of 500 SSUs each for new certificates of SSUs in board lots of 2,000 SSUs each

## Notes:

- All times and dates refer to Hong Kong local times and dates
- Dates or deadlines specified in the expected transaction timeline above are indicative only and may be extended or varied by the Trust and the Company. Any changes to the expected transaction timeline will be published or notified to the Unitholders and the Stock Exchange as and when appropriate
- The proposed change in board lot size is subject to completion of the Rights Issue. If the Rights Issue is not completed, the change in board lot size will not be implemented

 Relating to the proposed change in board lot size



## 2020 Interim Results



# Summary of 2020 Interim Results

**RevPAR dropped to record  
a low in 1H 2020**

- RevPAR for the Trust Group's hotels dropped by 85.7%.
- Portfolio F&B revenue dropped by 50.8%.
- After including subsidies from government, the hotels still generated a gross operating loss of HK\$38.6 million.

**Even excluding  
exceptional items,  
there was still a loss  
incurred**

- Total rental income under IFRS 15 decreased by 64.5%.
- Finance cost declined by 7.7% on lower interest rates .
- Loss *excluding* exceptional items\* was HK\$13.2 million.

**No Distribution for  
the first half of 2020**

- For the first half of 2020, there was only a minimal distributable income of HK\$36,000 after adjusted for non-cash items.
- Therefore, no distribution will be declared for the period.

**Outlook**

- The pandemic will not only affect our hotel business in the short term, but will also have long-term implications.
- July RevPAR for The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK down year on year by 93.5%, 81.9% and 76.4% respectively.

\* Items including fair value of investment properties and derivative financial instrument

# 2020 Interim Results

## Hotels operating performance for 1H 2020

	Average Daily Rooms Available		Occupancy		Average Room Rate		RevPAR	
	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019
The Langham, Hong Kong	498	498	14.4%	90.0%	1,490	2,169	214	1,952
Cordis, Hong Kong	667	667	19.5%	94.4%	1,293	1,737	252	1,640
Eaton HK	465	465	30.1%	86.6%	584	1,063	176	920
Y-o-y growth in 1H 2020	Occupancy		Average Room Rate		RevPAR		Food and Beverages	
	(in % pts)							
The Langham, Hong Kong	-75.6		-31.3%		-89.0%		-58.7%	
Cordis, Hong Kong	-74.9		-25.6%		-84.6%		-58.4%	
Eaton HK	-56.5		-45.1%		-80.9%		-17.8%	
<b>Respective markets</b>								
High Tariff A Hotels	-66.0		-18.5%		-80.4%			
High Tariff B Hotels	-52.0		-46.7%		-77.6%			
All Hotels	-51.0		-31.2%		-70.2%			

Note:

The Langham and Cordis are classified as Tariff A hotels, whereas the Eaton is classified as a Tariff B hotel.

## 2020 Interim Results

	1H 2020	1H 2019	
	(HK\$ mn)	(HK\$ mn)	Change
Fixed Rental Income	111.9	111.6	0.3%
Variable Rental Income	-	227.3	-100.0%
Rental Income from retail shops	1.0	0.7	42.9%
<b>Total Rental Income</b>	<b>112.9</b>	<b>339.6</b>	<b>-66.8%</b>
Services Fees (Including hotel management fee)	(8.0)	(44.1)	-81.9%
<b>Total Rental Income for the Trust Group under IFRS 15*</b>	<b>104.9</b>	<b>295.5</b>	<b>-64.5%</b>
Property operating expenses	(15.3)	(18.2)	-15.9%
<b>Net Property Income</b>	<b>89.6</b>	<b>277.3</b>	<b>-67.7%</b>

\* From 2018, the Trust Group has applied International Financial Reporting Standard 15 ("IFRS 15"), which requires service fees to be netted off from Total Rental Income. While the application of IFRS 15 has resulted in a change in the presentation of Total Rental Income, it does not impact the Group's Net Property Income.





## 2020 Interim Results

	1H 2020	1H 2019	
	(HK\$ mn)	(HK\$ mn)	Change
<b>Net Property Income</b>	<b>89.6</b>	<b>277.3</b>	-67.7%
Interest and other income	0.7	0.2	250.0%
(Decrease)/Increase in fair value of investment properties	(1,941.6)	(75.0)	2,488.8%
(Decrease)/Increase in fair value of derivative financial instruments	(82.3)	(24.8)	231.9%
Trust and other expenses	(6.9)	(5.6)	23.2%
Finance cost	(92.6)	(100.3)	-7.7%
<b>Loss before tax</b>	<b>(2,033.1)</b>	<b>71.8</b>	-2,931.6%
Income tax	(4.0)	(34.3)	-88.3%
<b>(Loss)/Profit attributable to holders of Share Stapled Units</b>	<b>(2,037.1)</b>	<b>37.5</b>	-5,532.3%
<b>(Loss)/Profit excluding Fair Value change of Investment Properties and derivative financial instruments</b>	<b>(13.2)</b>	<b>137.3</b>	-109.6%



## 2020 Interim Results

Adjustment to Distributable Income:	1H 2020	1H 2019	
	(HK\$ mn)	(HK\$ mn)	Change
(Loss)/Profit attributable to holders of share stapled units for the period	<b>(2,037.1)</b>	<b>37.5</b>	-5,532.3%
Hotel management fee and licence fee paid in share stapled units	6.7	35.1	-80.9%
Amortisation of debt upfront fee	5.6	9.0	-37.8%
Depreciation	1.0	-	100.0%
Deferred tax	3.8	15.4	-75.3%
Cash contribution to FF&E reserve	(3.9)	(12.2)	-68.0%
Change in fair value of investment properties	1,941.6	75.0	2,488.8%
Change in fair value of derivative financial ins.	82.3	24.8	231.9%
<b>Distributable income to Share Stapled Unitholders</b>	<b>0.0*</b>	<b>184.6</b>	-100.0%
<b>Distribution per unit (HK cents)</b>	<b>-</b>	<b>8.7</b>	-100.0%

\* Distributable income came to HK\$36,000 for the first half of 2020



## 1H 2020 Finance cost

	1H 2020	1H 2019	
	(HK\$ mn)	(HK\$ mn)	Change
Interest expense on floating bank loan	(81.6)	(90.8)	-10.1%
Amortisation of loan upfront fee	(5.6)	(9.0)	-37.8%
Interest paid on fixed interest rate swap	(5.4)	(0.5)	980.2%
<b>Total Finance cost</b>	<b>(92.6)</b>	<b>(100.3)</b>	<b>-7.7%</b>
Cash Finance cost	(87.0)	(91.3)	-4.7%
Cash Interest rate	2.41%	2.61%	

### Loan with Floating vs. Fixed interest rate as at the end of June 2020

HK\$ 527 million	Floating rate base on HIBOR+ all-in interest spread of 0.98% p.a.
HK\$4,000 million	Fixed rate at 2.63% (using interest rate swaps at 1.65% p.a.) - Of the HK\$4,000 million of interest rate swap (IRS) contracts above, HK\$3,000 million notional worth of IRS contracts will expire from November 2020 to February 2021
HK\$2,700 million	Fixed rate at 2.06% (using interest rate swaps at 1.08% p.a.) - The Trust Group executed an additional HK\$2,700 million notional amount of IRS contracts at an average swap rate of 1.08% during the first half of 2020, in anticipation of the expiry interest rate swap contracts in the coming months.
Total HK\$7,227 million loan outstanding	





# Balance sheet

## Financial position

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- The hotel properties were revalued at HK\$15,527 million. Net Asset Value attributable to share stapled unit holders was HK\$3.68 per unit.
- As at 30 June 2020, the Trust Group's gearing was 46.2%, compared with 40.6% as at the end of 2019.
- Interest coverage plunged to only 2 times in the first half of 2020.
- As at 30 June 2020, total outstanding borrowings was HK\$7,227 million.
- Based on the current financial circumstances of the Trust Group, it is anticipated that the mitigation mechanism will most likely be triggered in the third quarter of 2020. As long as the requirements of the mitigation mechanism are satisfied, the financial covenants will not be considered as breached.

## Interest rate swap contracts

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- ✓ The Trust Group has effectively fixed the interest rate of HK\$4,000 million of our bank loans at the beginning of 2020.
- ✓ Of the HK\$4,000 million of interest rate swap (IRS) contracts above, HK\$3,000 million notional worth of IRS contracts will expire from November 2020 to February 2021
- ✓ In order to maintain an adequate level of hedging in-place, the Trust Group executed an additional HK\$2,700 million notional amount of IRS contracts at an average swap rate of 1.08% during the first half of 2020, in anticipation of the expiry interest rate swap contracts in the coming months.
- ✓ Due to the overlapping interest rate swap contracts held by the Trust Group as at the end of June 2020, total notional amount of interest rate swap contracts reached HK\$6,700 million.