



LANGHAM

HOSPITALITY INVESTMENTS

Stock code 股份代號 : 1270

Interim Report 中期報告 2018

Eaton

LANGHAM HOSPITALITY INVESTMENTS

CORPORATE PROFILE

Langham Hospitality Investments has been established primarily to own and invest in a portfolio of hotels, with an initial focus on completed hotels in Asia. The initial asset portfolio comprises of:

- The Langham, Hong Kong;
- Cordis, Hong Kong; and
- Eaton HK.

The Langham and Cordis are both High Tariff A hotels and Eaton is a High Tariff B hotel under the classification set out by Hong Kong Tourism Board, with High Tariff A being the highest category and High Tariff B being the second highest category. Each of the Hotels is located on the Kowloon peninsula in Hong Kong, a vibrant commercial and leisure hub which offers a variety of activities ranging from shopping, food and beverage, and entertainment to cultural attractions. The Hotels are also located near well-connected transportation hubs in Hong Kong allowing guests to enjoy access to other leisure and business districts in Hong Kong.





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CORPORATE INFORMATION

TRUST

Langham Hospitality Investments

(a fixed single investment trust constituted pursuant to the Trust Deed under the laws of Hong Kong)

COMPANY

Langham Hospitality Investments Limited

(incorporated in the Cayman Islands with limited liability)

TRUSTEE-MANAGER

LHIL Manager Limited

(as Trustee-Manager of the Trust)

COMPANY AND TRUSTEE-MANAGER BOARDS OF DIRECTORS

Non-executive Directors

LO Ka Shui *(Chairman)*
LO Chun Him, Alexander

Executive Director

IP Yuk Keung, Albert *(Chief Executive Officer)*

Independent Non-executive Directors

CHAN Ka Keung, Ceajer
LIN Syaru, Shirley
WONG Kwai Lam

COMPANY AND TRUSTEE-MANAGER AUDIT COMMITTEES

WONG Kwai Lam *(Chairman)*
CHAN Ka Keung, Ceajer
LIN Syaru, Shirley

COMPANY REMUNERATION COMMITTEE

CHAN Ka Keung, Ceajer *(Chairman)*
LO Ka Shui
LIN Syaru, Shirley
WONG Kwai Lam

COMPANY NOMINATION COMMITTEE

LIN Syaru, Shirley *(Chairwoman)*
LO Ka Shui
CHAN Ka Keung, Ceajer
WONG Kwai Lam

COMPANY SECRETARY

WONG Mei Ling, Marina

AUDITOR

Deloitte Touche Tohmatsu

Corporate Information

LEGAL ADVISORS

Conyers Dill & Pearnan (Cayman) Limited
Mayer Brown JSM

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Citibank, N.A.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

COMPANY REGISTERED OFFICE

Cricket Square, Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

COMPANY PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2702, 27th Floor
Great Eagle Centre
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Wanchai, Hong Kong
Tel: (852) 2186 2500
Fax: (852) 2186 9867

COMPANY PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

COMPANY HONG KONG BRANCH SHARE REGISTRAR AND SHARE STAPLED UNITS REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Email: hkinfo@computershare.com.hk

WEBSITE

www.langhamhospitality.com

INVESTORS ENQUIRIES

For enquiries from investors or Holders of Share Stapled Units, please email to enquiry@langhamhospitality.com

HKEX STOCK CODE

1270

DISTRIBUTION NOTICE AND KEY DATES

INTERIM DISTRIBUTION

The Trustee-Manager Board has declared an interim distribution of HK9.0 cents per Share Stapled Unit (2017: HK10.3 cents) for the six-month period ended 30 June 2018, payable on 28 September 2018 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 13 September 2018.

The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the Auditor of the Trust has reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per Share Stapled Unit and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unitholders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.

CLOSURE OF REGISTERS

The Share Stapled Units Register, the register of holders of units, the principal and Hong Kong branch registers of members, and the register of beneficial interests as established and maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Monday, 10 September 2018 to Thursday, 13 September 2018, both days inclusive, during which period no transfer of Share Stapled Units will be registered.

In order to qualify for the 2018 interim distribution, all properly completed transfer forms accompanied by the relevant Share Stapled Units certificates must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 7 September 2018.

KEY DATES

Events	Dates
2018 Interim Results Announcement	8 August 2018
Ex-distribution Date	6 September 2018
Closure of Registers	10 September 2018 – 13 September 2018 <i>(both days inclusive)</i>
Record Date for 2018 Interim Distribution	13 September 2018
Payment of 2018 Interim Distribution of HK9.0 cents per Share Stapled Unit	28 September 2018

FINANCIAL HIGHLIGHTS

(in HK\$ million, unless otherwise specified)	1H 2018	1H 2017	Change
Revenue of hotel portfolio	761.1	744.9	2.2%
Total rental income for the Trust Group under HKFRS 15 ^(a)	284.6	291.5	-2.4%
Total rental income for the Trust Group, if without HKFRS 15 adoption	326.6	332.8	-1.9%
Profit attributable to Holders of Share Stapled Units excluding fair value change on investment properties and derivative financial instruments	144.2	164.6	-12.4%
Distributable income	189.0	209.6	-9.8%
Distribution per Share Stapled Unit	HK9.0 cents	HK10.3 cents ^(b)	-12.6%

As at	30 Jun 2018	31 Dec 2017	30 Jun 2017
Gross value of hotel portfolio (in HK\$ million)	20,000	19,373	18,763
Net asset value per Share Stapled Unit	HK\$6.15	HK\$5.94	HK\$5.70
Gearing ratio	34.2%	34.7%	35.7%

Notes:

- (a) In 2018, the Trust Group has applied HKFRS 15, which has resulted in a net off of service fees from total rental income and be presented on a net basis. While the application of HKFRS 15 has resulted in a change in the presentation of total rental income, it does not impact the Group's net property income. Total rental income as stated in this interim report was prepared under HKFRS 15. Figure has been restated in the comparative year.
- (b) Pursuant to the Distribution Entitlement Waiver Deed which expired in 2017, LHIL Assets Holdings Limited had agreed to waive its entitlement of distributions in respect of 50,000,000 Share Stapled Units held by it for the year ended 31 December 2017. The distribution per Share Stapled Unit in the interim distribution period of 2017 had been adjusted for the effect of distribution waiver. Without such waiver, the interim distribution per Share Stapled Unit would be HK10.1 cents.

CHAIRMAN'S STATEMENT

In the first half of 2018, the Trust Group's hotel portfolio delivered a 2.2% increase in total revenue. While there was strong growth in revenues at The Langham, Hong Kong and Cordis, Hong Kong during the period, most of the increase has been offset by a reduction in revenue at Eaton HK, as the hotel underwent renovations throughout the first half period.

Against the backdrop of a sharp rebound in overnight visitor arrivals from Mainland China, which is the largest inbound market for Hong Kong, the hotel market posted strong growth in RevPAR in the first half of 2018. Driven by an improvement in average room rate, growth in RevPAR for Hong Kong's hotels surged 13.0% year-on-year in the first half of 2018, as compared with a modest growth of only 2.3% year-on-year in 2017.

As for the Trust Group's hotels, except for the Eaton HK, with its revenue held back by renovation works, The Langham, Hong Kong and Cordis, Hong Kong both benefitted from the hotel market's robust RevPAR growth, and recorded RevPAR growth of 15.1% and 14.4% respectively in the first half of 2018. Meanwhile, negative impact arising from renovation work resulted in a modest growth of only 1.1% in RevPAR for Eaton HK.

Despite an overall 14.9% growth in RevPAR for the portfolio in the first half of 2018, room revenue increased by 9.0% year-on-year after accounting for a reduction in the number of available rooms amid renovation at the Eaton HK. In addition, a significant decline in food and beverage (F&B) contribution from the Eaton HK resulting from the large scale renovation work led to a 6.6% decline in F&B revenue for the portfolio during the period. All-in-all, total portfolio revenue only rose by 2.2% in the first half of 2018.

As compared with the same period in prior year, operating margin declined due to planned renovation at the Eaton HK in the first half of 2018, and therefore, operating profit before global marketing fee of the hotel portfolio actually dropped by 2.4%. Amid decline in operating profit of the hotel portfolio, total gross rental income prepared under HKFRS 15 dropped by 2.4% to HK\$284.6 million in the first half of 2018, and the Trust Group's net property income dropped by 2.7% year-on-year to HK\$271.1 million in the corresponding period.

Finance costs for the Trust Group rose by 18.2% year-on-year to HK\$86.5 million in the first half of 2018 due to higher interest rate. Nonetheless, as there was a booking of HK\$498.8 million in increase of the fair value of investment properties (hotel portfolio), net profit rose 65.9% to HK\$679.5 million for the first six months ended 30 June 2018. The Trust Group's first half results also factored in an increase of fair value of derivative financial instruments amounting to HK\$36.5 million, which reflects increase in market value of the interest rate swap contracts due to rise in interest rate as at the end of June 2018. Net profit excluding fair value change of investment properties and derivative financial instruments was HK\$144.2 million, which represents a decline of 12.4% from the first half of 2017.

As at 30 June 2018, valuation of the hotel portfolio rose to HK\$20,000 million as compared with HK\$19,373 million as at the end of December 2017. Net asset value ("NAV") of the Trust Group amounted to HK\$12,899 million or HK\$6.15 per Share Stapled Unit as at the end of June 2018. Based on the Company's closing price of HK\$3.22 per Share Stapled Unit on 29 June 2018, this represented a discount of 47.6% to the Trust Group's NAV. Gearing ratio was 34.2% as at the end of June 2018 as compared with 34.7% as at the end of December 2017.

Since the tightening of monetary policies by the U.S. Federal Reserve, interest rates in Hong Kong have been on the rise in the first half of 2018. To further reduce volatility in the Trust Group's future distributable income, we took the important step of entering into more interest rate swap contract with notional amount of HK\$0.5 billion in the first half of 2018, which brought the total notional worth of swap contracts to HK\$4.0 billion with weighted average swap rate of 1.65% as at 30 June 2018. As a result, interest rate on 57.9% of our HK\$6.9 billion bank loan was effectively fixed through these contracts as at 30 June 2018.

Chairman's Statement

OUTLOOK

As there is little sign of a noticeable slowdown in visitor arrivals from Mainland China, growth for Hong Kong hotels' RevPAR is expected to continue, although its pace could become slower as the base for comparison is at a higher level. However, the abrupt weakening of Renminbi against the Hong Kong dollar since May 2018 could rein in the growth of visitor arrivals from Mainland China in the second half of 2018. In addition, elevated tensions over international trade and market volatility in recent months could also weigh on the outlook for global growth. Therefore, we will continue to stay vigilant and be ready to take action in mitigating a potential slowdown in visitor arrivals to Hong Kong.

Going forward, the completion of renovation at the Eaton HK in the second half of 2018 is expected to lay the foundation for high-quality revenue growth in the coming years. We believe the unique positioning of the hotel, which is at the forefront of satisfying guest expectations which are evolving towards a more inclusive and dynamic staying experience, will allow the Eaton HK to gain a first mover advantage in this rapidly shifting trend. However, in the near term, earnings of the hotel portfolio will still be affected during the transitional period as new facilities are ramped up for operation.

The continued improvement of Hong Kong's hotel market will support our hotel's underlying performance in the near term. In addition, we expect ongoing infrastructure improvements like the high speed railway, the accumulation of wealth and rising disposable income in China as structural growth drivers will contribute to support leisure and corporate travel spending in the long term.



Lo Ka Shui
Chairman

CEO'S REVIEW

As the Hotels of the Trust Group are leased to the Master Lessee, the Trust Group receives rent in the form of a pre-determined fixed rental income (pro-rata at HK\$225 million per annum) and a variable rent calculated at 70% of the Hotels' aggregate gross operating profit before deduction of the global marketing fees. In addition to the fixed rental income and variable rental income from the Master Lessee, the Trust Group also receives rental income directly from the retail shops located at Eaton HK, which are leased to independent third parties.

In 2018, the Trust Group has applied HKFRS 15, which has resulted in a net off of service fees from total rental income and be presented on a net basis.

Reflecting a decline in the Hotels' aggregate gross operating profit before deduction of global marketing fee for the six months ended 30 June 2018, variable rental income from the Master Lessee dropped by 2.4% year-on-year to HK\$215.0 million. In addition to fixed rental income of HK\$111.6 million for the first half of 2018, total rental income received by the Trust Group, if without HKFRS 15 adoption, was HK\$326.6 million for the reporting period, representing a year-on-year decrease of 1.9%. As a result of the adoption of HKFRS 15, an adjustment has been made by netting off HK\$42.0 million in service fees incurred for the first half period and total rental income was HK\$284.6 million, representing a year-on-year decline of 2.4%.

Note that there was no rental income from the retail shops at Eaton HK, as the space was undergoing renovation works during the first half of 2018.

(in HK\$ million)	1H 2018	1H 2017	Change
Variable rental income	215.0	220.3	-2.4%
Fixed rental income	111.6	111.6	–
Rental income from retail shops	–	0.9	n.a.
Total rental income for the Trust Group, if without HKFRS 15 adoption	326.6	332.8	-1.9%
Adjustment of HKFRS 15 adoption	(42.0)	(41.3)	1.7%
Total rental income for the Trust Group under HKFRS 15	284.6	291.5	-2.4%

Whereas total service fees are comprised of : i) hotel management fees, ii) licence fee and iii) global marketing fee paid to the hotel management company. Hotel management fees are comprised of a base management fee, which is calculated at 1.5% of total hotel revenue, and an incentive fee on 5% of adjusted gross operating profit of the Hotels. Licence fee is calculated based on 1% of total revenue of the Hotels, and global marketing fee is calculated at 2% of total room revenue of the Hotels. It should be noted that when calculating distributable income, global marketing fee is paid in cash. As for hotel management fees and licence fee, the Hotel Manager can elect to be paid in the form of Share Stapled Units, cash or a combination of both. For 2018, the Hotel Manager has elected to be paid wholly in the form of Share Stapled Units for the payment of hotel management fees and licence fee.

CEO's Review

In the first half of 2018, global marketing fee rose by 8.4% year-on-year as a result of improved total room revenue. In addition to a 2.7% year-on-year increase in licence fee, these led to an overall increase in total service fees payable to the hotel management company, which rose by 1.7% year-on-year to HK\$42.0 million in the first half of 2018.

(in HK\$ million)	1H 2018	1H 2017	Change
Hotel management fees	25.4	25.6	-0.8%
Licence fee	7.6	7.4	2.7%
Global marketing fee	9.0	8.3	8.4%
Total service fees	42.0	41.3	1.7%

Hotel properties related expenses rose by 4.7% year-on-year to HK\$13.5 million for the first half of 2018, driven mainly by increase in government rates. Overall, there was a year-on-year decrease of 2.7% in net property income of the Trust Group to HK\$271.1 million in the first half of 2018.

(in HK\$ million)	1H 2018	1H 2017	Change
Total rental income under HKFRS 15	284.6	291.5	-2.4%
Hotel properties related expenses	(13.5)	(12.9)	4.7%
Net property income	271.1	278.6	-2.7%

As we strive to reduce the negative impact from potential hike in interest rate on distributable income, the Trust Group has effectively fixed the interest rate of HK\$4,000 million of bank loan by entering into four-year interest rate swap contracts since early November 2016 and through June 2018 at weighted average swap rate of 1.65%.

Hence, the Trust Group's total finance costs included net interest settlement on the interest rate swaps, which came to HK\$9.8 million in the first half of 2018, a reduction from that incurred in the first half of 2017.

As a result of higher interest rate, interest expense on the loan rose by 35.7% to HK\$67.7 million in the first half of 2018. Including amortisation of loan upfront fee of HK\$9.0 million and net interest settlement, total finance costs came to HK\$86.5 million, representing a year-on-year increase of 18.2%.

(in HK\$ million)	1H 2018	1H 2017	Change
Breakdown of finance costs			
Interest expense	(67.7)	(49.9)	35.7%
Amortisation of loan upfront fee	(9.0)	(9.0)	–
Interest paid on fixed interest rate swaps	(9.8)	(14.3)	-31.5%
Total finance costs	(86.5)	(73.2)	18.2%

CEO's Review

As swap rate was higher as of 30 June 2018, there was an increase in fair value of derivative financial instruments amounting to HK\$36.5 million in the first half of 2018, reflecting an increase in the market value of the contracts. As fair value changes are non-cash items, they do not impact distributable income.

In addition, increase in fair value of investment properties amounting to HK\$498.8 million in the first half period also contributed to higher net profit for the Trust Group. Profit attributable to Holders of Share Stapled Units rose 65.9% to HK\$679.5 million. Excluding the impact of fair value change on investment properties and financial derivative instruments, profit attributable to Holders of Share Stapled Units was HK\$144.2 million for the first half of 2018, representing a drop of 12.4% year-on-year.

(in HK\$ million)	1H 2018	1H 2017	Change
Net property income	271.1	278.6	-2.7%
Interest and other income	0.1	1.9	-94.7%
Increase in fair value of investment properties (hotel portfolio)	498.8	295.8	68.6%
Fair value change on derivative financial instruments (interest rate swaps)	36.5	(50.7)	n.m.
Finance costs	(86.5)	(73.2)	18.2%
Trust and other expenses	(6.0)	(5.5)	9.1%
Profit before tax	714.0	446.9	59.8%
Income tax expense	(34.5)	(37.2)	-7.3%
Profit attributable to Holders of Share Stapled Units	679.5	409.7	65.9%
Profit attributable to Holders of Share Stapled Units excluding fair value change on investment properties and derivative financial instruments	144.2	164.6	-12.4%

To derive the Trust Group's distributable income, net profit was adjusted for non-cash items. Items deducted from net profit were: i) increase in fair value of investment properties, ii) increase in fair value on derivative financial instruments and iii) cash contribution to the furniture, fixtures and equipment reserve calculated based on 1.5% of total revenue of the Hotels. On the other hand, non-cash items added back to profit included: i) hotel management fees and licence fee paid in Share Stapled Units, ii) amortisation of upfront loan fee, and (iii) deferred taxation. Distributable income of the Trust Group, based on a 100% distribution policy for the first half period, dropped by 9.8% year-on-year to HK\$189.0 million.

CEO's Review

(in HK\$ million)	1H 2018	1H 2017	Change
Profit attributable to Holders of Share Stapled Units	679.5	409.7	65.9%
Add:			
Hotel management fees and licence fee paid in Share Stapled Units	33.0	33.0	–
Amortization of upfront loan fee, a non-cash cost	9.0	9.0	–
Deferred tax	14.2	14.1	0.7%
Decrease in fair value on derivative financial instruments	–	50.7	n.a.
Less:			
Furniture, fixtures and equipment reserve	(11.4)	(11.1)	-2.7%
Increase in fair value of investment properties	(498.8)	(295.8)	68.6%
Increase in fair value on derivative financial instruments	(36.5)	–	n.a.
Distributable income	189.0	209.6	-9.8%

As compared with prior years, when the Great Eagle Group has waived its entitlement to receive distributions for some of its Share Stapled Units held, all of the holdings of Share Stapled Units of Great Eagle Group will be entitled to receive distribution payable from 2018 onward. Hence, distribution per Share Stapled Unit before and after the impact of distribution waiver will be the same from 2018 onward and will be simply referred to as distribution per Share Stapled Unit.

In the first half of 2018, distribution per Share Stapled Unit was HK9.0 cents, representing a year-on-year decline of 12.6% when compared with a distribution per Share Stapled Unit after the impact of distribution waiver of HK10.3 cents achieved for the first half of 2017.

Hotel Performance

	Average Daily Rooms Available		Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	1H 2018	1H 2017	1H 2018	1H 2017	1H 2018	1H 2017	1H 2018	1H 2017
The Langham, Hong Kong <i>year-on-year growth</i>	498	498	90.6%	85.6%	2,270	2,086	2,057	1,787
			+5.0ppt		+8.8%		+15.1%	
Cordis, Hong Kong <i>year-on-year growth</i>	666	661	95.2%	91.6%	1,749	1,590	1,666	1,456
			+3.6ppt		+10.0%		+14.4%	
Eaton HK <i>year-on-year growth</i>	376	465	90.3%	96.9%	1,025	945	925	915
			-6.6ppt		+8.5%		+1.1%	
Hotel portfolio <i>year-on-year growth</i>	1,540	1,624	92.5%	91.3%	1,742	1,537	1,611	1,402
			+1.2ppt		+13.3%		+14.9%	

CEO's Review

Hong Kong Hotel Markets	Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	1H 2018	1H 2017	1H 2018	1H 2017	1H 2018	1H 2017
High Tariff A	89.0%	84.0%	2,117	2,026	1,884	1,702
<i>year-on-year growth</i>	+5.0ppt		+4.5%		+10.7%	
High Tariff B	91.0%	88.0%	1,125	1,007	1,024	886
<i>year-on-year growth</i>	+3.0ppt		+11.7%		+15.6%	
All Hotels	91.0%	87.0%	1,334	1,234	1,214	1,074
<i>year-on-year growth</i>	+4.0ppt		+8.1%		+13.0%	

For the portfolio as a whole, RevPAR amounted to HK\$1,611 for the first half of 2018, representing a year-on-year growth of 14.9%. The growth in RevPAR was primarily driven by 13.3% increase in average daily rates to HK\$1,742, whereas occupancy increased by 1.2 percentage points to 92.5% during the period. However, given a 5.2% drop in the number of available rooms amid renovation at the Eaton HK, total room revenue of the portfolio rose by 9.0% year-on-year to HK\$449.2 million for the first six months of 2018 and accounted for 59.0% of total revenue of the portfolio.

While F&B at The Langham, Hong Kong and Cordis, Hong Kong grew, it was more than offset by a significant drop in F&B business at Eaton HK, which underwent renovation work in the first half of 2018. Hence, total F&B revenue for the portfolio as a whole dropped by 6.6% year-on-year, which accounted for 38.6% of total revenue.

RevPAR growth of the two High Tariff A hotels, The Langham, Hong Kong and Cordis, Hong Kong was at 15.1% and 14.4% respectively for the first half of 2018. Both are better than the corresponding High Tariff A hotel market, which recorded a growth of 10.7% in RevPAR during the first half of 2018. In addition, these two hotels have maintained higher occupancy rates of 90.6% and 95.2% respectively, as compared with 89.0% of the corresponding High Tariff A market. Eaton HK underperformed the corresponding High Tariff B hotel market with a 1.1% RevPAR growth during the first half of 2018, in which the High Tariff B hotel market saw a 15.6% growth in RevPAR.

Revenue breakdown (in HK\$ million)	The Langham, Hong Kong	Cordis, Hong Kong	Eaton HK	Total
Rooms	185.4	200.8	63.0	449.2
Food & Beverages	114.5	149.9	29.5	293.9
Others	6.8	8.6	2.6	18.0
Total revenue	306.7	359.3	95.1	761.1

Except for the Eaton HK, which witnessed a decline in arrivals across all geographical markets as the hotel underwent major renovation in the first half of 2018, both The Langham and Cordis witnessed very respectable growth in arrivals during the period. In particular, the Cordis had witnessed an improvement in arrivals across all geographical markets, as its room rates are more affordable in the High Tariff A segment.

CEO's Review

For the first six months of 2018 and for the hotel portfolio as a whole, the number of guests from Mainland China rose by 5.8% year-on-year in the first half of 2018 and this market accounted for 36.4% of total arrivals by geographical breakdown. In addition, average room rate increase from Mainland China arrivals was 19.1% in comparison to the first half of 2017.

	Trust Group's hotel portfolio	Overnight arrivals to Hong Kong
Year-on-year growth in guests from Mainland China	+5.8%	+9.2%
% of overnight guests from Mainland China to total arrivals	36.4%	66.5%

Performance of the individual Hotels

For **The Langham, Hong Kong**, the Hotel witnessed a growth of 11.1% in arrivals from Mainland China in the first half of 2018 as well as growth in other Asia countries and Europe. F&B revenue for the Hotel rose by 3.7% year-on-year in the first six months of 2018. The increase was driven by growth in business from T'ang Court, which has received the prestigious Michelin three-star rating for the second consecutive year, as well as improved business at the Palm Court. However, banqueting business continued to be soft in the first half of 2018.

At **Cordis, Hong Kong**, in addition to growth of 4.6% in arrivals from Mainland China in the first half of 2018, the Hotel witnessed growth from arrivals across all other geographic regions. Revenue from F&B also witnessed growth of 6.1% year-on-year for the first six months of 2018. The increase was due to improved banqueting business in the first half period.

The **Eaton HK's** performance was negatively impacted by large scale renovation at the Hotel throughout the first half of 2018. Arrivals from all major geographical countries, including Mainland China, witnessed decline during the period. Revenue from F&B at the Eaton HK, dropped by 53.1% year-on-year in first half of 2018, which was attributable to closure of the majority of its F&B outlets due to major renovation.

FINANCIAL REVIEW

Distributions

Distributable income of the Trust Group for 2018 interim period was HK\$188,985,000, which represents 100% of total distributable income for current period (2017 interim period: HK\$209,576,000 which represents 100% of total distributable income). It is the present policy of the Trust Group to distribute between 90% to 100% of total distributable income to its Holders of Share Stapled Units.

Distribution per Share Stapled Unit for current period was HK9.0 cents (six months ended 30 June 2017: HK10.3 cents, after the adjustment for the waiver of distribution entitlement given by LHIL Assets Holdings Limited of 50,000,000 Share Stapled Units pursuant to the Distribution Entitlement Waiver Deed which expired in 2017). Based on the closing Share Stapled Unit price of HK\$3.22 as at 29 June 2018, distribution per Share Stapled Unit represents an annualised distribution yield of 5.6%.

Net Assets Attributable to Holders of Share Stapled Units

Net assets attributable to Holders of Share Stapled Units were HK\$12,899.2 million or HK\$6.15 per Share Stapled Unit as at 30 June 2018 (31 December 2017: HK\$12,411.1 million or HK\$5.94 per Share Stapled Unit) which represents a 91.0% premium to the closing Share Stapled Unit price of HK\$3.22 as at 29 June 2018.

CEO's Review

Debt Profile

Total outstanding borrowings of the Trust Group as at 30 June 2018 were HK\$6,910 million (31 December 2017: HK\$6,800 million). The secured term loan of HK\$6,800 million (31 December 2017: HK\$6,800 million) is on a floating-rate interest basis and repayable in full in May 2020. The two revolving loans of HK\$30 million and HK\$80 million drawn were repayable in July 2018 and August 2018 respectively, which may be redrawn in the revolver until maturity of the term loan.

In order to mitigate the interest rate exposure, the Trust Group entered into a four-year interest rate swap transaction of HK\$500 million during the period. In addition to the HK\$3,500 million four-year interest rate swap transactions entered in 2016 and 2017, total HK\$4,000 million or 57.9% of the outstanding borrowings was fixed at a weighted average swap rate of 1.65% p.a.

The Trust Group will continue to monitor interest rate movements and may, depending on market conditions, consider to further mitigate its interest rate exposure on part of the remaining bank debt.

As at 30 June 2018, total gross assets of the Trust Group were HK\$20,233.3 million (31 December 2017: HK\$19,617.9 million). Gearing ratio, calculated as total outstanding borrowings as a percentage of total gross assets, was 34.2% (31 December 2017: 34.7%).

Cash Position

As at 30 June 2018, the Trust Group had a cash balance of HK\$99.4 million (31 December 2017: HK\$101.1 million) to satisfy a portion of asset enhancement of Eaton HK, as well as its working capital and operating requirements. In addition, the Trust Group had unused revolving loan amounting to HK\$290 million as of 30 June 2018.

Pledge of Assets

As at 30 June 2018, investment properties with a fair value of HK\$20,000 million (31 December 2017: HK\$19,373 million), together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the properties, were pledged to secure a HK\$7,200 million term and revolving loan facilities granted to the Trust Group.

Commitments

As at 30 June 2018, the Trust Group had authorised capital expenditures for investment properties which were not provided for in the condensed consolidated financial statements amounting to HK\$93,126,000 (31 December 2017: HK\$170,582,000), of which HK\$86,582,000 (31 December 2017: HK\$123,838,000) were contracted for.

Other than above, the Trust Group did not have other significant commitments at the end of the reporting period.



Ip Yuk Keung, Albert
Chief Executive Officer

BIOGRAPHICAL DETAILS OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the information of Directors of the Trustee-Manager and the Company subsequent to the publication of the 2017 Annual Report of the Trust and the Company and up to the date of this Interim Report, are updated as follow:

Dr. LO Ka Shui

Chairman and Non-executive Director

Dr. LO Ka Shui, aged 71, has been the Chairman and Non-executive Director of the Trustee-Manager and the Company since 2013. He is a Member of the Remuneration Committee and of the Nomination Committee of the Company, and is also a Director of the subsidiaries of the Company. He is the Chairman and Managing Director of Great Eagle Holdings Limited, and the Chairman and Non-executive Director of the Manager of the publicly listed trust, Champion Real Estate Investment Trust. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a member of the Board of Trustees of The Hong Kong Centre for Economic Research and a Vice Chairman of The Chamber of Hong Kong Listed Companies. Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has over three decades of experience in property and hotel development and investment both in Hong Kong and overseas. Dr. Lo is the father of Mr. Lo Chun Him, Alexander, being a Non-executive Director of the Trustee-Manager and the Company.

Mr. LO Chun Him, Alexander

Non-executive Director

Mr. LO Chun Him, Alexander, aged 33, has been a Non-executive Director of the Trustee-Manager and the Company since February 2017. He is also a Director of the subsidiaries of the Company. Mr. Lo is an Executive Director of Great Eagle Holdings Limited, which is listed on the Main Board of the Stock Exchange. Prior to joining the Great Eagle Group in 2010, he had worked at Citibank's investment banking division with a focus on Hong Kong's market. Mr. Lo is also a member of the Management Committee of The Federation of Hong Kong Hotel Owners Limited and a member of the Executive Committee of The Real Estate Developers Association of Hong Kong. He graduated from Washington University in St. Louis with a Bachelor of Arts in Psychology. Mr. Lo is a son of Dr. LO Ka Shui, being the Chairman and Non-executive Director of the Trustee-Manager and the Company.

Biographical Details of Directors

Mr. IP Yuk Keung, Albert

Chief Executive Officer and Executive Director

Mr. IP Yuk Keung, Albert, aged 66, has been the Chief Executive Officer and Executive Director of the Trustee-Manager and the Company since June 2014. He is also a Director of the subsidiaries of the Company. Mr. Ip is an international banking executive with over 30 years of experience in the United States, Asia and Hong Kong. He was a Real Estate Senior Credit Officer of Citibank since 1989, providing credit initial for approvals of real estate loans originated in Hong Kong and was also involved in financing the acquisition of various hotel assets internationally. He was North Asia Real Estate Head, Hong Kong Corporate Bank Head, Transaction Banking Head – Hong Kong and Asia Investment Finance Head (Global Wealth Management) of Citigroup. He was formerly a Managing Director of Citigroup and Managing Director of Investments in Merrill Lynch (Asia Pacific). Mr. Ip is a Non-executive Director of the Manager of the publicly listed trust, Champion Real Estate Investment Trust. He is also an Independent Non-executive Director of Hopewell Holdings Limited, Lifestyle International Holdings Limited, Power Assets Holdings Limited, TOM Group Limited and New World Development Company Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong. During the past two years, Mr. Ip was an Independent Non-executive Director of AEON Credit Service (Asia) Company Limited and Hopewell Highway Infrastructure Limited.

With a passion to serve in education, Mr. Ip is an Adjunct Professor of City University of Hong Kong, Hang Seng Management College, The Hong Kong Polytechnic University, Hong Kong University of Science and Technology and Adjunct Distinguished Professor in Practice at the University of Macau. He is an Honorary Professor of Lingnan University and a Council Member of The Hong Kong University of Science and Technology. He is also a Member of the Committee on Certification for Principalship (CCFP) of Education Bureau of Hong Kong, a Member of the International Advisory Committee at University of Macau and a Trustee of the Board of Trustee at Washington University in St. Louis. Mr. Ip holds a Bachelor of Science degree at Washington University in St. Louis (summa cum laude), and Master of Science degrees at Cornell University and Carnegie-Mellon University. He was an MBA lecturer at University of Pittsburgh, USA. Mr. Ip is an Honorary Fellow of Vocational Training Council and Vice Chairman of World Green Organisation Limited.

Professor CHAN Ka Keung, Ceajer

Independent Non-executive Director

Professor CHAN Ka Keung, Ceajer, aged 61, has been an Independent Non-executive Director of the Trustee-Manager and the Company since August 2018. He is the Chairman of the Company's Remuneration Committee, a Member of the Company's Nomination Committee and a Member of the Audit Committees of the Trustee-Manager and the Company. Professor Chan is Adjunct Professor and Senior Advisor to the Dean at HKUST Business School. He was appointed as Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region from July 2007 to June 2017. Prior to that, he was Dean of Business and Management in the Hong Kong University of Science and Technology (HKUST). Before joining the HKUST Business School in 1993, Professor Chan had spent nine years teaching at Ohio State University in the United States. During the past three years, Professor Chan was a Non-executive Director of MTR Corporation Limited. He is currently a Non-executive Director of Hong Kong Mortgage Corporation Limited and a member of Competition Commission of Hong Kong.

Professor Chan received his bachelor's degree in economics from Wesleyan University and both of his M.B.A. and Ph.D. in finance from The University of Chicago. He specialised in assets pricing, evaluation of trading strategies and market efficiency and has published numerous articles on these topics.

Biographical Details of Directors

Professor LIN Syaru, Shirley

Independent Non-executive Director

Professor LIN Syaru, Shirley, aged 50, has been an Independent Non-executive Director of the Trustee-Manager and the Company since 2013. She is the Chair of the Company's Nomination Committee, a Member of the Company's Remuneration Committee and a Member of the Audit Committees of the Trustee-Manager and the Company. Previously, she was as a Partner at Goldman Sachs, where she led the firm's efforts in private equity and venture capital in Asia. In addition, Professor Lin was involved in the privatisation of state-owned enterprises in China, Singapore and Taiwan. She has served on the boards of numerous private and public companies and is currently a Director of Goldman Sachs Asia Bank Limited and Mercuries Life Insurance Co., Ltd. which is publicly listed in Taiwan. She was appointed by the Hong Kong government to the Committee for Pacific Economic Cooperation and advises the Focused Ultrasound Foundation based in Virginia.

Professor Lin is a faculty member at both the Chinese University of Hong Kong and the University of Virginia, where she teaches courses on international political economy. Her book on the impact of the evolution of Taiwanese identity on cross-Strait economic policy was published by Stanford University Press in 2016. She is currently working on the challenges facing the advanced economies in East Asia that have entered the high income trap. Her commentary frequently appears in English and Chinese media. She received her Master's Degree in International and Public Affairs with distinction and her Ph.D. in Politics and Public Administration from The University of Hong Kong and her A.B. from Harvard College, cum laude.

Mr. WONG Kwai Lam

Independent Non-executive Director

Mr. WONG Kwai Lam, aged 69, has been an Independent Non-executive Director of the Trustee-Manager and the Company since 2013. He is the Chairman of the Audit Committees of the Trustee-Manager and the Company, and a Member of each of the Company's Remuneration Committee and Nomination Committee. Mr. Wong is an Independent Non-executive Director, a Member of each of the Audit Committee and Designated (Finance) Committee of ARA Asset Management (Prosperity) Limited, the Manager of publicly listed Prosperity Real Estate Investment Trust on the Main Board of the Stock Exchange. He is also an Independent Non-executive Director and the Chairman of the Remuneration and Appraisal Committee and a Member of the Audit Committee of China Merchants Bank Co., Ltd., a company listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, an Independent Non-executive Director and a Member of each of the Remuneration Committee and Nomination Committee of K. Wah International Holdings Limited, a company listed on the Main Board of the Stock Exchange, and an Independent Non-executive Director of Hutchison Port Holdings Management Pte. Limited, as trustee-manager of Hutchison Port Holdings Trust, listed on the Stock Exchange of Singapore. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd. and Opera Hong Kong Limited, a member of the Advisory Board of Continuing and Professional Studies, The Chinese University of Hong Kong ("CUHK") and a Vice Chairman of the Board of Trustees and a Member of the Investment Sub-committee of the Board of Trustees of New Asia College, CUHK. He is a Member of the Hospital Governing Committee of the Prince of Wales Hospital and a Director of the CUHK Medical Centre Limited. He was formerly a Member of the Advisory Committee and a Member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a Member of the China Committee of the Hong Kong Trade Development Council.

Mr. Wong has over 30 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Ltd. from May 1993 to August 2009 where he served as a Managing Director in the Asia Investment Banking Division since January 1995. He was appointed as a Senior Client Advisor to Merrill Lynch (Asia Pacific) Ltd. in September 2009 and served in that position for one year. Prior to that, Mr. Wong had been a Director in the Investment Banking Division of CS First Boston (Hong Kong) Ltd. and a Director and the Head of Primary Market in Standard Chartered Asia Limited.

Mr. Wong holds Bachelor of Arts Degree and Honorary Fellowship from The Chinese University of Hong Kong and a Ph. D from Leicester University, England.

GOVERNANCE AND COMPLIANCE

Langham Hospitality Investments, LHIL Manager Limited and Langham Hospitality Investments Limited are committed to maintaining and developing high standards of corporate governance practices that are designed to enhance corporate image, create value for our Unitholders, minimize risk in fraudulent practices and address potential conflict of interest issues.

Sound corporate governance practices underpin the foundation for the Directors to perform and fulfill their respective roles and obligations effectively. Various policies and procedures are established and constituted the core elements of the governance framework of the Trust Group. The Trustee-Manager Board and the Company Board regularly review the policies and procedures on corporate governance as well as legal and regulatory compliance. Further enhancement will be made from time to time in light of the latest statutory regime and recommended best practices.

STRUCTURE OF THE TRUST GROUP

Langham Hospitality Investments is constituted by laws of Hong Kong governing the Trust Deed dated 8 May 2013 entered into between the Trustee-Manager and the Company as a fixed single investment trust, meaning that the Trust may only invest in the securities and other interests in a single entity, being the Company.

The Trustee-Manager is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Great Eagle. In its capacity as trustee-manager of the Trust, the Trustee-Manager has a limited role only in the administration of the Trust and is not involved in the management of the operations of the Group.

The Company is a company incorporated in the Cayman Islands as an exempted company with limited liability. It is the holding company of the hospitality business carried on by the Group and currently owns and controls the Hotels indirectly through its subsidiaries.

Capital Structure of the Trust and the Company

Share Stapled Units are jointly issued by the Trust and the Company and each Share Stapled Unit is comprised of the following three components which, subject to the provisions in the Trust Deed, can only be dealt with together and cannot be traded individually:

- (a) a unit in the Trust;
- (b) a beneficial interest in a specifically identified Ordinary Share in the Company held by the Trustee-Manager, which is "linked" to the unit in the Trust; and
- (c) a specifically identified Preference Share in the Company which is "stapled" to the unit in the Trust.

As the components of the Share Stapled Units, all of the units in the Trust, the Ordinary Shares and the Preference Shares of the Company in issue are listed on the Stock Exchange. However, for so long as the Share Stapled Units are listed on the Stock Exchange, trading on the Stock Exchange will only take place in the form of Share Stapled Units and there is only a single price quotation on the Stock Exchange for a Share Stapled Unit. No price is quoted for the individual components of a Share Stapled Unit.

Governance and Compliance

Business Relationship with Great Eagle

Apart from the parent-subsiary relationship, the Trust Group maintains close business ties with the Great Eagle Group, which are governed by various formal agreements being entered into between the two groups. These contractual arrangements also constitute continuing connected transactions of the Trust and the Company under the Listing Rules. Details of the transactions which are subject to disclosure and reporting requirements in interim report are summarized under the sub-section headed "Connected Transactions and/or Continuing Connected Transactions Subject to Disclosure Requirements" on pages 23 to 25 of this Interim Report.

These business relationships and the fact that some of the Directors and senior management members also hold directorships and/or roles in the Great Eagle Group might give rise to potential conflicts of interests between the Group and the Great Eagle Group. The Trustee-Manager Board and the Company Board believe that the potential conflicts can be sufficiently reduced as follows:

- the Group focuses on optimizing the performance of the three existing hotel properties, adopting a growth strategy of investing in completed stand-alone hotels in Asia. The Great Eagle Group, on the other hand, focuses on further capitalizing on its resources and expertise in developing its hotel management services operations and brand building.
- the Group is among the major contributors to the performance of the Great Eagle Group, any reliance that the Group may have on the Great Eagle Group in relation to its performance and growth will be mutually complementary.
- the Great Eagle Group has granted to the Company a Deed of Right of First Refusal pursuant to which the Group will have the first right to participate and to acquire completed stand-alone hotels in Asia (excluding Australia and New Zealand) should Great Eagle Group wish to sell or have the opportunity to invest in these hotels.
- various corporate governance measures are established seeking to address any potential conflicts of interest thereby safeguarding the interests of independent Unitholders. Details of which are set out in the latter section headed "Corporate Governance Measures to address Potential Conflicts of Interest".

GOVERNANCE COMPLIANCE & PRACTICE

Compliance with Corporate Governance Code

Pursuant to the Trust Deed, each of the Trustee-Manager and the Company must co-operate with each other to ensure that each party complies with the applicable Listing Rules and other relevant rules and regulations.

During the six-month period ended 30 June 2018, the Trust (via the Trustee-Manager) and the Company had complied with all applicable code provisions, and where appropriate, adopted some of the recommended best practices as set out in the Corporate Governance Code. The requirement to establish a Nomination Committee is not relevant to the Trustee-Manager because the Trust Deed requires that the Directors of the Trustee-Manager shall at all times comprise the same individuals who serve as Directors of the Company. The requirement to establish a Remuneration Committee is also not relevant to the Trustee-Manager as its Directors are not entitled to any remuneration payable by the Trust or the Trustee-Manager, and the Trustee-Manager does not have any employee.

Governance and Compliance

Corporate Governance Measures to address Potential Conflicts of Interest

Given the unique nature of the Group's business structure and its close relationship with the Great Eagle Group as discussed above, various corporate governance measures have been established to seek to address any potential conflicts of interest and competition between the two groups so as to safeguard the interests of independent Unitholders:

- any conflicted Directors must abstain from voting and will not be counted in the quorum of the relevant Board meeting in the event of any conflict issues;
- pursuant to Article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the Unitholders as a whole over the interest of the Trustee-Manager in the event of a conflict between the interest of all the Unitholders as a whole and that of the Trustee-Manager;
- potential connected transactions between the Great Eagle Group and the Group and the existing continuing connected transactions are reviewed and reported annually by the Independent Non-executive Directors and auditors of the Company; and
- where the Trustee-Manager Board and the Company Board are required to determine matters under the Great Eagle ROFR Deed, such matters will be referred to the Independent Non-executive Directors and/or to those Directors who do not have a material interest in the matter. Specific corporate governance measures have also been put in place in respect of the operation of the Great Eagle ROFR Deed: (i) as part of the Trustee-Manager's and the Company's respective internal control systems, each has maintained a register of all opportunities/transactions arising from the implementation of the Great Eagle ROFR Deed; (ii) as part of its internal audit plan, each of the Trustee-Manager and the Company through the internal audit function reviews the implementation of the Great Eagle ROFR Deed each year; (iii) the Audit Committee of the Company reviews the implementation of the Great Eagle ROFR Deed to ascertain that the terms of the Great Eagle ROFR Deed have been complied with. The review includes an examination of supporting documents and such other information deemed necessary by the Audit Committee; and (iv) the Independent Non-executive Directors review on an annual basis compliance by Great Eagle with the terms of the Great Eagle ROFR Deed and disclose in the annual report of the Trust and the Company their findings on the compliance by Great Eagle with the terms of the Great Eagle ROFR Deed and any decision made by the Group regarding any exercise of the right of first refusal and the basis of such decision subject to not breaching any of the Group's or Great Eagle's contractual or legal obligations.

The Audit Committees of the Trustee-Manager and the Company shall be responsible for overseeing the implementation of the above measures.

The Trustee-Manager with the Company (on the one hand) and Great Eagle (on the other hand) have boards of directors that function independently of each other. Notwithstanding that Dr. Lo Ka Shui and Mr. Lo Chun Him, Alexander, Directors of the Trustee-Manager and the Company, are also directors of the Great Eagle Group, given adequate corporate governance measures are in place, the four remaining members of the Trustee-Manager Board and the Company Board would have sufficient expertise to manage the Trust Group in the event that Dr. Lo and Mr. Lo are required to abstain from voting on matters relating to the Great Eagle Group.

Governance and Compliance

BOARD AND BOARD COMMITTEES

Notwithstanding the fact that the Directors of the Trustee-Manager and the Directors of the Company must always be the same individuals pursuant to the Trust Deed, the two respective Boards have their own distinct responsibilities. The Trustee-Manager Board is responsible for taking all reasonable steps to ensure that the Trustee-Manager discharges its duties under the Trust Deed, while the Company Board is responsible for setting out the overall strategies and business objectives of the Group and providing oversight of their implementation by the management team.

The Trustee-Manager Board and Company Board currently comprise two Non-executive Directors, being Dr. Lo Ka Shui (Chairman) and Mr. Lo Chun Him, Alexander; one Executive Director being Mr. Ip Yuk Keung, Albert (Chief Executive Officer); and three Independent Non-executive Directors, namely Professor Chan Ka Keung, Ceajer, Professor Lin Syaru, Shirley and Mr. Wong Kwai Lam.

Biographies of the Directors of the Trustee-Manager and the Company are set out in this Interim Report on pages 15 to 17.

To provide effective oversight, Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee have been established. Terms of reference of the Board Committees have been approved by the Board. Decisions and recommendations of the Board Committees are required to be reported to the Board.

Audit Committees

The Audit Committees of the Trustee-Manager and the Company shall, amongst other things, review the reports and proposals from management and make recommendations to the respective Boards in respect of the financial reporting and other statutory obligations, risk management and internal control systems, and audit process with a view to assisting the respective Boards to fulfill their duties in relation to risk management, internal control and financial management. Pursuant to the Trust Deed, the membership of the Audit Committee of the Trustee-Manager must be the same as that of the Audit Committee of the Company. Both Audit Committees comprise three Independent Non-executive Directors, namely, Mr. Wong Kwai Lam (Committee Chairman), Professor Chan Ka Keung, Ceajer and Professor Lin Syaru, Shirley.

Remuneration Committee

The Remuneration Committee of the Company sets up formal and transparent procedures for setting policy on Executive Director's remuneration and for fixing the remuneration packages of all Directors and senior management and to ensure remuneration levels are sufficient to attract and retain Directors to run the Company successfully without paying more than necessary. The Remuneration Committee currently has four members (three of whom are Independent Non-executive Directors), namely, Professor Chan Ka Keung, Ceajer (Committee Chairman), Dr. Lo Ka Shui, Professor Lin Syaru, Shirley and Mr. Wong Kwai Lam.

Governance and Compliance

Nomination Committee

The Nomination Committee of the Company is responsible for formulating policy and making recommendations to the Company Board on nomination, appointment or re-appointment of Directors and board succession. The Nomination Committee recommends candidates for nomination to the Company Board which approves the final choice of candidates. The Nomination Committee currently has four members (three of whom are Independent Non-executive Directors), namely, Professor Lin Syaru, Shirley (Committee Chairwoman), Dr. Lo Ka Shui, Professor Chan Ka Keung, Ceajer and Mr. Wong Kwai Lam.

RISK MANAGEMENT AND INTERNAL CONTROL

The Trustee-Manager Board and the Company Board have developed the risk management and internal control systems to provide reasonable but not absolute assurance against material misstatement or loss, and to manage rather than eliminate risk of failure to meet the business objectives. The following have been established and executed to ensure there are appropriate and effective risk management and internal control systems within the Trustee-Manager and the Company:

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

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

Governance and Compliance

CONNECTED TRANSACTIONS AND/OR CONTINUING CONNECTED TRANSACTIONS SUBJECT TO DISCLOSURE REQUIREMENTS

As disclosed in the listing prospectus dated 16 May 2013, continuing connected transactions set out below are subject to disclosure requirements in the interim reports and are granted with waivers by the Stock Exchange from strict compliance with, inter alia, the announcement and approval of independent Holders of Share Stapled Units. Further details and conditions of the waivers were disclosed in the said prospectus.

	Aggregate Transaction Amount for the six-month period ended 30 June 2018 (HK\$'000)
(1) Master Lease Agreements ^(a)	
– Base Rent	111,575
– Variable Rent ^(b)	214,985
(2) Hotel Management Agreements ^{(b)(c)}	
– Base Fee	11,416
– Incentive Fee	13,956
(3) Centralized Services and Marketing Agreements ^{(a)(b)}	
– Reimbursement of Costs	2,328
– Global Marketing Fee	8,983
– Reservation Fees	1,580
(4) Trademark Licence Agreements ^{(b)(c)}	7,610

Notes:

- (a) Obtained waiver from the requirements of making announcement and/or obtaining independent Holders of Share Stapled Units' approval.
- (b) Obtained waiver from the requirement to set a monetary cap.
- (c) Obtained approval from independent Holders of Share Stapled Units to settle the fees payable for the three financial years ending 31 December 2020 in the form of Share Stapled Units subject to the election of the Hotel Manager.

Governance and Compliance

1. **Master Lease Agreements** – three separate lease agreements each dated 10 May 2013 entered into between each of the Hotel Companies as the Lessors and GE (LHIL) Lessee Limited as the Master Lessee. The Master Lessee, being an indirect wholly-owned subsidiary of Great Eagle, which is a controlling Holder of Share Stapled Units of the Trust and the Company, is a connected person of the Company under the Listing Rules.

Pursuant to the Master Lease Agreements, each of the Lessors has agreed to lease the hotel owned by it (excluding three retail outlets at Eaton HK) to the Master Lessee for a term of 14 years from and including 30 May 2013 (date of listing) and shall, subject to the compliance with the relevant requirements of the Listing Rules by the Company, be renewable by mutual agreement of the parties. The Master Lessee assumes all responsibilities as “owner” under the Hotel Management Agreements and bears all operating expenses in respect of the Hotels (other than payment of the Hotel Management Fees, the License Fee, the Global Marketing Fee, etc), and delegates the management and operations obligations to the Hotel Manager of the respective Hotels on terms of the Hotel Management Agreements.

Under the Master Lease Agreements, the Master Lessee has agreed to pay the Lessors an aggregate fixed base rent of HK\$225 million per annum (pro rata for any period of less than one year) and a variable rent for the whole term. Until 31 December 2019, the variable rent shall be calculated on the basis of 70% of the Hotels’ aggregate gross operating profit before deduction of the Global Marketing Fee payable by each of the Hotel Companies.

An annual cap in respect of the base rent payable by the Master Lessee to the Lessors under the Master Lease Agreements is HK\$225 million. The cap for the variable rent under the Master Lease Agreements is determined by reference to the formulae for determining the variable rent.

2. **Hotel Management Agreements** – three separate hotel management agreements each dated 10 May 2013 entered into among each Hotel Company, the Master Lessee, Langham Hotels International Limited as the Hotel Manager, the Trustee-Manager and the Company. As the Hotel Manager and the Master Lessee are both indirect wholly-owned subsidiaries of Great Eagle which is a controlling Holder of Share Stapled Units of the Trust and the Company, they are connected persons of the Company under the Listing Rules.

Pursuant to the Hotel Management Agreements, the Master Lessee has agreed to engage the Hotel Manager as the sole and exclusive manager of the Hotels to supervise, direct and control the businesses and day-to-day operations of the Hotels in accordance with agreed standards of the relevant Hotel and to formulate and manage the annual plan and budget for each Hotel for an initial term of 30 years from and including 30 May 2013 (the date of listing) and may, subject to compliance with the relevant Listing Rules at the relevant time, be renewed for a further term of 10 years by notice at the election of the Hotel Manager. Thereafter, the Hotel Management Agreements may be renewed for successive 10-year terms by mutual agreement of the parties subject to compliance with the relevant Listing Rules requirements at the relevant time. The service fee payable to the Hotel Manager under the Hotel Management Agreements shall be linked to the operating profit and revenue of the Hotels on the following basis:

- *Base Fee*: a fixed percentage of 1.5% of total revenue of the relevant Hotel.
- *Incentive Fee*: a fixed percentage of 5% of adjusted gross operating profit (being gross operating profit less the base fee (as mentioned above) and Licence Fee payable under the relevant Trademark Licence Agreement).

The cap for the fees payable under the Hotel Management Agreements is determined by reference to the formulae for determining the fees payable pursuant to the Hotel Management Agreements as described above.

Governance and Compliance

3. **Centralized Services and Marketing Agreements** – three separate centralized services and marketing agreements each dated 10 May 2013 entered into among each Hotel Company, the Master Lessee, Langham Hotels Services Limited as the Service Provider, the Trustee-Manager and the Company. As the Master Lessee and the Service Provider are both indirect wholly-owned subsidiaries of Great Eagle which is a controlling Holder of Share Stipled Units of the Trust and the Company, they are connected persons of the Company under the Listing Rules.

Pursuant to the Centralized Services and Marketing Agreements, the Service Provider has agreed to provide global marketing and advertising services, centralized reservations services and certain hotel specific services of each Hotel for an initial term of 30 years from and including 30 May 2013 (the date of listing) and may, subject to compliance with the relevant Listing Rules requirements at the relevant time, be renewed for a term of 10 years by notice at the election of the Service Provider. Thereafter, the Centralized Services and Marketing Agreements may be renewed for successive 10-year terms by mutual agreement of the parties subject to compliance with the relevant Listing Rules requirements at the relevant time. Each of the Centralized Services and Marketing Agreements shall be co-terminous with the Hotel Management Agreement for the same Hotel. The fee and other amounts payable to the Service Provider under each Centralized Services and Marketing Agreement shall be determined on the following basis:

- *Reimbursement of Costs*: at cost to be paid by the Master Lessee as an operating expense of the Hotels.
- *Global Marketing Fee*: a fixed percentage of 2% of the total room revenue of the relevant Hotel to be paid by each Hotel Company.
- *Reservation Fees*: a fixed US\$ amount and percentage of revenue for each materialized reservation, depending on means through which reservation is made, to be paid by the Master Lessee as an operating expense of the Hotels.

The annual caps for the Global Marketing Fee payable under the Centralized Services and Marketing Agreements are determined by reference to the formula for determining the Global Marketing Fee payable pursuant to the Centralized Services and Marketing Agreements as described above.

4. **Trademark Licence Agreements** – three separate trademark licence agreements each dated 10 May 2013 entered into among each Hotel Company, the Hotel Manager as the Licensor, the Master Lessee, the Trustee-Manager and the Company.

Pursuant to the Trademark Licence Agreements, the Licensor has agreed to grant non-exclusive and nontransferable licences to the relevant Hotel Company, the Trustee-Manager, the Company and the Master Lessee to use the Langham brands for branding and marketing activities relating to the Hotels and/or for describing the ownership of the Hotels for an initial term of 30 years from and including 30 May 2013 (date of listing) and may, subject to compliance with the relevant Listing Rules requirements at the relevant time, be renewed for a term of 10 years by notice at the election of the Hotel Manager. Thereafter, the Trademark Licence Agreements may be renewed for successive 10-year terms by mutual agreement of the parties subject to compliance with the relevant Listing Rules requirements at the relevant time. Each of the Trademark Licence Agreements shall be co-terminous with the Hotel Management Agreement for the same Hotel. The Licence Fee payable to the Hotel Manager by each Hotel Company under the Trademark Licence Agreements shall be 1% of the total revenue of the relevant Hotel.

The cap for the Licence Fee payable under the Trademark Licence Agreements is determined by reference to the formula for determining the Licence Fee payable pursuant to the Trademark Licence Agreements as described above.

Governance and Compliance

ISSUED SHARE STAPLED UNITS

As at 30 June 2018, the total number of issued Share Stapled Units of the Trust and the Company was 2,099,083,438. As compared with the position of 31 December 2017, 10,660,355 new Share Stapled Units were issued during the reporting period as follows:

Date	Particulars	No. of Share Stapled Units
31 December 2017	Number of issued Share Stapled Units	2,088,423,083
21 February 2018	Issue of new Share Stapled Units at the price of HK\$3.373 per Share Stapled Unit as payment of the Hotel Management Fees and Licence Fee to the Hotel Manager of approximately HK\$35,957,000 for the second half of 2017	10,660,355
30 June 2018	Number of issued Share Stapled Units	2,099,083,438

COMPLIANCE WITH THE MODEL CODE

The Trustee-Manager and the Company have adopted the Code of Conduct for Securities Transactions on terms no less exacting than the required standard set out in the Model Code and the same is updated from time to time in accordance with the Listing Rules requirements.

Having made specific enquiry, all Directors and relevant employees of the Trustee-Manager and the Company confirmed that they had fully complied with the Code of Conduct for Securities Transactions for the six-month period ended 30 June 2018.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements of the Trust Group and unaudited condensed financial statements of the Trustee-Manager for the six-month period ended 30 June 2018 were prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the HKICPA and have also been reviewed by the Audit Committees of the Trustee-Manager and the Company. Such financial information has been reviewed by Deloitte Touche Tohmatsu, the independent auditor of the Trustee-Manager and the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

SUFFICIENCY OF PUBLIC FLOAT

Based on information which is publicly available and within the knowledge of the Directors of the Trustee-Manager and the Company, the Trust and the Company maintained a sufficient public float with more than 25% of the issued Share Stapled Units being held by the public as at 30 June 2018.

Governance and Compliance

BUY-BACK, SALE OR REDEMPTION OF SHARE STAPLED UNITS

Pursuant to the Trust Deed, the Trustee-Manager shall not buy-back or redeem any Share Stapled Units on behalf of the Trust unless and until expressly permitted to do so by relevant codes and guidelines issued by the Securities and Futures Commission from time to time. Accordingly, the Trust and the Company are not allowed to buy-back or redeem their own Share Stapled Units.

During the six-month period ended 30 June 2018, none of the Trust, the Trustee-Manager, the Company nor the Company's subsidiaries had bought back, sold or redeemed any Share Stapled Units.

HOTEL MANAGER AND EMPLOYEES

The Trust Group does not manage the daily operations of the Hotels. The Hotel Manager is responsible for the management of and all sales, marketing and advertising activities in relation to the Hotels pursuant to the Hotel Management Agreements. The Hotel Manager has a team of well-experienced operational staff exclusively dedicated in providing services to the Hotels. The Hotels control the payroll and related expense in accordance with the business level and also continuously review the process for higher efficiency. Comparing to 31 December 2017, there is no material change in headcount.

Salary levels of the Hotel Manager's employees are competitive, and discretionary bonuses are granted based on performance of the Hotels as well as achievement of departmental key performance indicators. Other employee benefits include educational allowance, insurance, medical scheme and provident fund schemes. The Hotel Manager and its subsidiaries are required to contribute an amount equivalent to 5% of the employees' basic salary (subject to the cap as stipulated under the applicable laws) to the Mandatory Provident Fund Scheme as mandatory contribution.

The Company has employed a team of five professional staff members to maintain an effective operation of the Trust Group. Great Eagle Group provides certain administrative and non-management services to the Trust Group, which include but not limited to, legal and corporate secretarial support, finance, accounting and taxation support, human resources support, information technology support, internal audit support and general office administrative support on a cost-sharing basis under the Administrative Support Services Agreement. The remuneration package of our employees includes salary, bonuses, allowances and various retirement benefit schemes for the benefit of the staff. All staff members are signed up with the Mandatory Provident Fund Scheme in accordance with the applicable laws and regulations.

Governance and Compliance

CORPORATE SOCIAL RESPONSIBILITY

The Hotel Manager has in place the corporate social responsibility programme CONNECT in the Hotels of the Trust Group with the four key sustainability values – Governance, Environment, Community and Colleagues. CONNECT forms the framework to address the most relevant corporate responsibility issues to the hotel business.

The commitment to protecting the environment is integrated into the operations of the Hotels. All three Hotels, The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK are certified to EarthCheck Gold level. Cordis, Hong Kong is accredited with an ISO 14001 certification. In 2018, Cordis, Hong Kong received the Certificate of Excellence – Sustainable Product Supplier Award. The Award was organized by the Business Environment Council and funded by the Sustainable Development Fund of Hong Kong SAR Government.

Moreover, each of the Hotels has been recognized as a Caring Company for over ten years and has been working with local community partners through various employee community services, donations, visits, free or in-kind sponsorships, and ongoing partnership programmes. For the first six months in 2018, the Hotels' colleagues served a total of approximately 890 hours of community services and volunteering efforts.

Colleagues are the most important assets for a successful organization. The Hotel Manager and the Hotels are mindful of the health and safety obligations to colleagues, and various occupational health and safety trainings are delivered regularly to the colleagues. It is the Hotels' commitment to provide suitable career and training opportunities for their colleagues, and the average number of training hours per colleague in the Hotels was approximately 10.7 hours for the first half of 2018.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARE STAPLED UNITS, UNDERLYING SHARE STAPLED UNITS AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors of the Trustee-Manager and the Company in the Share Stapled Units, underlying Share Stapled Units and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and the Model Code, or which were recorded in the register required under Section 352 of the SFO are as follows:

Long Positions in Share Stapled Units and Underlying Share Stapled Units

Name of Director	Total Number of SSUs/ Underlying SSUs Held	Percentage of Issued SSUs ⁽³⁾
Lo Ka Shui	1,365,704,438 ⁽¹⁾	65.06
Ip Yuk Keung, Albert	2,015,000 ⁽²⁾	0.10

Notes:

- (1) These 1,365,704,438 Share Stapled Units comprise the following:
- (i) 8,073,500 Share Stapled Units (0.38%) were held by Dr. Lo Ka Shui personally;
 - (ii) 1,311,470,938 Share Stapled Units respectively held by LHIL Assets Holdings Limited as to 1,246,909,438 Share Stapled Units (59.40%), Fine Noble Limited as to 58,596,500 Share Stapled Units (2.79%) and Great Eagle Nichemusic Limited as to 5,965,000 Share Stapled Units (0.28%), all of the said companies are wholly-owned subsidiaries of Great Eagle. Dr. Lo Ka Shui is a substantial shareholder, the Chairman and Managing Director of Great Eagle. His interests in Great Eagle are disclosed below on page 30;
 - (iii) 2,060,000 Share Stapled Units (0.10%) were held by two companies wholly-owned by Dr. Lo Ka Shui who is also a director of these companies; and
 - (iv) 44,100,000 Share Stapled Units (2.10%) were held by a charitable trust of which Dr. Lo Ka Shui is the settlor and a member of the Advisory Committee and Management Committee.
- (2) These 2,015,000 Share Staple Units were jointly held by Mr. Ip Yuk Keung, Albert with his spouse.
- (3) This percentage has been compiled based on 2,099,083,438 Share Stapled Units of the Trust and the Company in issue as at 30 June 2018.

Disclosure of Interests

Long Positions in Shares and Underlying Shares of Associated Corporations

Great Eagle

As at 30 June 2018, Great Eagle owned 62.48% interests in the Trust and the Company and therefore is an associated corporation of the Trust and the Company. The interests of Directors of the Trustee-Manager and the Company in Great Eagle as at 30 June 2018 are disclosed as follows:

Name of Director	Total Number of Ordinary Shares/ Underlying Shares Held	Percentage of Issued Share Capital ⁽⁶⁾
Lo Ka Shui	423,884,205 ⁽¹⁾	60.70
Lo Chun Him, Alexander	595,000 ⁽²⁾	0.09
Ip Yuk Keung, Albert	94,000 ⁽³⁾	0.01
So Yiu Wah, Eric ⁽⁴⁾	446 ⁽⁵⁾	0.00

Notes:

- (1) These interests comprise the following:
 - (i) 50,533,303 shares (7.24%) and 1,358,000 shares options (0.19%) were held by Dr. Lo Ka Shui personally;
 - (ii) 78,374,292 shares (11.22%) were held by certain companies wholly-owned by Dr. Lo Ka Shui who is also a director of these companies;
 - (iii) 232,829,848 shares (33.34%) were held by a discretionary trust of which Dr. Lo Ka Shui is one of the discretionary beneficiaries; and
 - (iv) 60,788,762 shares (8.70%) were held by a discretionary trust of which Dr. Lo Ka Shui is the founder.
- (2) These interests comprise 5,000 shares and 590,000 share options held by Mr. Lo Chun Him, Alexander personally.
- (3) These interests comprise 30,000 shares and 64,000 share options held by Mr. Ip Yuk Keung, Albert personally.
- (4) Mr. So Yiu Wah, Eric resigned as an Independent Non-executive Director of the Trustee-Manager and the Company on 31 July 2018.
- (5) These 446 shares were held by Mr. So Yiu Wah, Eric personally.
- (6) This percentage has been compiled based on 698,354,038 shares of Great Eagle in issue as at 30 June 2018.

Disclosure of Interests

Champion Real Estate Investment Trust ("Champion REIT")

Champion REIT is accounted for as a subsidiary of Great Eagle, the holding company of the Trust and the Company. As at 30 June 2018, Great Eagle owned 65.80% interests in Champion REIT. While the definition of "associated corporation" under the SFO caters only to corporations, for the purpose of enhancing the transparency, the holdings of Directors of the Trustee-Manager and the Company in Champion REIT as at 30 June 2018 are disclosed as follows:

Name of Director	Total Number of Units/ Underlying Units Held	Percentage of Issued Units ⁽⁴⁾
Lo Ka Shui	3,860,871,046 ⁽¹⁾	66.17
So Yiu Wah, Eric ⁽²⁾	460,873 ⁽³⁾	0.01

Notes:

- (1) These 3,860,871,046 units comprise the following:
 - (i) 3,837,085,163 units (65.76%) and 2,091,883 underlying units (0.04%) were indirectly held by Great Eagle of which Dr. Lo Ka Shui is a substantial shareholder, the Chairman and Managing Director. His interests in Great Eagle are disclosed above on page 30;
 - (ii) 2,579,000 units (0.04%) were held by certain companies wholly-owned by Dr. Lo Ka Shui who is also a director of these companies; and
 - (iii) 19,115,000 units (0.33%) were held by a charitable trust of which Dr. Lo Ka Shui is the settlor and a member of the Advisory Committee and Management Committee.
- (2) Mr. So Yiu Wah, Eric resigned as an Independent Non-executive Director of the Trustee-Manager and the Company on 31 July 2018.
- (3) These 460,873 units were respectively held by Mr. So Yiu Wah, Eric as to 400,873 units and his spouse as to 60,000 units.
- (4) This percentage has been compiled based on 5,834,898,392 units of Champion REIT in issue as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, none of the Directors of the Trustee-Manager and the Company were taken to be interested or deemed to have any other interests or short positions in Share Stapled Units, underlying Share Stapled Units or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code, or which were recorded in the register required under Section 352 of the SFO.

Disclosure of Interests

INTERESTS OF SUBSTANTIAL HOLDERS OF SHARE STAPLED UNITS

As at 30 June 2018, the interests and short positions of persons (other than a Director or the chief executive of the Trustee-Manager and the Company) in the Share Stapled Units or underlying Share Staple Units of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued Share Stapled Units of the Trust and the Company are as follows:

Name	Total Number of SSUs/ Underlying SSUs Held	Percentage of Issued SSUs ⁽³⁾
Great Eagle Holdings Limited	1,311,470,938 ⁽¹⁾	62.48
LHIL Assets Holdings Limited	1,246,909,438	59.40
HSBC International Trustee Limited	1,311,867,438 ⁽²⁾	62.50

Notes:

- (1) These 1,311,470,938 Share Stapled Units were indirectly held by Great Eagle through its wholly-owned subsidiaries in the following manner:
 - (i) the same parcel of Share Stapled Units held by LHIL Assets Holdings Limited as disclosed in the above table;
 - (ii) 58,596,500 Share Stapled Units held by Fine Noble Limited; and
 - (iii) 5,965,000 Share Stapled Units held by Great Eagle Nichemusic Limited.
- (2) The disclosure was based on the latest Disclosure of Interest Form (with the date of relevant event as 21 February 2018) received from HSBC International Trustee Limited ("HITL"). HITL in its capacity as a trustee of a discretionary trust held 33.34% interests in Great Eagle as at 30 June 2018.
- (3) This percentage has been compiled based on 2,099,083,438 Share Stapled Units of the Trust and the Company in issue as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, no person (other than Directors of the Trustee-Manager and the Company whose interests are set out on page 29) was interested (or deemed to be interested) or held any short position in the Share Stapled Units or underlying Share Stapled Units of the Trust and the Company which would fall to be disclosed to the Trustee-Manager and the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required under Section 336 of the SFO.

FINANCIAL INFORMATION

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REPORT ON REVIEW OF THE TRUST AND THE COMPANY'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE HOLDERS OF SHARE STAPLED UNITS OF LANGHAM HOSPITALITY INVESTMENTS AND LANGHAM HOSPITALITY INVESTMENTS LIMITED

(Langham Hospitality Investments is a trust constituted under the laws of Hong Kong;

Langham Hospitality Investments Limited is incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Langham Hospitality Investments (the "Trust") and Langham Hospitality Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Trust Group") and of the Company and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 68 (hereinafter collectively referred to as "the Trust and the Company's condensed consolidated financial statements"). As explained in note 1 to the Trust and the Company's condensed consolidated financial statements, the condensed consolidated financial statements of the Trust Group and the condensed consolidated financial statements of the Group are presented together. The Trust and the Company's condensed consolidated financial statements together comprise the condensed consolidated statement of financial position of the Trust Group and of the Group as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Trust Group and of the Group for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The Trustee-Manager of the Trust and Directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Trust and the Company's condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2018

	<i>Notes</i>	Six Months Ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited) (restated)
Revenue	4	284,637	291,551
Property related expenses		(13,574)	(12,955)
Net property income		271,063	278,596
Other income		147	1,888
Increase in fair value of investment properties	13	498,759	295,813
Fair value change on derivative financial instruments	14	36,530	(50,723)
Trust and other expenses		(6,031)	(5,423)
Finance costs	6	(86,461)	(73,218)
Profit before tax		714,007	446,933
Income tax expense	7	(34,529)	(37,237)
Profit and total comprehensive income for the period attributable to holders of Share Stapled Units	10	679,478	409,696
Earnings per Share Stapled Unit			
Basic and diluted	11	HK32 cents	HK20 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND OF THE COMPANY

At 30 June 2018

	Notes	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	23	28
Investment properties	13	20,000,000	19,373,000
Derivative financial instruments	14	66,600	28,300
		20,066,623	19,401,328
Current assets			
Debtors, deposits and prepayments	15	67,293	115,491
Bank balances		99,428	101,076
		166,721	216,567
Current liabilities			
Creditors, deposits and accruals	16	69,386	97,362
Secured bank loans due within one year	17	110,000	–
Tax payable		43,904	23,600
		223,290	120,962
Net current (liabilities) assets		(56,569)	95,605
Total assets less current liabilities		20,010,054	19,496,933
Non-current liabilities			
Secured bank loans due after one year	17	6,765,597	6,756,597
Deferred tax liabilities		343,416	329,192
Derivative financial instruments	14	1,846	76
		7,110,859	7,085,865
NET ASSETS		12,899,195	12,411,068
Capital and reserves			
Issued capital/units	18	2,099	2,089
Reserves		12,897,096	12,408,979
TOTAL EQUITY		12,899,195	12,411,068

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2018

	Share capital/ units HK\$'000	Share premium HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Share- based payment reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2017	2,067	8,476,267	(11,562,543)	214	12,598,157	2,162,381	11,676,543
Profit for the period	-	-	-	-	-	409,696	409,696
Distribution paid	-	(273,074)	-	-	-	-	(273,074)
Issue of Share Stapled Units (note 18)	12	38,273	-	-	-	-	38,285
At 30 June 2017 (unaudited)	2,079	8,241,466	(11,562,543)	214	12,598,157	2,572,077	11,851,450
At 1 January 2018	2,089	8,064,518	(11,562,543)	407	12,598,157	3,308,440	12,411,068
Profit for the period	-	-	-	-	-	679,478	679,478
Distribution paid	-	(227,448)	-	-	-	-	(227,448)
Recognition of equity-settled share based payments	-	-	-	140	-	-	140
Issue of Share Stapled Units (note 18)	10	35,947	-	-	-	-	35,957
At 30 June 2018 (unaudited)	2,099	7,873,017	(11,562,543)	547	12,598,157	3,987,918	12,899,195

Notes:

- (a) Under the Cayman Islands Companies Law, the share premium of the Company is available for distribution.
- (b) Pursuant to a group reorganisation in May 2013, certain businesses were transferred to the Groups (as defined in note 2). Other reserve represents the difference between the considerations of the transfers and the share capital of the businesses as of the date of the transfer.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS OF THE TRUST AND OF THE COMPANY

For the six months ended 30 June 2018

	Six Months Ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Cash generated from operations	337,462	356,850
Interest paid	(77,161)	(60,498)
Net cash from operating activities	260,301	296,352
Investing activities		
Interest received	123	1,460
Additions of investment properties	(144,624)	(37,852)
Additions of property, plant and equipment	–	(12)
Net cash used in investing activities	(144,501)	(36,404)
Financing activities		
Distribution paid	(227,448)	(273,074)
Additions of revolving loans	110,000	–
Net cash used in financing activities	(117,448)	(273,074)
Net decrease in cash and cash equivalents	(1,648)	(13,126)
Cash and cash equivalents at the beginning of the period	101,076	238,473
Cash and cash equivalents at the end of the period, represented by bank balances	99,428	225,347

NOTES TO THE TRUST AND THE COMPANY'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

Langham Hospitality Investments (the "Trust") is constituted by a Hong Kong law governed trust deed and as supplemented, amended or substituted from time to time (the "Trust Deed"), entered into between LHIL Manager Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the Trust) and Langham Hospitality Investments Limited (the "Company"). The Company is a company incorporated in the Cayman Islands with limited liability. The share stapled units ("Share Stapled Units") structure comprises: (a) a unit in the Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company which is linked to the unit in the Trust and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically identified preference share in the Company which is "stapled" to the unit in the Trust. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2013 (the "Listing Date") (the "Listing").

The Company acts as an investment holding company. The principal activity of the Trust Group (as defined in note 2 below) is property investment.

The condensed consolidated financial statements are presented in Hong Kong dollar, which is also the functional currency of the Company.

2. BASIS OF PRESENTATION AND PREPARATION

In accordance with the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The Trust's condensed consolidated financial statements for the six months ended 30 June 2018 comprise the condensed consolidated financial statements of the Trust, the Company and its subsidiaries (collectively referred to as the "Trust Group"). The Company's condensed consolidated financial statements for the six months ended 30 June 2018 comprise the condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

The unitholders of the Trust have beneficial interest in the ordinary shares of the Company and the sole activity of the Trust during the period ended 30 June 2018 was an investment in the Company. Therefore, the condensed consolidated results and financial position that would be presented in the condensed consolidated financial statements of the Trust Group are identical to the condensed consolidated financial statements of the Group with the only differences being disclosures of capital. The Trustee-Manager and the Directors believe therefore that it is clearer to present the condensed consolidated financial statements of the Trust Group and the Group together. The condensed consolidated financial statements of the Trust Group and the condensed consolidated financial statements of the Group are presented together to the extent they are identical and are hereinafter referred as "the Trust and the Company's Condensed Consolidated Financial Statements".

The Trust Group and the Group are referred as the "Groups".

The Trust and the Company's Condensed Consolidated Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Trust and the Company's condensed consolidated financial statements have been prepared on a going concern basis because the Trustee-Manager and the Directors of the Company are of the opinion that the Groups will have adequate sources of funding to meet in full its financial obligations, after taking into account the continuous cash flows generated from operating activities, and the availability of undrawn revolving loan facilities amounting to HK\$290,000,000.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and derivative financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Groups' annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Groups have applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Groups' condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Groups have applied HKFRS 15 using a full retrospective approach. Under this approach, certain comparative information has been restated.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Groups satisfy a performance obligation

Under HKFRS 15, the Groups recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Key changes in accounting policies resulting from application of HKFRS 15 (continued)

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

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

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

Principal versus agent

When another party is involved in providing goods or services to a customer, the Groups determine whether the nature of the promise is a performance obligation to provide the specified goods or services itself (i.e. the Groups are principals) or to arrange for those goods or services to be provided by the other party (i.e. the Groups are agents).

The Groups are principals if the Groups control the specified good or service before that good or service is transferred to a customer.

The Groups are agents if the Groups' performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Groups do not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Groups act as agents, the Groups recognise revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Summary of the effect of application of HKFRS 15

The Groups invest in a portfolio of hotel properties in Hong Kong for earning rental income under operating leases, and receive rental income and related service fees income, including licence fee and other related service fees. Under HKAS 18, the Groups recognized service fees income on a gross basis, i.e. the Groups were considered as principals due to the Groups bear the credit risk of GE (LHIL) Lessee Limited ("Master Lessee") for the amount receivable. Upon application of HKFRS 15, the Groups are considered acting as an agent. These changes have resulted in the Group's service fees income and the related expenses being presented on a net basis. Rental income are continued to be accounted for under HKAS 17 "Leases".

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For the six months ended 30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of the effect of application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Groups' condensed consolidated statement of profit or loss and other comprehensive income for the both interim periods for each of the line items affected. Line items that were not affected by the changes have not been included.

For the six months ended 30 June 2018

	As reported HK\$'000	Reclassification HK\$'000	Amount without application of HKFRS 15 HK\$'000
Revenue	284,637	41,965	326,602
Service fees	–	(41,965)	(41,965)

For the six months ended 30 June 2017

	Originally stated HK\$'000	Reclassification HK\$'000	Restated HK\$'000
Revenue	332,814	(41,263)	291,551
Service fees	(41,263)	41,263	–

The Trustee-Manager and the Directors of the Company consider that the service fees income is billed to and recovered from the Master Lessee based on the related expenses incurred without any mark-up.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of the effect of application of HKFRS 15 (continued)

The effect on the results for the current and prior periods by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income is summarised below:

	2018 HK\$'000	2017 HK\$'000
Decrease in revenue	(41,965)	(41,263)
Decrease in service fees	41,965	41,263
Change in profit and total comprehensive income for the period attributable to holders of Share Stapled Units	—	—

There has been no change in earnings per Share Stapled Unit and condensed consolidated statement of financial position.

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Groups have applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Groups have applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and have not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Classification and measurement of financial assets

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

The Trustee-Manager and the Directors of the Company reviewed and assessed the financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. All financial assets of the Groups continue to be measured at amortised cost or fair value. Except for the assessment of impairment under ECL model for financial assets at amortised costs, the application of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Groups.

Impairment under ECL model

The Groups assess for ECL on financial assets which are subject to impairment under HKFRS 9 (i.e. receivable from Master Lessee and bank balances). The assessment is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Groups always recognise lifetime ECL for receivable from Master Lessee. The ECL on receivable from Master Lessee is assessed individually.

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

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Impairment under ECL model (continued)

Significant increase in credit risk

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

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

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

Irrespective of the outcome of the above assessment, the Groups consider that default has occurred when the instrument is more than 30 days past due unless the Groups have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Despite the foregoing, the Groups assume that the credit risk on bank balances has not increased significantly since initial recognition if bank balances are determined to have low credit risk at the reporting date. The Groups consider bank balances to have low credit risk when those banks have an internal or external credit rating of "investment grade" as per globally understood definitions.

The Groups consider the default has occurred when the instrument is more than 90 days past due unless the Groups have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Application of new and amendments to HKFRSs (continued)

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

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

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

The Groups recognise an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of receivable from Master Lessee where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the Trustee-Manager and the Directors of the Company reviewed and assessed the Groups' existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The application of the expected credit loss model of HKFRS 9 has no material impact on the accumulated amount of impairment loss to be recognised by the Groups as at 1 January 2018.

Except as described above, the application of amendments to HKFRSs and the interpretation in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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4. REVENUE

	Six Months Ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited) (restated)
Rental income from Master Lessee		
Base rent	111,575	111,575
Variable rent	173,020	179,105
	284,595	290,680
Rental income from retail shops in Eaton HK (formerly known as Eaton, Hong Kong)	42	871
	284,637	291,551

Service fees income of HK\$41,965,000 (six months ended 30 June 2017: HK\$41,263,000) has been netted with the same amount of the corresponding service fees expense (including hotel management fees, licence fee and global marketing fee).

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

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5. SEGMENT INFORMATION

The Groups' operating segments, based on information reported to the chief operating decision maker ("CODM"), management of the Trustee-Manager and the Company, for the purpose of resource allocation and performance assessment are more specifically focused on the operating results from leasing of the three hotels, namely The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK (the "Hotels").

The Group's results are derived from property investment operation, which relates to the operating results from leasing of the Hotels and represents three operation segments under HKFRS 8 "Operating Segments".

Segment revenue and results

The following is an analysis of the Groups' revenue and results by the three investment properties for the period under review.

Six months ended 30 June 2018

	The Langham, Hong Kong HK\$'000 (unaudited)	Cordis, Hong Kong HK\$'000 (unaudited)	Eaton HK HK\$'000 (unaudited)	Segment total HK\$'000 (unaudited)	Reconciliation HK\$'000 (unaudited) (note)	Consolidated HK\$'000 (unaudited)
Segment revenue	133,201	161,059	32,342	326,602	(41,965)	284,637
Segment results	110,678	133,973	26,412	271,063	-	271,063
Other income						147
Increase in fair value of investment properties						498,759
Fair value change on derivative financial instruments						36,530
Trust and other expenses						(6,031)
Finance costs						(86,461)
Profit before tax						714,007
Income tax expense						(34,529)
Profit for the period attributable to holders of Share Stapled Units						679,478

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For the six months ended 30 June 2018

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

Six months ended 30 June 2017

	The Langham, Hong Kong HK\$'000 (unaudited)	Cordis, Hong Kong HK\$'000 (unaudited)	Eaton HK HK\$'000 (unaudited)	Segment total HK\$'000 (unaudited)	Reconciliation HK\$'000 (unaudited) (note)	Consolidated HK\$'000 (unaudited) (restated)
Segment revenue	124,405	144,742	63,667	332,814	(41,263)	291,551
Segment results	103,946	120,542	54,108	278,596	-	278,596
Other income						1,888
Increase in fair value of investment properties						295,813
Fair value change on derivative financial instruments						(50,723)
Trust and other expenses						(5,423)
Finance costs						(73,218)
Profit before tax						446,933
Income tax expense						(37,237)
Profit for the period attributable to holders of Share Stapled Units						409,696

Note: Reconciliation represents netting of service fees income of HK\$41,965,000 (six months ended 30 June 2017: HK\$41,263,000) with the same amount of the corresponding service fees expense (including hotel management fees, licence fee and global marketing fee) that has been adjusted from revenue.

Segment assets and liabilities

For the purpose of performance assessment, other than the fair value of investment properties, no other segment assets are reviewed by the CODM. At the end of the reporting period, the fair values of The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK were HK\$7,520,000,000, HK\$8,480,000,000 and HK\$4,000,000,000, respectively (31 December 2017: HK\$7,380,000,000, HK\$8,205,000,000 and HK\$3,788,000,000, respectively).

No analysis of segment liabilities is presented as they are not regularly provided to the CODM.

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6. FINANCE COSTS

	Six Months Ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank borrowings	67,089	49,365
Net interest on interest rate swaps	9,831	14,270
Loan front-end fee amortisation	9,000	9,000
Other borrowing costs	541	583
	86,461	73,218

7. INCOME TAX EXPENSE

	Six Months Ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax:		
Current tax		
– Current period	20,304	23,118
Deferred tax		
– Current period	14,225	14,119
	34,529	37,237

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

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8. TOTAL DISTRIBUTABLE INCOME

Total distributable income is the profit for the period attributable to holders of Share Stapled Units as adjusted to eliminate the effects of adjustments (as set out in the Trust Deed) which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the relevant period. The adjustments to arrive at the total distributable income for the current interim period are set out below:

	Six Months Ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Profit for the period attributable to holders of Share Stapled Units	679,478	409,696
Adjustments:		
Add:		
Depreciation	5	5
Deferred tax	14,225	14,119
Non-cash finance costs	9,000	9,000
Hotel management fees and licence fee payable in form of Share Stapled Units (notes 19 and 22(b))	32,982	33,020
Decrease in fair value of derivative financial instruments	–	50,723
Less:		
Increase in fair value of derivative financial instruments	(36,530)	–
Increase in fair value of investment properties	(498,759)	(295,813)
Reserve for furniture, fixtures and equipment	(11,416)	(11,174)
Total distributable income	188,985	209,576

Hotel management fees and licence fee, which have been netted with revenue, are added back for the purpose of calculating the total distributable income.

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9. DISTRIBUTION STATEMENT

	<i>Note</i>	Six Months Ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Interim distribution period (note a)			
Total distributable income in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: in respect of the six months ended 30 June 2017)	8	188,985	209,576
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for interim distribution period		188,985	209,576
Interim distribution (note c)		188,985	209,576
Final distribution period (note a)			
Total distributable income in respect of the financial year ended 31 December 2017 (six months ended 30 June 2017: in respect of the financial year ended 31 December 2016)		437,200	501,387
Less: distributable income paid for interim distribution period (note d)		(209,958)	(230,165)
Distributable income available for final distribution period		227,242	271,222
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for final distribution period		227,242	271,222
Final distribution (note c)		227,242	271,222
Distribution per Share Stapled Unit			
Interim distribution per Share Stapled Unit in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: in respect of the six months ended 30 June 2017) (note d)		HK9.0 cents	HK10.3 cents
Final distribution per Share Stapled Unit in respect of the financial year ended 31 December 2017 (six months ended 30 June 2017: in respect of the financial year ended 31 December 2016) (note d)		HK11.1 cents	HK13.8 cents

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9. DISTRIBUTION STATEMENT (CONTINUED)

Notes:

- (a) The interim distribution in 2018 is based on total distributable income for the six months ended 30 June 2018.

The final distribution in 2017 is based on total distributable income for the year ended 31 December 2017.

The interim distribution in 2017 is based on total distributable income for the six months ended 30 June 2017.

- (b) The Trust Deed and the articles of association of the Company state that it is the intention of the Trustee-Manager and the Directors to declare and distribute not less than 90% of the total distributable income in respect of each financial year after the financial year ended 31 December 2015. It has been decided to distribute 100% of the total distributable income for the relevant periods.

- (c) The interim distribution after 30 June 2018 has not been recognised as a liability as at 30 June 2018.

The final distribution after 31 December 2017 has not been recognised as a liability as at 31 December 2017.

The interim distribution after 30 June 2017 has not been recognised as a liability as at 30 June 2017.

- (d) **The interim distribution**

The interim distribution per Share Stapled Unit of HK9.0 cents in 2018 is calculated based on the interim distribution of HK\$188,985,000 for the period and 2,099,083,438 Share Stapled Units as at 30 June 2018. The interim distribution will be paid to holders of Share Stapled Units on or before 28 September 2018.

The interim distribution per Share Stapled Unit of HK10.3 cents in 2017 is calculated based on the interim distribution of HK\$209,576,000 for the period and 2,028,796,339 Share Stapled Units after taking into account of the 50,000,000 Share Stapled Units waived by LHIL Assets Holdings Limited as at 30 June 2017, pursuant to the distribution entitlement waiver deed. In consideration of 9,626,744 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 30 June 2017 on 24 August 2017, the number of Share Stapled Units entitled for the interim distribution in 2017 had been adjusted to be 2,038,423,083. Total distribution of HK\$209,958,000 in respect of 2017 interim distribution period was paid to holders of Share Stapled Units on 29 September 2017. Without such waiver, the interim distribution per Share Stapled Unit would be HK10.1 cents in 2017.

The final distribution

The final distribution per Share Stapled Unit of HK11.1 cents in 2017 is calculated based on the distributable income available for final distribution period of HK\$227,242,000 and 2,038,423,083 Share Stapled Units after taking into account of the 50,000,000 Share Stapled Units waived by LHIL Assets Holdings Limited as at 31 December 2017, pursuant to the distribution entitlement waiver deed. In consideration of the issue of 10,660,355 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 31 December 2017 on 21 February 2018, the number of Share Stapled Units entitled for the final distribution in 2017 had been adjusted to be 2,049,083,438. Total distribution of HK\$227,448,000 in respect of 2017 final distribution period was paid to holders of Share Stapled Units on 16 May 2018. Without such waiver, the final distribution per Share Stapled Unit would be HK10.9 cents in 2017.

The final distribution per Share Stapled Unit of HK13.8 cents in 2016 is calculated based on the distributable income available for final distribution period of HK\$271,222,000 and 1,967,226,456 Share Stapled Units after taking into account of the 100,000,000 Share Stapled Units waived by LHIL Assets Holdings Limited as at 31 December 2016, pursuant to the distribution entitlement waiver deed. In consideration of 11,569,883 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 31 December 2016 on 1 March 2017, the number of Share Stapled Units entitled for the final distribution in 2016 had been adjusted to 1,978,796,339. Total distribution of HK\$273,074,000 in respect of 2016 final distribution period was paid to holders of Share Stapled Units on 19 May 2017. Without such waiver, the final distribution per Share Stapled Unit would be HK13.1 cents in 2016.

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10. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO HOLDERS OF SHARE STAPLED UNITS

	Six Months Ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit and total comprehensive income for the period has been arrived at after charging (crediting):		
Staff costs (including Directors' emoluments)	2,633	2,415
Depreciation	5	5
Interest income	(136)	(1,489)

11. BASIC AND DILUTED EARNINGS PER SHARE STAPLED UNIT

The calculation of basic and diluted earnings per Share Stapled Unit attributable to holders of Share Stapled Units is based on the following data:

	Six Months Ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period for the purposes of basic and diluted earnings per Share Stapled Unit	679,478	409,696

	Six Months Ended 30 June	
	2018	2017
	'000	'000
	(unaudited)	(unaudited)
Number of Share Stapled Units		
Weighted average number of Share Stapled Units for the purposes of basic and diluted earnings per Share Stapled Unit	2,101,200	2,080,028

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12. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2018, the additions of property, plant and equipment were nil (for the six months ended 30 June 2017: HK\$12,000).

13. INVESTMENT PROPERTIES

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
FAIR VALUE		
At the beginning of the period/year	19,373,000	18,432,000
Additions	128,241	132,616
Increase in fair value recognised in profit or loss	498,759	808,384
At the end of the period/year	20,000,000	19,373,000

The fair value of the Groups' investment properties of HK\$20,000,000,000 as at 30 June 2018 (31 December 2017: HK\$19,373,000,000) has been arrived at on a basis of valuation carried out by Vigers Appraisal and Consulting Limited, an independent professional property valuer not connected with the Groups.

The independent property valuer adopted income approach by using discounted cash flow analysis and market approach by using comparison method of valuation to arrive the valuation of investment properties. For income approach, the discounted cash flow analysis for the hotel properties are established based on analysis of historical data and on assumptions about future market conditions affecting supply, demand, income, expenses and the potential for risk. These assumptions determine the earning capability of the hotel properties upon which the pattern of income and expenditures are projected to establish a fair maintainable operating profits on a pre-tax yearly basis by a reasonably efficient operator over a 10-year investment horizon ; and the anticipated net operating income stream receivable thereafter is capitalised at appropriate terminal capitalisation rates and adjusted to present value by appropriate discount rate to reflect the capital values beyond the years. For market approach, the comparison method of valuation whereby comparisons on a per unit room basis on actual sales transactions and offering of comparable properties during the period/year have been made. There has been no change to the valuation technique during the period/year.

In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use.

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14. DERIVATIVE FINANCIAL INSTRUMENTS

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Non-current asset Interest rate swaps	66,600	28,300
Non-current liability Interest rate swaps	1,846	76

The Groups entered into interest rate swap contracts with The Hongkong and Shanghai Banking Corporation Limited to manage the exposure to the interest rate risk on the Groups' floating-rate borrowings by swapping a proportion of those borrowings from floating rate to fixed rate. No hedge accounting is adopted and there is no offsetting during the period/year.

Major terms of the interest rate swaps are as follows:

Total notional amount	Maturity	Floating interest rate	Fixed interest rate	Interest period
At 30 June 2018 HK\$4,000,000,000	November 2020 – June 2022	Hong Kong Interbank Offered Rate ("HIBOR")	1.035% – 2.545%	Monthly
At 31 December 2017 HK\$3,500,000,000	November 2020 – April 2021	HIBOR	1.035% – 1.800%	Monthly

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15. DEBTORS, DEPOSITS AND PREPAYMENTS

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Receivable from Master Lessee	59,835	106,168
Deferred rent receivable	31	–
Other debtor	–	152
Interest receivable	13	–
Deposits and prepayments	7,414	9,171
	67,293	115,491

Receivable from Master Lessee is payable on presentation of invoices.

Aging analysis of receivable from Master Lessee based on the invoice date at the end of the reporting period is as follows:

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
0 – 3 months	59,835	106,168

Receivable from Master Lessee is an amount due from a fellow subsidiary of HK\$59,835,000 (31 December 2017: HK\$106,168,000) which is unsecured, interest-free and payable on presentation of invoices. Included in deposits and prepayments is an amount due from a fellow subsidiary of HK\$331,000 (31 December 2017: nil) which is unsecured and interest-free.

Deposits and prepayments mainly consist of deposits paid to contractors for hotels renovation. At 31 December 2017, other debtor represented amount due from a fellow subsidiary of HK\$152,000 which was unsecured, interest-free and payable on presentation of invoices.

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16. CREDITORS, DEPOSITS AND ACCRUALS

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Trade creditors	35,653	37,800
Deposits received	269	–
Other creditors	30	6,083
Construction fee payable	25,432	44,259
Accruals and other payables	8,002	9,220
	69,386	97,362

Aging analysis of creditors based on the invoice date at the end of the reporting period is as follows:

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
0 – 3 months	18,258	23,590
3 – 6 months	17,395	14,210
	35,653	37,800

Trade creditors are amounts due to fellow subsidiaries of HK\$35,653,000 (31 December 2017: HK\$37,800,000) which are unsecured, interest-free and payable on presentation of invoices. Included in construction fee payable are amounts due to fellow subsidiaries of HK\$1,959,000 (31 December 2017: nil) which are unsecured, interest-free and payable on presentation of invoices.

Other creditors, accruals and other payables mainly consist of interest payable. At 31 December 2017, included in other creditors were amounts due to fellow subsidiaries of HK\$6,082,000 which were unsecured, interest-free and payable on presentation of invoices.

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17. SECURED BANK LOANS

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Secured term loans	6,800,000	6,800,000
Secured revolving loans	110,000	–
Loan front-end fee	(34,403)	(43,403)
	6,875,597	6,756,597
Less: Amount due within one year shown under current liabilities	(110,000)	–
Amount due after one year	6,765,597	6,756,597

The maturity of the above loans based on scheduled repayment terms is as follows:

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Within one year	110,000	–
More than one year but not exceeding two years	6,765,597	–
More than two years but not exceeding three years	–	6,756,597
	6,875,597	6,756,597

The secured bank loans of HK\$6,800,000,000 (31 December 2017: HK\$6,800,000,000) are variable-rate borrowings, bearing interests at HIBOR plus 0.98% (31 December 2017: HIBOR plus 0.98%) per annum and are repayable in one lump sum on maturity date which will fall due in 2020. The secured revolving loans of HK\$30,000,000 and HK\$80,000,000 are variable-rate borrowings, bearing interest at HIBOR plus 0.98% per annum and are repayable in July 2018 and August 2018, respectively. All bank loans are secured by the Groups' investment properties.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

18. ISSUED CAPITAL/UNITS

	Number of shares/units (unaudited)	Nominal value HK\$ (unaudited)
Authorised:		
Ordinary shares of the Company of HK\$0.0005 each At 1 January 2017, 31 December 2017 and 30 June 2018	5,000,000,000	2,500,000
Preference shares of the Company of HK\$0.0005 each At 1 January 2017, 31 December 2017 and 30 June 2018	5,000,000,000	2,500,000

Units issued/share capital issued and fully paid:

Share Stapled Units

In accordance with the Trust Deed and the Company's articles of association, the number of ordinary shares and preference shares of the Company must be the same at all times and must be equal to the number of Share Stapled Units. Hence, the movement of the number of Share Stapled Units is the same as that of the ordinary shares and preference shares of the Company as shown below.

	Number of shares/units (unaudited)	Nominal value HK\$ (unaudited)
Ordinary shares of HK\$0.0005 each (note a)		
At 1 January 2017	2,067,226,456	1,033,614
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	11,569,883	5,785
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	9,626,744	4,813
At 31 December 2017	2,088,423,083	1,044,212
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,660,355	5,330
At 30 June 2018	2,099,083,438	1,049,542
Preference shares of HK\$0.0005 each (note c)		
At 1 January 2017	2,067,226,456	1,033,614
Issue of preference shares as payment of hotel management fees and licence fee (note b)	11,569,883	5,785
Issue of preference shares as payment of hotel management fees and licence fee (note b)	9,626,744	4,813
At 31 December 2017	2,088,423,083	1,044,212
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,660,355	5,330
At 30 June 2018	2,099,083,438	1,049,542

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

18. ISSUED CAPITAL/UNITS (CONTINUED)

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
Issued capital/units	2,099	2,089

Notes:

- (a) All of the issued ordinary shares of the Company are held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust.
- (b) Details of Share Stapled Units issued during the period/year as payment of hotel management fees and licence fee are as follows (notes 19 and 22(b)):

Issue date	Relevant period	Issue price	Aggregate issue price	Number of units
		HK\$	HK\$'000	
1 March 2017	1 July 2016 to 31 December 2016	3.309	38,285	11,569,883
24 August 2017	1 January 2017 to 30 June 2017	3.430	33,020	9,626,744
21 February 2018	1 July 2017 to 31 December 2017	3.373	35,957	10,660,355

- (c) The preference shares of the Company issued are components of the Share Stapled Units and have no rights to dividends, distributions or other payment from the Company except in case of the winding up of the Company, or if the Trust is terminated, the preference shares of the Company would be redeemed on termination at their par value.

19. MAJOR NON-CASH TRANSACTION

The hotel management fees and licence fee payable to Langham Hotels International Limited for the six months ended 30 June 2018 of HK\$32,982,000 (six months ended 30 June 2017: HK\$33,020,000) (note 22(b)), will be settled by Share Stapled Units subsequent to the end of the reporting period.

20. COMMITMENTS

At 30 June 2018, the Groups had authorised capital expenditures for investment properties which were not provided for in these condensed consolidated financial statements amounting to HK\$93,126,000 (31 December 2017: HK\$170,582,000) of which HK\$86,582,000 (31 December 2017: HK\$123,838,000) were contracted for.

Other than that, the Groups did not have any significant commitments at the end of the reporting period.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

21. OPERATING LEASE COMMITMENTS

The Groups as lessor

At the end of the reporting period, the Groups have contracted with Master Lessee and other tenant for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
With Master Lessee		
Within one year	225,000	225,000
In the second to fifth year	112,500	225,000
	337,500	450,000
With other tenant		
Within one year	550	–
In the second to fifth year	1,069	–
	1,619	–

Lease in respect of the retail shop in Eaton HK is negotiated for a term of three years at fixed monthly rentals. For the master lease agreements (note 22(a)), the leases are negotiated for a term of 14 years from the Listing Date. From commencement date to 31 December 2019 (the "First Period"), leases in respect of the Hotels are negotiated at fixed annual base rent and variable rent based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fee. From 1 January 2020 to 31 December 2023 (the "Second Period") and 1 January 2024 to expiry date of lease term (the "Third Period"), the leases will be negotiated with reference to market rental to be determined by independent property valuer. The above future minimum lease payments only include base rent of the First Period as the variable rent of the First Period cannot be determined as of the date of approval of the condensed consolidated financial statements.

In addition, for the Second and Third Period, the rentals will be determined by the independent property valuer prior to the commencement of the respective periods, which may be subject to unitholders' approval of the Trust and the Company and cannot be determined as of the date of approval of the condensed consolidated financial statements.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

21. OPERATING LEASE COMMITMENTS (CONTINUED)

The Groups as lessee

At the end of each reporting period, the Groups had outstanding commitments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	At 30 June 2018 HK\$'000 (unaudited)	At 31 December 2017 HK\$'000 (audited)
With Moon Yik Company, Limited, a fellow subsidiary		
Within one year	682	682
In the second to fifth year	361	702
	1,043	1,384
With other landlords		
Within one year	516	516
In the second to fifth year	–	258
	516	774

Leases are negotiated for a term of three years and rentals are fixed over the respective leases.

22. CONNECTED AND RELATED PARTY DISCLOSURES

Other than as disclosed in notes 9, 15, 16, 19 and 21, the Groups had the following significant connected and related party transactions during the period. All of the following related parties are subsidiaries of Great Eagle Holdings Limited, the ultimate holding company, and Dr. Lo Ka Shui, Director of the Company, is a substantial shareholder, the chairman and managing director of Great Eagle Holdings Limited. The transactions were carried out in the normal course of the Groups' business on terms mutually agreed between the parties. The following significant transactions are also connected transactions and the following related parties are connected parties of the Groups as defined in the chapter 14A of the Listing Rules.

Notes to the Trust and the Company's
Condensed Consolidated
Financial Statements

For the six months ended 30 June 2018

22. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

	Notes	Six Months Ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Rental income and related service fees income			
Master Lessee	(a)	326,560	331,943
Hotel management fees and licence fee			
Langham Hotels International Limited	(b)	32,982	33,020
Global marketing fee			
Langham Hotels Services Limited	(c)	8,983	8,243
Property management services fee			
The Great Eagle Properties Management Company, Limited	(d)	1,124	1,168
Rental expense			
Clever Gain Investment Limited	(e)	–	15
Moon Yik Company, Limited	(f)	341	341
Lease agency fee			
The Great Eagle Estate Agents Limited	(g)	–	31
Administrative support service fee			
The Great Eagle Company, Limited	(h)	480	480
Procurement services fee			
Champion Global Services Limited	(i)	650	146
Project management services fee			
The Great Eagle Development and Project Management Limited	(j)	1,920	140
Staff laundry services fee			
Master lessee	(k)	1	1
Hotel accommodation expenses			
Master Lessee	(l)	70	24

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

22. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes:

- (a) For the purpose of connected and related party disclosures, rental income and related services fees income that charged to Master Lessee in accordance with the master lease agreements has been presented before netting with service fees (including hotel management fees, licence fee and global marketing fee) of HK\$41,965,000 (six months ended 30 June 2017: HK\$41,263,000). Annual base rent of HK\$225 million was proportionately charged over the period for the six months ended 30 June 2018. Variable rent payable was recorded based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fee of HK\$307,121,000 (six months ended 30 June 2017: HK\$314,811,000) earned by Master Lessee.

A reconciliation between the Hotels' aggregate gross operating profit and the Groups' segment profit, and calculation of variable rent are shown as follows:

	Six Months Ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hotels' aggregate gross operating profit before deduction of global marketing fee	307,121	314,811
70% thereon, variable rent (before netting with service fees)	214,985	220,368
Base rent	111,575	111,575
Add:		
Rental income from retail shops in Eaton HK	42	871
Groups' segment revenue	326,602	332,814
Less:		
Service fees		
– Hotel management fees (i.e. base fee and incentive fee)	(25,372)	(25,571)
– Licence fee	(7,610)	(7,449)
– Global marketing fee	(8,983)	(8,243)
Property taxes, rates and insurance	(13,206)	(12,668)
Other deductions	(368)	(287)
Groups' segment profit	271,063	278,596

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

22. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes: (continued)

- (b) Langham Hotels International Limited is entitled, in accordance with hotel management agreements, to (i) a base fee of 1.5% of the total revenue of the relevant Hotels; (ii) licence fee of 1% of the total revenue of the relevant Hotels (payable under the trademark licence agreements); and (iii) an incentive fee of 5% of the adjusted gross operating profit (i.e. Hotels' gross operating profit less the base fee and the licence fee) of the relevant Hotels. The hotel management fees and licence fee, which have been netted with revenue, are reported as connected and related party transactions for the disclosure purpose. The hotel management fees and licence fee would be settled by Share Stapled Units (notes 18 and 19).

		Six Months Ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
(A)	Total revenue of relevant Hotels	761,058	744,899
(B)	Adjusted Hotels' aggregate gross operating profit	279,111	287,945
(i)	Base fee (A x 1.5%)	11,416	11,174
(ii)	Licence fee (A x 1%)	7,610	7,449
(iii)	Incentive fee (B x 5%)	13,956	14,397
Total fees		32,982	33,020

- (c) Global marketing fee was payable on a fixed percentage of 2% of the total room revenue of the relevant Hotels (i.e. HK\$449,173,000 (six months ended 30 June 2017: HK\$412,156,000)) under centralised services fees and marketing agreements. Global marketing fee, which has been netted with revenue, is reported as a connected and related party transaction for the disclosure purpose.
- (d) The annual management services fee payable is determined based on the annual budget prepared by The Great Eagle Properties Management Company, Limited, taking into account the actual cost incurred, plus remuneration to The Great Eagle Properties Management Company, Limited, and the management shares allocated to Cordis, Hong Kong in respect of the lot of land on which it is situated.
- (e) The rental was charged by Clever Gain Investment Limited for venue of annual general meeting at Yat Tung Heen.
- (f) Rental expense was payable to Moon Yik Company, Limited for leasing an office premise at Suite 2702, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.
- (g) Lease agency fee was charged at the rate of 4% of the monthly rental income receivable from Eaton HK's retail shops plus an amount equivalent to half of a month's rental income arising from the leasing of the relevant retail shops for renewed leases.
- (h) The fee was charged on cost sharing basis and allocated to the Groups according to time spent by relevant personnel of The Great Eagle Company, Limited on the businesses of the Groups and the related share of administrative costs.
- (i) Procurement services fee at a rate of 5% of (a) the respective budgeted sums of furniture, fixtures and equipment categories for hotel renovation and operating supplies and equipment categories for hotel renovation and (b) the actual amount of the purchase orders for furniture, fixtures and equipment and operating supplies and equipment categories for hotel maintenance and miscellaneous categories.
- (j) Project management services fee at a rate of 3% of the actual amount of the construction cost for renovation of the Hotels as certified by project quantity surveyor or other consultants.
- (k) Staff laundry services fee was payable to Master Lessee for staff laundry services.
- (l) The hotel accommodation expenses were paid to Master Lessee for the hotel accommodation of the designers of Eaton HK renovation.
- (m) Pursuant to the distribution entitlement waiver deed, LHIL Assets Holdings Limited agreed to waive its entitlement to receive any distributions payable of certain amount of Share Stapled Units held by it and the waiver deed expired by the end of 2017. During the period, net amount of HK\$2,927,000 (six months ended 30 June 2017: HK\$4,762,000) was waived by LHIL Assets Holdings Limited and its fellow subsidiaries.

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

22. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

The remuneration of Directors and other members of key management during both periods are as follows:

	Six Months Ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Short-term benefits	1,778	1,570
Post-employment benefits	–	4
	1,778	1,574

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair values of the Groups' financial asset and financial liability that are measured at fair values on a recurring basis

One of the Groups' financial assets and one of the financial liabilities are measured at fair values at the end of the reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical asset or liability;
- Level 2 fair value measurements are inputs other than those quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Trust and the Company's Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of the Groups' financial asset and financial liability that are measured at fair values on a recurring basis (continued)

	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (audited)		
Financial asset (liability)				
Interest rate swaps	66,600	28,300	Level 2	Discounted cash flow. Future cash flows are estimated based on interest rates (from observable interest rates at the end of the reporting period) and contracted rates discounted at a rate that reflects the credit risk of the counterparties.
Interest rate swaps	(1,846)	(76)	Level 2	Discounted cash flow. Future cash flows are estimated based on interest rates (from observable interest rates at the end of the reporting period) and contracted rates discounted at a rate that reflects the credit risk of the counterparties.

There were no transfers between Levels 1 and 2 during the current period/prior year.

The Trustee-Manager and the Directors of the Company consider that the carrying amounts of financial asset and financial liability recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values, determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

REPORT ON REVIEW OF CONDENSED FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

Deloitte.

德勤

TO THE MEMBER OF LHIL MANAGER LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed financial statements of LHIL Manager Limited (the “Company”) set out on pages 69 to 73, which comprise the condensed statement of financial position as of 30 June 2018 and the related condensed statement of profit or loss and other comprehensive income and condensed statement of changes in equity for the six months period then ended 30 June 2018, and certain explanatory notes. Pursuant to the deed of trust dated 8 May 2013 constituting Langham Hospitality Investments entered into between the Company and Langham Hospitality Investments Limited (the “Trust Deed”), the Company is required to prepare its interim financial information in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 August 2018

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF LHIL MANAGER LIMITED

For the six months ended 30 June 2018

	<i>Note</i>	Six Months Ended 30 June	
		2018 HK\$ (unaudited)	2017 HK\$ (unaudited)
Revenue		–	–
Administrative expenses		(11,957)	(10,357)
Less: Amount borne by a fellow subsidiary		11,957	10,357
Profit or loss before tax		–	–
Income tax	4	–	–
Profit or loss and other comprehensive income/expense for the period		–	–

CONDENSED STATEMENT OF FINANCIAL POSITION OF LHIL MANAGER LIMITED

At 30 June 2018

	<i>Note</i>	At 30 June 2018 HK\$ (unaudited)	At 31 December 2017 HK\$ (audited)
Current asset			
Cash on hand		1	1
NET ASSET		1	1
Capital			
Share capital	5	1	1
TOTAL EQUITY		1	1

CONDENSED STATEMENT OF CHANGES IN EQUITY OF LHIL MANAGER LIMITED

For the six months ended 30 June 2018

	Share capital HK\$ (unaudited)
At 1 January 2017, 30 June 2017, 1 January 2018, and 30 June 2018	1

NOTES TO THE CONDENSED FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the six months ended 30 June 2018

1. GENERAL

The Company is a limited liability company incorporated in Hong Kong. The Company's parent company is LHIL Management Limited, a limited liability company incorporated in the British Virgin Islands. The Directors of the Company consider the Company's ultimate holding company to be Great Eagle Holdings Limited, a limited liability company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and the principal place of business of the Company is 33/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is administering Langham Hospitality Investments (the "Trust"), in its capacity as trustee-manager of the Trust.

The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust, in accordance with the terms of the deed of trust dated 8 May 2013 constituting the Trust entered into between the Company and Langham Hospitality Investments Limited (the "Trust Deed") but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

The Company had no income during the period, thus the distribution statement is not presented.

The condensed financial statements are presented in Hong Kong dollar, which is also the functional currency of the Company.

The Company had no cash transaction during the period as all of its transactions were settled through inter-company current account, thus the condensed statement of cash flows is not presented.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") pursuant to the Trust Deed.

The financial information relating to the year ended 31 December 2017 that is included in these condensed financial statements as comparative information does not constitute the Company's statutory annual financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

As the Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's auditor has reported on those condensed financial statements. The auditor's report was unqualified ; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report ; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Notes to the Condensed Financial Statements of LHIL Manager Limited

For the six months ended 30 June 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Company has applied, for the first time, new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed financial statements.

4. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Company did not have any assessable profits during both periods.

5. SHARE CAPITAL

	At 30 June 2018 (unaudited)		At 31 December 2017 (audited)	
	Number of ordinary share	Nominal value HK\$	Number of ordinary share	Nominal value HK\$
Ordinary share with no par value				
Issued and fully paid:				
Balance brought forward and carried forward	1	1	1	1

6. RELATED PARTY DISCLOSURES

Transaction with a fellow subsidiary is disclosed in the condensed statement of profit or loss and other comprehensive income.

All of the Company's key management personnel are directors. No directors' emoluments were paid or payable by the Company since the directors of the Company are not entitled to any remuneration under the terms as set out in their letters of appointment of directors.

GLOSSARY OF TERMS

In this Interim Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Terms	Definition
“Board” or “Board of Directors”	Board of directors of the Trustee-Manager and/or Board of directors of the Company
“Code of Conduct for Securities Transactions”	Code of Conduct regarding Securities Transactions by Directors and Relevant Employees adopted by the Trustee-Manager and the Company
“Company”	Langham Hospitality Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2013
“Company Board”	The Board of the Company
“Corporate Governance Code”	Appendix 14 “Corporate Governance Code and Corporate Governance Report” of the Listing Rules
“Distribution Entitlement Waiver Deed”	The deed dated 10 May 2013 entered into among LHIL Assets Holdings Limited, Great Eagle and the Trustee-Manager in relation to the waiver by LHIL Assets Holdings Limited of its entitlement to receive distributions payable by the Trustee-Manager
“Great Eagle”	Great Eagle Holdings Limited (Stock Code: 41), the holding company of the Trust Group holding 62.48% issued Share Stapled Units as at 30 June 2018
“Great Eagle Group”	Great Eagle and its subsidiaries
“Great Eagle ROFR Deed”	The Deed of Right of First Refusal dated 10 May 2013 entered into between Great Eagle and the Company
“Group”	The Company and its subsidiaries

Glossary of Terms

Terms	Definition
"HKAS"	Hong Kong Accounting Standard
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "Unitholder(s)"	Holder(s) of Share Stapled Units of the Trust and the Company
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Hotel Companies"	The companies which own the Hotels, being Harvest Star International Limited, Cordis Hong Kong Limited and Grow On Development Limited; and "Hotel Company" shall mean any of them
"Hotel Manager"	Langham Hotels International Limited, a company incorporated in Hong Kong with limited liability on 30 August 1984 and an indirect wholly-owned subsidiary of Great Eagle
"Hotel(s)"	The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK and "Hotel" means any of them
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Master Lessee"	GE (LHIL) Lessee Limited, a company incorporated in Hong Kong with limited liability on 5 February 2013 and an indirect wholly-owned subsidiary of Great Eagle
"Model Code"	Appendix 10 "Model Code for Securities Transactions by Directors of Listed Issuers" of the Listing Rules
"Registers"	The Share Stapled Units Register, the register of holders of units, the principal and Hong Kong branch registers of members, and the register of beneficial interests as established and maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed
"RevPAR"	Revenue per available room

Glossary of Terms

Terms	Definition
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Stapled Unit(s)” or “SSU(s)”	Share stapled unit(s) jointly issued by the Trust and the Company. A share stapled unit is the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit in the Trust and held by the Trustee-Manager; and (c) a specifically identified preference share of the Company stapled to the unit in the Trust
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	Langham Hospitality Investments, as constituted pursuant to the Trust Deed
“Trust Deed”	The trust deed dated 8 May 2013 constituting the Trust, entered into between the Trustee-Manager and the Company and as amended by the first supplemental deed dated 22 April 2016
“Trust Group”	The Trust and the Group
“Trustee-Manager”	LHIL Manager Limited, a company incorporated in Hong Kong with limited liability on 25 January 2013 and an indirect wholly-owned subsidiary of Great Eagle, in its capacity as trustee-manager of the Trust
“Trustee-Manager Board”	The Board of the Trustee-Manager



Langham Hospitality Investments 朗廷酒店投資

(as constituted pursuant to a deed of trust on 8 May 2013 under the laws of Hong Kong, the trustee of which is LHIL Manager Limited)
(根據香港法律按日期為二零一三年五月八日之信託契約組成，其託管人為朗廷酒店管理人有限公司)

&

Langham Hospitality Investments Limited 朗廷酒店投資有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

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