



bostonian
SEAFOOD & GRILL

LANGHAM
HOSPITALITY INVESTMENTS

ANNUAL REPORT 2016

Stock code : 1270

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, Hong Kong.

The Langham and Cordis (rebranded from Langham Place Hotel since August 2015) 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.



C O N T E N T S

10	Corporate Information and Financial Calendar
12	Distribution Notice
13	Financial Highlights
14	Chairman's Statement
17	CEO's Review
25	Biographical Details of Directors and Senior Management
30	Corporate Social Responsibility Report
42	Corporate Governance Report
68	Report of the Directors
88	Financial Information
157	Schedule of Investment Properties
158	Five Years' Financial Summary
159	Glossary of Terms

THE LANGHAM HONG KONG



THE LANGHAM

HONG KONG

The Langham seeks to provide a unique European-style refined service to its guests. The Langham is a luxury hotel located close to Canton Road, which has one of the largest concentrations of luxury retailers in Hong Kong and is located in the heart of Tsim Sha Tsui, one of the busiest shopping and leisure destinations in Hong Kong. Apart from the shopping opportunities offered, Tsim Sha Tsui is a cultural hub and The Langham is located near historical buildings, museums and other tourist attractions, such as the Hong Kong Clock Tower, the Avenue of Stars and the Star Ferry. Tsim Sha Tsui is also a growing commercial hub with large-scale office developments nearby, such as the International Commerce Centre in West Kowloon, underpinning growth in corporate accommodation in the area.

HKTB RATING

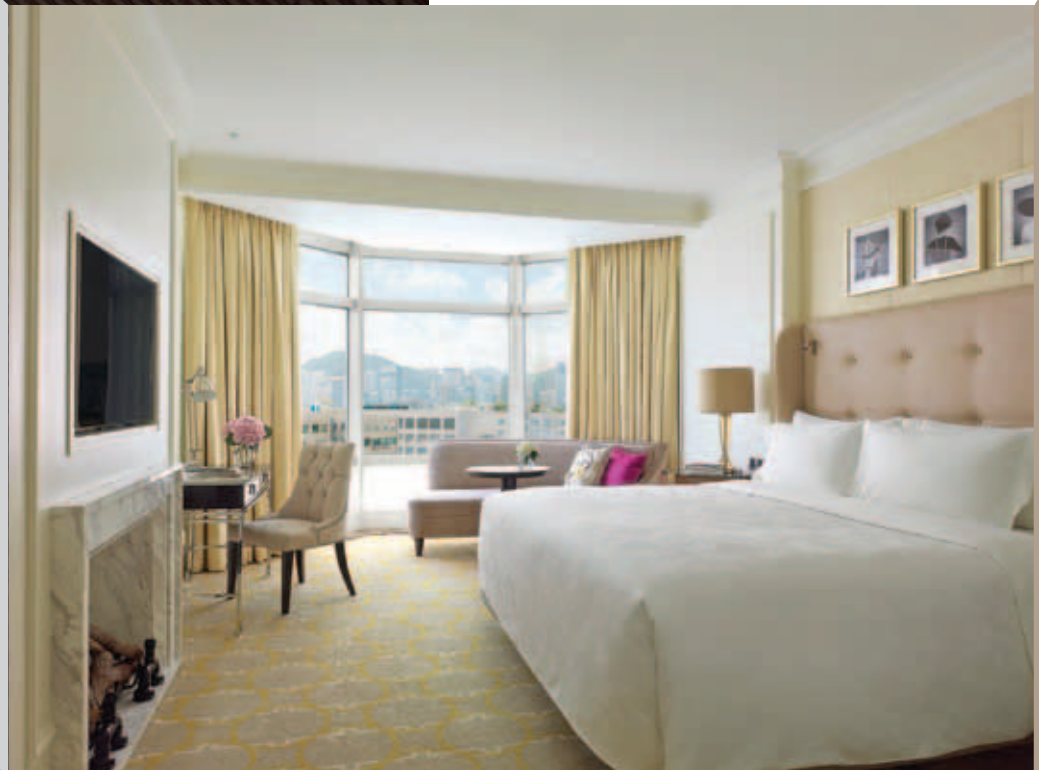
High Tariff A

ROOMS

498

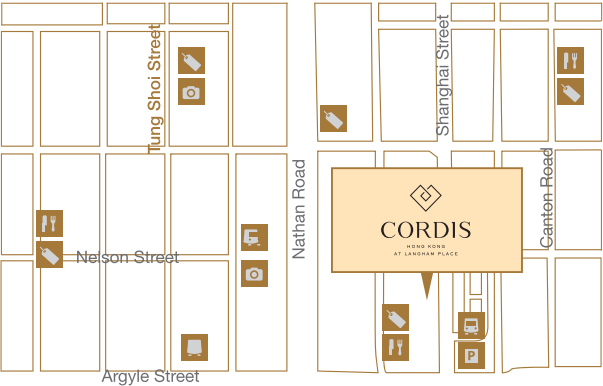
GFA ('000 SQ.FT)

375



The Langham seeks to provide a unique european-style refined service to its guests

CORDIS HONG KONG





HKTB RATING

High Tariff A

ROOMS

668

GFA ('000 SQ.FT)

580



CORDIS

HONG KONG
AT LANGHAM PLACE

Cordis, Hong Kong (rebranded from Langham Place Hotel in August 2015) provides a contemporary luxury hotel experience, with sleek and modern design inspired by contemporary Chinese art. Cordis hotel is a short walk away from famous street markets such as the night market on Temple Street, the Ladies Market and the Jade Market, and is directly connected to The Langham Place Shopping Mall and Office Tower. Cordis hotel is the only large scale luxury hotel in the heart of Mongkok and easily accessible by various modes of public transportation, including the MTR. Mongkok attracts many shoppers, both local and overseas, as the location has a plethora of shopping malls, street shops and open bazaar outlets. In addition to retail, Mongkok is an entertainment and commercial centre.

Cordis Hotel is the only large-scale luxury hotel in the heart of Mongkok

EATON HONG KONG





Eaton hotel is located on Nathan Road, a popular street in Hong Kong in a famous shopping, entertainment and commercial district. Eaton is easily accessible by various modes of public transportation and is located between Tsim Sha Tsui and Mongkok. Eaton has a modern and simple design, furnished



HKTB RATING

High Tariff B

ROOMS

465

GFA ('000 SQ.FT)

339

in warm earth tones and natural colours. The Hotel focuses on three fundamentals – comfort, convenience and connectivity – and is one of the most eco-friendly hotels in the district. Eaton's lobby has floor to ceiling glass windows which allows the lobby area to be filled with natural light and along the lobby wall is a living green wall, which features over 3,000 plants and serves to purify the air in the lobby area.

**Located on Nathan Road,
Eaton has a modern and simple
design, furnished in warm earth
tones and natural colours**

LANGHAM

HOSPITALITY GROUP

The Trust Group comprises a hotel portfolio of three Hong Kong hotels including The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong. These three Hong Kong hotels are managed by the Hotel Manager, Langham Hotels International Limited under Langham Hospitality Group, which is one of the world's most outstanding hotel management companies.

Langham Hospitality Group, a member of the Great Eagle Group, encompasses a family of distinctive hospitality brands which include hotels, restaurants and spas, located on four continents. Langham Hospitality Group currently manages 19 hotels under The Langham Hotels and Resorts, Cordis and Eaton brands, with more than 20 hotel projects currently confirmed and under construction or in a developed stage of negotiations in China, Southeast Asia, Middle East and North America.

LANGHAM HOTELS AND RESORTS – THE LANGHAM AND LANGHAM PLACE

Langham Hotels and Resorts, is the flagship brand of Langham Hospitality Group, and comprise of hotels committed to delivering exceptional experiences across the globe. The Langham name has come to represent hotels that are the epitome of luxury, displaying a passion for genuine service, innovation, captivation of the senses and design. Our hotels are defined by 'The Art of the Stay' through their impeccable service with poise, timeless art & design and by their eclectic sensory experiences. The Langham brand reflects classic luxury, grand and timeless, whereas Langham Place brand represents modern luxury and sophistication.

CORDIS

Cordis, meaning "heart" in latin, is a collection of elegant upscale hotels, with plenty of heart & soul, utterly devoted to your business, personal and family well-being. The service is seamless, devoted, genuine, reliable, thoughtful, anticipatory, passionate and intuitive. The Cordis portfolio will include new built designs, resorts and contemporary residences. The brand will be developed through a combination of new-build and conversion projects in key cities in Asia and North America, with the first hotel to fly the Cordis flag 2015 in Hong Kong.

EATON

Eaton is a modern high design hotel concept, at affordable prices, offering an honest, comfortable and effortless hotel experience for the smart traveller. Eaton is also about sustainable living through eco-friendly hospitality solutions to limit our footprint on the environment. It is the ideal hotel for the smart and responsible traveller interested in a fun and affordable stay. Each Eaton will be known for its modern and simple design in an environment that is fresh, young and vibrant, offering value and transparent pricing. Our guests will feel at ease as there will be no hidden charge.

LANGHAM

HOSPITALITY GROUP



- | | | | | | |
|---|----------------------------------|----|--|----|-------------------------|
| 1 | The Langham, Hong Kong | 8 | Langham Place, Fifth Avenue, New York | 14 | Langham Place Guangzhou |
| 2 | Cordis, Hong Kong | 9 | The Langham, Melbourne | 15 | Langham Place Ningbo |
| 3 | Eaton, Hong Kong | 10 | The Langham, Sydney | 16 | Langham Place, Xiamen |
| 4 | The Langham, London | 11 | The Langham, Auckland | 17 | Langham Place, Haining |
| 5 | The Langham, Boston | 12 | The Langham, Xintiandi, Shanghai | 18 | The Langham, Shenzhen |
| 6 | The Langham, Huntington Pasadena | 13 | Langham Place, Beijing Capital Airport | 19 | The Langham, Haikou |
| 7 | The Langham, Chicago | | | | |

Note:

The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong are existing hotel properties owned by the Trust Group. Apart from the said Hotels, the Trust Group does not own any other hotels in the above list.

CORPORATE INFORMATION AND FINANCIAL CALENDAR

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)

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

LIN Syaru, Shirley
SO Yiu Wah, Eric
WONG Kwai Lam

AUDIT COMMITTEES

WONG Kwai Lam *(Chairman)*
LIN Syaru, Shirley
SO Yiu Wah, Eric

REMUNERATION COMMITTEE

SO Yiu Wah, Eric *(Chairman)*
LO Ka Shui
LIN Syaru, Shirley
WONG Kwai Lam

NOMINATION COMMITTEE

LIN Syaru, Shirley *(Chairman)*
LO Ka Shui
SO Yiu Wah, Eric
WONG Kwai Lam

COMPANY SECRETARY

WONG Mei Ling, Marina

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Conyers Dill & Pearman (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
23 Harbour Road
Wanchai, Hong Kong
Tel: (852) 2186 2500
Fax: (852) 2186 9867

CORPORATE INFORMATION AND FINANCIAL CALENDAR

COMPANY PRINCIPAL SHARE REGISTRAR

Codan 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

FINANCIAL CALENDAR

Event	Date
2016 Interim Results Announcement	15 August 2016
Payment of 2016 Interim Distribution of HK11.7 cents per Share Stapled Unit	5 October 2016
2016 Annual Results Announcement	14 February 2017
Closure of Registers for ascertaining the entitlement to attend and vote at the 2017 Annual General Meeting	19 April 2017 – 25 April 2017 <i>(both days inclusive)</i>
2017 Annual General Meeting	25 April 2017
Ex-distribution Date	28 April 2017
Closure of Registers for ascertaining the entitlement to the proposed 2016 Final Distribution	4 May 2017 – 8 May 2017 <i>(both days inclusive)</i>
Record Date for 2016 Final Distribution	8 May 2017
Payment of 2016 Final Distribution of HK13.8 cents per Share Stapled Unit	19 May 2017

DISTRIBUTION NOTICE

FINAL DISTRIBUTION

The Trustee-Manager Board has recommended the payment of a final distribution of HK13.8 cents per Share Stapled Unit (2015: HK12.9 cents) for the year ended 31 December 2016 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 8 May 2017, except for the number of Distribution Waiver Units waived by LHIL Assets Holdings Limited pursuant to the Distribution Entitlement Waiver Deed. Subject to the approval of the Holders of Share Stapled Units at the 2017 AGM, the payment of the final distribution will be made on 19 May 2017. Taken together with the interim distribution of HK11.7 cents per Share Stapled Unit paid in October 2016, the total distribution per Share Stapled Unit for the year 2016 is HK25.5 cents.

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 during the following periods and during these periods, no transfer of Share Stapled Units will be registered:

(i) To attend and vote at the 2017 AGM

For the purpose of ascertaining the entitlement of Holders of Share Stapled Units to attend and vote at the 2017 AGM, the Registers will be closed from Wednesday, 19 April 2017 to Tuesday, 25 April 2017, both days inclusive.

In order to be eligible to attend and vote at the 2017 AGM, 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 Tuesday, 18 April 2017.

(ii) To qualify for the proposed 2016 final distribution

For the purpose of ascertaining the entitlement of Holders of Share Stapled Units to the proposed 2016 final distribution, the Registers will be closed from Thursday, 4 May 2017 to Monday, 8 May 2017, both days inclusive.

In order to qualify for the proposed 2016 final distribution, all properly completed transfer forms accompanied by the relevant Share Stapled Units certificates must be lodged with the Share Stapled Units Registrar for registration not later than 4:30 p.m. on Tuesday, 2 May 2017.

FINANCIAL HIGHLIGHTS

(in HK\$ million, unless otherwise specified)	Year ended 31 December		
	2016	2015	Change
RevPAR of the hotel portfolio (in HK\$)	1,438	1,472	-2.3%
Revenue of hotel portfolio	1,553.3	1,531.4	+ 1.4%
Hotels' gross operating profit before deduction of the global marketing fees	679.6	645.4	+5.3%
Total Rental Income for the Trust Group	706.4	682.2	+3.5%
Net Property Income for the Trust Group	593.7	563.4	+5.4%
Profit attributable to Holders of Share Stapled Units	409.6	1,442.2	-71.6%
Profit attributable to Holders of Share Stapled Units excluding Fair Value change of Investment Properties and Derivative Financial Instrument	381.4	343.2	+11.1%
Distributable Income	501.4	477.5	+5.0%
Distributions per Share Stapled Unit before Distribution Waiver	HK24.2 cents	HK23.3 cents	+3.9%
Distributions per Share Stapled Unit after Distribution Waiver	HK25.5 cents	HK24.6 cents	+3.7%

As at	31 December 2016	31 December 2015	30 June 2016
Gross Value of Hotel Portfolio (in HK\$ million)	18,432	18,381	18,495
Net Asset Value per Share Stapled Unit	HK\$5.65	HK\$5.72	HK\$5.70
Gearing Ratio	36.1%	36.2%	36.1%

CHAIRMAN'S STATEMENT

We are pleased to report that the Trust Group's hotel portfolio has finished the year with growth in revenue and operating profit in 2016. This was achieved on the back of a stabilizing hotel market in Hong Kong, as well as an addition to the number of available rooms in our portfolio in 2016 after their renovations in 2015.

As compared with the first half of 2016, a marked recovery was witnessed in overnight arrivals to Hong Kong in the second half of 2016. After a 2.1% year-on-year decline in overnight arrivals in the first half of 2016, overnight arrivals bucked the downward trend and rose by 1.0% year-on-year in the second half of 2016, resulting in a mere 0.5% year-on-year drop in overnight arrivals for the year as a whole in 2016, which was considered mild as compared with a 3.9% decline in 2015.

The recovery in overnight arrivals in the second half of 2016 was driven by an improvement in overnight arrivals from Mainland China, which is the largest market for Hong Kong and had staged good recovery, dropping by only 0.6% year-on-year in the second half of 2016 versus a decline of 6.7% year-on-year in the first half. As the trend in overnight arrivals to Hong Kong stabilizes in 2016, the decline in RevPAR of the Hong Kong hotel market was only 2.6% in 2016 versus a 13.3% drop in 2015.

As for the Trust Group's hotels, The Langham, Hong Kong outperformed its respective hotel market in terms of changes in RevPAR, whereas Cordis, Hong Kong and Eaton, Hong Kong underperformed their respective hotel markets. RevPAR of Cordis was dragged by low occupancy during the first quarter of 2016, when violent protests broke out within close proximity to the hotel, whereas the underperformance of Eaton was due to severe room rate competition from nearby hotels. For the portfolio as a whole, RevPAR declined by 2.3% in 2016.

While the portfolio's RevPAR declined, room revenue of the hotel portfolio actually rose by 2.6% in 2016, mostly due to an increase in the number of available rooms at The Langham and Cordis following the completion of renovations in 2015. Revenue from F&B business was flat as compared to 2015, and overall hotel revenue grew by only 1.4% in 2016. The growth in gross operating profit before global marketing fee of the portfolio was much higher and recorded a growth of 5.3% in 2016, given the relatively fixed costs nature of the hotel business, coupled with the hotel managers' proactive approach to containing variable costs.

The increase in gross operating profit of the portfolio led to an increase in variable rental income received by the Trust Group and total rental income received by the Trust Group rose by 3.5% to HK\$706.4 million in 2016. Net property income rose by 5.4% to HK\$593.7 million on lowered operating expenses incurred by the Trust Group. However, net profit of the Trust Group dropped by 71.6% to HK\$409.6 million, which was mainly due to the effect of a high base in 2015, when an increase of HK\$1,099.0 million in fair value of properties was booked.



CHAIRMAN'S STATEMENT



Distributable income, which primarily excluded non-cash items rose by 5.0% to HK\$501.4 million. Distribution per Share Stapled Unit after and before the impact of distribution waiver was HK25.5 cents and HK24.2 cents respectively. Distribution yield based on HK25.5 cents of distribution per Share Stapled Unit and the Trust Company's closing price of HK\$3.13 on 30 December 2016 was 8.1%.

The appraised valuation of the hotel portfolio was HK\$18,432 million as at the end of 2016, representing an increase of 0.3% as compared with HK\$18,381 million as at the end of 2015. However, as the increase in appraised market value of the hotels was insufficient to fully cover the additional asset enhancements spent on the Hotels during 2016, a shortfall or decrease in fair value amounting to HK\$3.6 million was recorded in 2016's results. Net Asset Value ("NAV") per Share Stapled Unit of the Trust Group was HK\$5.65 as at the end of 2016.

Gearing ratio was 36.1% at the end of 2016 compared to 36.2% at the end of December 2015. Based on the Trust and the Company's closing price of HK\$3.13 per Share Stapled Unit on 30 December 2016, this represented a discount of 44.6% to the Trust Group's NAV.

During 2016, we have successfully completed the refinancing of a HK\$6,800 million bank loan that matured in May 2016. The new loan with maturity extended to four years effectively eliminates refinancing risks for the Trust Group in the medium term. The new loan also charges a substantially lower interest spread which was a result of oversubscription from a large number of highly reputable banks. After the refinancing, the interest spread charged on the new loan, including amortized upfront cost, is 1.23% versus 1.70% interest spread on the previous loan.

CHAIRMAN'S STATEMENT

As we strive to reduce the negative impact from potential hike in interest rates on distributable income, the Trust Group has effectively fixed the interest rate of HK\$2,000 million of our bank loans by entering into interest rate swap contracts in early November 2016 and January 2017 at an average interest rate of 1.42%. In fact, there was an increase in fair value of derivative financial instrument amounting to HK\$31.8 million in 2016, which reflects the increase in the market value of the HK\$1 billion contract that was entered into in November 2016 as interest rates rose. However, as fair value changes are non-cash items they do not have an impact on distributable income.

Lastly, as the Chinese restaurant at Eaton has been awarded a Michelin one-star rating in November 2016, we are delighted that we now have Michelin Star rated restaurants across the hotels in the Trust Group's portfolio and we believe these outstanding culinary attainments will further enhance the positioning of the hotels.

OUTLOOK

While RevPARs for Hong Kong's hotels have largely stabilized in 2016, worrying signs are emerging once again in 2017 which may affect demand for hotel rooms. Although Hong Kong's hotels are offering very competitive room rates, the recent strength of the Hong Kong dollar, being pegged to the U.S. dollar, has made Hong Kong relatively more expensive to international travellers. Furthermore, potential negative impact on the global economy arising from intensifying geopolitical and economic uncertainties may weigh on corporate and leisure travel in 2017.

At the same time, the completion of new hotels in Hong Kong is expected to accelerate to over 4.0% in 2017 versus 1.4% in 2016, which constrains growth of RevPAR in 2017. As for our hotels, the phased refurbishment of the ballroom and dining area at the Eaton, Hong Kong from mid-2017 will result in lower F&B and probably room revenue due to construction works disruption in 2017. In addition, higher interest expense and cash tax payment due to depletion of tax loss carry forward will result in lower distributable income for the Trust Group in 2017.

Despite potential headwinds for the Hong Kong's hotel market in the short term, we are still optimistic about the long term potential and strength of the hotel industry in Hong Kong. We believe the completion of new tourism and infrastructure projects such as the expansion of the major theme parks, Hong Kong-Zhuhai-Macau bridge and extension of Mainland China's high-speed rail network to Hong Kong will all serve to support tourist visitations to Hong Kong in the medium to long run. In the near term, the expected completion of the first phase of the West Kowloon Cultural District Development in 2018 should help to attract more tourist visitations to Hong Kong.



LO Ka Shui
Chairman

CEO'S REVIEW

As the Hotels of the Trust Group are leased to the Master Lessee, an indirect wholly-owned subsidiary of Great Eagle, the Trust Group receives rent in the form of a pre-determined fixed base rent (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 base and variable rental income from the Master Lessee, the Trust Group also receives rental income directly from three retail shops located at Eaton, which are leased to independent third parties.

Given the increase in the hotels' aggregate gross operating profit before deduction of the global marketing fees, variable rental income increased by 5.3% year-on-year to HK\$475.7 million in 2016, whereas fixed rental income was flat at HK\$225.0 million in 2016. Even though contribution from retail shops at Eaton was quite small, there was a 5.6% increase in retail rental income, due to a one-off tenant compensation. Total rental income of the Trust Group, which comprises of variable and fixed base rental income received from the Master Lessee, as well as retail rental income from the shops at Eaton rose 3.5% year-on-year to HK\$706.4 million in 2016.

(in HK\$ million)	2016	2015	Change
Variable rental income	475.7	451.8	+5.3%
Fixed rental income	225.0	225.0	–
Rental income from retail shops	5.7	5.4	+5.6%
Total rental income to the Trust Group	706.4	682.2	+3.5%

As the Trust Group owns the Hotels and leases them out for rental income, the operating expenses incurred by the Trust Group are predominantly service fees and hotel properties' related expenses.

Service fees are comprised of: (i) hotel management fee, (ii) license fee and (iii) global marketing fee paid to the hotel management companies. Hotel management fee is 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. 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, while hotel management fee and licence fee are paid in the form of Share Stapled Units until the end of 2017. Thereafter, the Hotel Manager can elect the hotel management and license fees to be paid in the form of Share Stapled Units, cash or a combination of both.

Total service fees payable to the hotel management companies in 2016 rose by 3.1% to HK\$87.0 million. The increase was due to improved performance of the hotel portfolio, based on which all streams of services fees are calculated.

CEO'S REVIEW

(in HK\$ million)	2016	2015	Change
Hotel management fee	54.5	52.5	+3.8%
Licence fee	15.5	15.3	+1.3%
Global marketing fee	17.0	16.6	+2.4%
Total service fees	87.0	84.4	+3.1%

A decline of 25.3% in Hotel properties' related expenses, to HK\$25.7 million in 2016, was attributable to the absence of rental expense incurred by Cordis. As the hotel terminated its office lease in December 2015, such saving of rental

expenses led to an increase in the Trust Group's net property income, which rose by 5.4% to HK\$593.7 million in 2016.

(in HK\$ million)	2016	2015	Change
Total rental income	706.4	682.2	+3.5%
Hotel properties related expenses	(25.7)	(34.4)	-25.3%
Service fees (hotel management fee, licence fee and global marketing fee)	(87.0)	(84.4)	+3.1%
Net property income	593.7	563.4	+5.4%

Interest income of HK\$1.6 million was recorded in 2016, representing a year-on-year drop of 82.6%. The much lower interest income was primarily due to substantially lower deposits in 2016 which were used to pay for renovations.

Finance cost dropped by 10.3% to HK\$118.2 million in 2016, which was attributable to lower interest cost on the HK\$6,800 million new loan drawn in May 2016. The new loan carries an all-in interest rate at HIBOR plus 1.23% per annum as compared with HIBOR plus 1.70% per annum for the previous loan. Finance cost in 2016 also factored in approximately two months of higher interest rate paid on the interest rate swap with a notional value of HK\$1,000 million that was entered into since early November 2016. The 4-year interest rate swap contract was entered into to effectively convert the floating interest rate on HK\$1,000 million of our bank loan into a fixed rate.

In hindsight, the swap contract entered into in early November turned out to be well-timed, given the rapid hike of interest rates towards the end of 2016. In fact, an increase in fair value of derivative financial instrument of HK\$31.8 million was recorded in 2016, which reflects the increase in the market value of the swap contract as interest rates rose. However, as fair value changes were non-cash items, they did not have an impact on distributable income.

Subsequent to the swap contract that was entered into in November 2016, the Trust Group has entered into other interest rate swap contracts with notional amount of HK\$1,000 million in early January 2017. As at the end of January 2017, 29.4% or HK\$2,000 million of the Trust Group's HK\$6,800 million borrowing was effectively fixed by using interest rate swaps with a fixed weighted average interest rate of 1.42% p.a..

CEO'S REVIEW

Loan with Floating vs. Fixed interest rate as at the end of January 2017

HK\$4,800 million	Floating rate base on HIBOR + all-in interest spread of 1.23% p.a.
HK\$2,000 million	Fixed rate at 2.65% (using interest rate swaps at 1.42% p.a.)
Total HK\$6,800 million	

Trust and other expenses, comprising of staff and other administration expenses, was relatively stable at HK\$12.7 million for 2016. Note that as the Trust Group is internally managed, no asset management fee is paid to external asset manager, but its own management team is remunerated instead.

Profit attributable to Holders of Share Stapled Units dropped 71.6% to HK\$409.6 million in 2016, given a high

base effect as a result of the booking of an increase in fair value of investment properties amounted to HK\$1,099.0 million in 2015. Excluding the impact of fair value changes on investment properties and derivative financial instrument (interest rate swap contract), net profit attributable to Holders of Share Stapled Units would have increased by 11.1% to HK\$381.4 million in 2016 (2015: HK\$343.2 million).

(in HK\$ million)	2016	2015	Change
Net property income	593.7	563.4	+5.4%
Interest income	1.6	9.2	-82.6%
Other income	0.3	0.1	+200.0%
Net exchange loss	–	(8.6)	n.a.
(Decrease)/Increase in fair value of investment properties	(3.6)	1,099.0	-100.3%
Increase in fair value of derivative financial instrument	31.8	–	n.a.
Finance cost	(118.2)	(131.8)	-10.3%
Trust and other expenses	(12.7)	(12.5)	+1.6%
Profit before tax	492.9	1,518.8	-67.5%
Income tax expense	(83.3)	(76.6)	+8.7%
Profit attributable to Holders of Share Stapled Units	409.6	1,442.2	-71.6%
Profit attributable to Holders of Share Stapled Units excluding fair value change of investment properties and derivative financial instrument	381.4	343.2	+11.1%

CEO'S REVIEW

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 the derivative financial instrument, and (ii) 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 net profit included: (i) decrease in fair value of investment properties, (ii) hotel management and licence fees paid in Share Stapled Units, (iii) amortisation of upfront loan fee, and (iv) deferred taxation.

The amount of deferred taxation added back to 2016's profit dropped by 22.7% to HK\$48.7 million, as tax losses carried forward available from The Langham, Hong Kong and Eaton, Hong Kong were fully utilized in 2016. A 27.6% drop in amortisation of upfront loan fee in 2016 was due to lower upfront fee on the new loan drawn in May 2016. Overall, distributable income of the Trust Group, based on a 100% distribution policy for 2016, rose by 5.0% to HK\$501.4 million in 2016.

(in HK\$ million)	2016	2015	Change
Profit attributable to Holders of Share Stapled Units	409.6	1,442.2	-71.6%
Hotel management fee and Licence fee paid in Share Stapled Units	70.0	67.8	+3.2%
Amortization of upfront loan fee, a non-cash cost	24.6	34.0	-27.6%
Deferred tax	48.7	63.0	-22.7%
Decrease/(Increase) in fair value of investment properties	3.6	(1,099.0)	+100.3%
Increase in fair value of derivative financial instrument	(31.8)	–	n.a.
Non-cash exchange difference	–	(7.5)	n.a.
Cash contribution to furniture, fixtures and equipment reserve	(23.3)	(23.0)	+1.3%
Distributable income	501.4	477.5	+5.0%

In calculating distribution per Share Stapled Unit, it should be noted that the holding company of the Trust Group, the Great Eagle Group, has agreed to waive its entitlement to receive distributions payable in respect of its 100 million Share Stapled Units (representing approximately 4.8% of the issued Share Stapled Units of the Trust Group as at 31 December 2016) for the financial year 2016.

For 2016, distribution per Share Stapled Unit was HK24.2 cents before the impact of distribution waiver, whereas distribution per Share Stapled Unit after distribution waiver was HK25.5 cents. It should be noted that the number of distribution waiver units will be reduced to 50 million Share Stapled Units for the financial year 2017, and all of the holdings of Share Stapled Units of Great Eagle Group will be entitled to receive distribution payable from 2018 onward.

CEO'S REVIEW

Hotel Performance

	Average Daily Rooms Available		Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	2016	2015	2016	2015	2016	2015	2016	2015
The Langham, Hong Kong	498	457	87.7%	84.7%	2,092	2,198	1,834	1,862
<i>year-on-year growth</i>			+3.0ppt		-4.8%		-1.5%	
Cordis, Hong Kong	653	620	89.8%	89.7%	1,653	1,734	1,485	1,555
<i>year-on-year growth</i>			+0.1ppt		-4.7%		-4.5%	
Eaton, Hong Kong	465	465	95.6%	89.5%	992	1,093	948	978
<i>year-on-year growth</i>			+6.1ppt		-9.2%		-3.1%	
Hotels portfolio	1,616	1,542	90.8%	88.1%	1,583	1,670	1,438	1,472
<i>year-on-year growth</i>			+2.7ppt		-5.2%		-2.3%	

Hong Kong Hotel Markets	Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	2016	2015	2016	2015	2016	2015
High Tariff A	84.0%	83.0%	2,161	2,267	1,815	1,882
<i>year-on-year growth</i>	+1.0ppt		-4.7%		-3.6%	
High Tariff B	89.0%	88.0%	1,034	1,067	920	939
<i>year-on-year growth</i>	+1.0ppt		-3.1%		-2.0%	

RevPAR of the hotel portfolio was HK\$1,438 in 2016 which was 2.3% lower than RevPAR in 2015. The decline was due to a drop of 5.2% in average daily rate to HK\$1,583 in 2016, which was partly offset by a 2.7 percentage points improvement in occupancy of the portfolio. Nonetheless, given a 4.8% increase in the number of available rooms in 2016 as compared to 2015, room revenue actually rose by 2.6% to HK\$850.4 million in 2016, which accounted for 54.7% of total revenue of the hotel portfolio in 2016.

Despite the fact that The Langham and Cordis have witnessed a growth in their F&B business in 2016, the combined growth was mostly offset by the reduced F&B business at Eaton, which suffered from a decline in banqueting business in 2016. In aggregate, total F&B revenue of the portfolio only decreased by 0.1% year-on-year to HK\$667.3 million in 2016, accounting for 43.0% of total revenue for the hotel portfolio.

CEO'S REVIEW

Revenue breakdown (in HK\$ million)	The Langham, Hong Kong	Cordis, Hong Kong	Eaton, Hong Kong	Total
Rooms	334.2	354.9	161.3	850.4
Food & Beverages	225.9	291.7	149.7	667.3
Others	15.4	17.6	2.6	35.6
Total revenue	575.5	664.2	313.6	1,553.3

The hotel portfolio as a whole has witnessed growth in guests from all major geographical markets. The growth was led by arrivals from Mainland China, which rose by 17.2% year-on-year in 2016 and accounted for 31.5% of

total arrivals by geographical breakdown. Other than the Mainland China market, there was respectable growth in arrivals from other Asian countries, Australia and Europe in 2016.

	Trust Group's hotel portfolio	Overnight arrivals to Hong Kong
Year-on-year growth in guests from Mainland China	+17.2%	-3.5%
% of overnight guests from Mainland China to total arrivals	31.5%	65.4%

Performance of the individual hotels

The Langham, Hong Kong, recorded a 1.5% decline in RevPAR in 2016, which was rather moderate as compared with the 3.6% drop in its respective High Tariff A hotel market (considered as 5-star rated hotels). The hotel benefitted from keen demand for its renovated rooms and was able to capture more travellers from Mainland China. There was also growth in arrivals from other geographical regions, which all contributed to an improved occupancy for the hotel. This was, however, offset by a decline of average room rate in 2016.

Revenue from F&B rose by 0.7% year-on-year in 2016, driven mainly by the stronger business growth at the T'ang Court as a result of the prestigious Michelin three-star rating awarded at the end of 2015. There was also revenue growth at the Bostonian, which witnessed improved business after its renovation in July 2016 with revamped menus. However, F&B revenue from banqueting business remained weak during 2016.

Cordis, Hong Kong, a year-on-year RevPAR decline of 4.5% was inferior to that of its respective High Tariff A market. However, it was mostly due to the temporary negative impact from the protests which broke out in Mongkok during the Chinese New Year in early 2016. RevPAR dropped by 18% year-on-year during February and March 2016 which dragged down the RevPAR for the full year in 2016. Nevertheless, demand picked up after the protests and growth in arrivals across most major markets was seen in the remainder of the year.

Revenue from F&B increased 4.1% year-on-year in 2016 which was mainly attributable to the improved revenue of The Place, which underwent renovation during the first quarter of 2015. Alibi also recorded a pick-up in business in 2016, offsetting an absence of income from the Tokoro Restaurant which was converted to back office since the beginning of 2016.

CEO'S REVIEW

Eaton, Hong Kong, recorded a 3.1% decline in RevPAR in 2016, which was more than the 2.0% decline witnessed in its respective High Tariff B hotel market (considered as 4-star rated hotel). The underperformance was due to severe room rate competition from nearby hotels. However, with flexible room rates, the hotel witnessed growth in arrivals from all major geographical regions in 2016 with an increase of 6.1 percentage points in the occupancy of the hotel in 2016, which helped to offset the 9.2% decline in the average room rate.

Revenue from F&B dropped by 8.6% year-on-year in 2016, which was mainly attributable to substantially lower banqueting revenue. However, it is worth noting that its Chinese restaurant, Yat Tung Heen, received the Michelin one-star rating in November 2016, after which there was a strong pick-up in business in December 2016.

FINANCIAL REVIEW

Distributions

Total distributable income of the Trust Group for the year ended 31 December 2016 was HK\$501,387,000 (2015: HK\$477,534,000). It is the present policy of the Trust Group to distribute not less than 90% of total distributable income in respect of each financial year thereafter.

Pursuant to the Distribution Entitlement Waiver Deed, LHIL Assets Holdings Limited, a wholly-owned subsidiary of the Great Eagle Group, has agreed to waive its entitlement to receive any distributions payable in respect of a certain portion of the Share Stapled Units held by it for the period from the Listing Date to 31 December 2013 and each of the years ending 31 December 2014, 2015, 2016 and 2017.

Distribution per Share Stapled Unit for the six months ended 31 December 2016 based on 100% payout was HK13.8 cents (after adjustment for waiver of distribution entitlement given by LHIL Assets Holdings Limited of 100,000,000 Share Stapled Units (2015: 100,000,000 Share Stapled Units)). With an interim Distribution per Share Stapled Unit of HK11.7 cents, Total Distribution per Share Stapled Unit for the year amounted to HK25.5 cents, assuming 100% payout. Based on the closing Share Stapled Unit price of HK\$3.13 as at 30 December 2016,

Total Distribution per Share Stapled Unit is equivalent to a distribution yield of 8.15%.

Net Assets Attributable to Holders of Share Stapled Units

Net Assets Attributable to Holders of Share Stapled Units was HK\$11,676.5 million or HK\$5.65 per Share Stapled Unit as at 31 December 2016 (2015: HK\$11,682.0 million or HK\$5.72 per Share Stapled Unit) which represents a 80.5% premium to the closing Share Stapled Unit price of HK\$3.13 as at 30 December 2016.

Debt Profile

On 30 May 2016, the Trust Group, through its subsidiary, entered into a four-year term and revolving loan facility of HK\$7,200 million to fully refinance the outstanding principal of HK\$6,800 million term loan granted to the Trust Group in 2013. The new loan bears interest at a floating rate of HIBOR plus 0.98% per annum. Total outstanding borrowings of the Trust Group as at 31 December 2016 were HK\$6,800 million (2015: HK\$6,800 million). The secured term loan is on a floating-rate interest basis and repayable in full on 29 May 2020.

In order to mitigate the interest rate exposure, the Trust Group entered into an interest rate swap transaction of HK\$1,000 million during the year. Subsequently, the Trust Group further entered into two interest rate swap transactions totaling HK\$1,000 million in early 2017. In aggregate, HK\$2,000 million or 29.4% of the outstanding term loan was fixed at a weighted average swap rate of 1.42% 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 31 December 2016, total gross assets of the Trust Group were HK\$18,823.5 million (2015: HK\$18,803.0 million). Gearing ratio, calculated as total outstanding borrowings as a percentage of gross assets, was 36.1% (2015: 36.2%).

CEO'S REVIEW

Cash Position

As at 31 December 2016, the Trust Group had a cash balance of HK\$238.5 million (2015: HK\$304.2 million) to satisfy asset enhancement of Eaton, Hong Kong, as well as its working capital and operating requirements. In addition, the Trust Group had unused revolving loan amounting to HK\$400 million as of 31 December 2016.

Pledge of Assets

As at 31 December 2016, investment properties of the Trust Group with a fair value of HK\$18,432 million (2015: HK\$18,381 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 facility granted to the Trust Group.

Commitments

At 31 December 2016, the Trust Group had authorised capital expenditures for investment properties which were not provided for in these consolidated financial statements amounting to HK\$167,526,000 (2015: HK\$126,407,000), of which HK\$29,755,000 (2015: HK\$16,182,000) were contracted for.

Other than the 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 AND SENIOR MANAGEMENT

DIRECTORS

Dr. LO Ka Shui

Chairman and Non-executive Director

Dr. LO Ka Shui, aged 70, 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. During the past two years, he was an Independent Non-executive Director of China Mobile Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited and City e-Solutions Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a Vice Chairman of The Chamber of Hong Kong Listed Companies and a Member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. He graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has over three decades of experience in property and hotel development and investment both in Hong Kong and overseas. He is 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 32, was appointed as a Non-executive Director of the Trustee-Manager and the Company on 14 February 2017. He is also a Director of the subsidiaries of the Company. Mr. LO was an Alternate Director of the Trustee-Manager and the Company from May 2015 to February 2017. He is also 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 AND SENIOR MANAGEMENT

Mr. IP Yuk Keung, Albert
Chief Executive Officer and Executive Director

Mr. IP Yuk Keung, Albert, aged 65, has been the Executive Director and Chief Executive Officer 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 Highway Infrastructure Limited, Hopewell Holdings Limited, Lifestyle International Holdings Limited, Power Assets Holdings Limited and TOM Group Limited, all of which are listed on the Main Board of the Stock Exchange. During the past two years, Mr. Ip was an Independent Non-executive Director of AEON Credit Service (Asia) Company Limited and New World China Land Limited.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. LIN Syaru, Shirley
Independent Non-executive Director

Dr. LIN Syaru, Shirley, aged 48, has been an Independent Non-executive Director of the Trustee-Manager and the Company since 2013. She is the Chairman 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. Since 2010, Dr. Lin has been a Member of the Founding Faculty of the Professional Master's Program in Global Political Economy at The Chinese University of Hong Kong. She retired as a Partner of Goldman Sachs, where she led the Principal Investment Area for Asia ex-Japan. Prior to focusing on private equity and venture capital, Dr. Lin was involved in the privatisation of state-owned enterprises in China, Singapore and Taiwan. She had 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 is also a member of the Hong Kong Committee for Pacific Economic Cooperation for the Hong Kong Government. 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. SO Yiu Wah, Eric
Independent Non-executive Director

Mr. SO Yiu Wah, Eric, aged 73, has been an Independent Non-executive Director of the Trustee-Manager and the Company since 2013. 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. Mr. So has over three decades of extensive experience of international hotel management. He had been the Executive Vice President of Langham Hotels International Limited responsible for finance, operations, business development and administration before his retirement in 2009. Prior to that, he held various senior management positions including Group and Regional Financial Controller in the hotel division of Great Eagle and in some other reputable international and Hong Kong hotel groups such as Le Meridien, Hilton and Regal.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WONG Kwai Lam **Independent Non-executive Director**

Mr. WONG Kwai Lam, aged 67, 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 a Member of each of the Remuneration and Appraisal Committee and 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., a Director of Opera Hong Kong Limited, a Vice Chairman of the Board of Trustees and a Member of the Investment Committee of the Board of Trustees of New Asia College of The Chinese University of Hong Kong. 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.

Directors' interests in the Trust Group and/or the substantial Holders of Share Stapled Units of the Trust Group are set out in the Report of the Directors in this Annual Report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LI Man Wai, Alexander
Chief Financial Officer

Mr. LI Man Wai, Alexander, aged 62, has been the Chief Financial Officer of the Company since 2013. He joined the Great Eagle Group in 1999 as the financial controller of The Langham, Hong Kong and was promoted to regional director of finance – Hong Kong of the Hotel Manager in 2012 overseeing the finance department of all Hong Kong properties, namely the Langham Hong Kong, Cordrs Hong Kong, Eaton Hong Kong and Eaton serviced apartments, as well as the Chinese restaurant, Yat Tung Heen, in Wanchai. He has extensive experience in the hospitality industry of around 37 years and held various positions in the finance department in international hotel chains including Mandarin Oriental, Shangri-la and Regal before joining the Great Eagle Group.”

Ms. LIANG Lai Yee, Lisa
Finance and Office Administration Manager

Ms. LIANG Lai Yee, Lisa, aged 43, has been the Finance and Office Administration Manager of the Company since 2013. She is primarily responsible for the financial reporting and general office administration of the Group. With over 20 years’ accounting and audit experience, Ms. Liang had previously worked as accounting manager of various commercial companies. Earlier in her career, she was employed by a reputable certified public accountants firm to perform external audit duties. Prior to joining the Group, she was an accountant of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust on the Main Board of the Stock Exchange) since March 2008. Her duties include preparing consolidated accounts, maintaining profit and cashflow forecasts and performing financial reporting duties. Ms. Liang holds a Master of Science Degree in Professional Accounting and Corporate Governance from City University of Hong Kong. She is a fellow of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.

Ms. TANG Wai Yan, Carmen
Head of Investor Relations

Ms. TANG Wai Yan, Carmen, aged 39, has been the Head of Investor Relations of the Company since 2013. She is also the investment services director of Great Eagle Holdings Limited, and is responsible for facilitating communications and liaison with its shareholders and investors. Ms. Tang has 15 years of experience in the real estate sector in Hong Kong and China. Prior to joining Great Eagle in 2008, she worked as an analyst with an international investment bank covering the real estate investment trusts (REITs) and hospitality sector in Hong Kong and China. Ms. Tang graduated from the University of Cambridge with a MPhil in Finance Degree, and holds a Bachelor of Science (First Class Honours) Degree in Business Economics from Queen Mary and Westfield College, the University of London.

COMPANY SECRETARY

Ms. WONG Mei Ling, Marina

Ms. WONG Mei Ling, Marina, aged 50, has been the Company Secretary of the Trustee-Manager and the Company since 2013. She is responsible for the company secretarial and compliance function of the Trust Group. Ms. Wong is the Company Secretary of Great Eagle Holdings Limited and is also responsible for the company secretarial matters of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion REIT). Ms. Wong is a fellow both of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and is a holder of a Master Degree in Laws from The Chinese University of Hong Kong, a Master Degree in Business Administration jointly awarded by the University of Wales and the University of Manchester and a Bachelor of Arts Degree in Accountancy from City Polytechnic of Hong Kong respectively. Ms. Wong had over 20 years’ post qualification experience in company secretarial and compliance.

CORPORATE SOCIAL RESPONSIBILITY REPORT

At the Trust Group, together with the Hotel Manager, we are committed to be a sustainable company. Sustainability is embedded into our hotel operations by engaging our major stakeholders through CONNECT, which is our corporate social responsibility programme. In this report, we describe our CONNECT activities and developments in our four priorities areas; Environment, Community, Colleagues, and Governance.



ENVIRONMENT

The Hotel Manager implemented a systematic approach to managing environmental issues at hotels through a partnership with EarthCheck. EarthCheck provides the holistic environmental management systems used by the travel and tourism industry as benchmarks and certification of their operational practices. Environmental policies were developed to identify the material issues that are related to our hotel operations. Independent third party verification by EarthCheck ensures our compliance with the relevant legislations and continuous improvement in our environmental and social performance against the material issues including energy and water consumption, carbon emission, and waste management.

EarthCheck certification is the mandatory key performance indicator for our hotels. In 2016, the Hotels continued their efforts and have achieved or maintained the status of Gold-Certified EarthCheck Hotels for over five years' of consistent sustainability efforts. In addition, Cordis, Hong Kong is accredited with an ISO 14001 certification.

The Hotels also participated at various programmes and charters by the Environment Bureau and Environmental Protection Department of HKSAR Government, including the following:

- Charter on External Lighting
- Certification on Programme on Source Separation of Commercial and Industrial Waste
- WasteWi\$e Certification
- Food Wise Charter

CORPORATE SOCIAL RESPONSIBILITY REPORT

Cordis, Hong Kong received the Best Eco-Friendly Hotel 2016 by Haute Grandeur and the Diamond Class of FoodEver WasteNever Award by Hong Kong Women Professionals & Entrepreneurs Association.

Performance Monitoring

Total electricity consumption of the Hotels was 151,554 GJ in 2016, representing a 3% decrease compared to 2015 (156,292 GJ) as a result of on-going energy saving initiatives and operational efficiency. Total gas/fuel consumption of the Hotels in 2016 was 44,774 GJ, an increase of 29% when compared to 2015 (34,672 GJ) mainly due to the testing and trial of the boiler replacement project in The Langham, Hong Kong. Total water consumption was 475,995 CuM, representing a slight 0.3% increase compared to 2015 (474,484 CuM).

Energy and Greenhouse Gas

The use of energy in the operations of the Hotels is one of our most significant environmental aspects, and is the largest contributor to greenhouse gas emissions. To address this, we identify energy saving opportunities through optimising the operational efficiency of plants and equipment. Air-conditioning accounts for a significant portion of the total electricity consumption at the Hotels. An efficient air conditioning system is the top priority for a green hotel operation. For example, the chiller water pump in Cordis, Hong Kong was upgraded to a variable speed model which could be adjusted to lower speed and thus saving energy during the night time. This upgraded system will help save 10% of electricity use in chiller compared with the old model.

In 2016, BMW installed its first publicly accessible charging station for electric vehicles, BMW i Wallbox Pro, at The Langham, Hong Kong in response to the escalating global trend of using environmentally friendly means of transport. The Hotel offered these drivers restaurant entitlements in addition to the complimentary and convenient charging service.



Water and Waste

The Hotels are responsible for reducing the water footprint by installing of water-efficient equipment, and raising staff awareness on water conservation. In 2016, the water cool chiller system at Cordis, Hong Kong was enhanced by using water at better quality so that the cooling effect was increased and less water was used. This initiative saved approximately 25% of the use of water in the cooling tower.

Waste generation is unavoidable in business operations. Different to energy or water-saving initiatives, it is believed that reducing waste might not require technology improvement or capital investment. Instead, many initiatives are developed based on the concept of *'think twice before you throw'*. The Hotels have been implementing waste minimisation initiatives including recycling/reusing (paper, metal, plastics, cardboard, glass bottles, cooking oil, printer cartridges, wet amenities, soap, wine corks), food waste donation and composting, and used items donation (furniture, fabric items, electronic equipment). The Hotels also looked into other opportunities to recycle other possible items.

CORPORATE SOCIAL RESPONSIBILITY REPORT

All rooms and suites at The Langham, Hong Kong are equipped with the Nespresso coffee maker. The Hotel formed a partnership with Nespresso to recycle the used capsules to reusable materials and reduce waste at the same time. Wasted capsules are dispatched to the recycling machines which would shred the waste capsules and separate the aluminium and coffee grounds for further recycling. The Hotel also donated the extra beds to a local green group which would distribute the beds to the needy families.

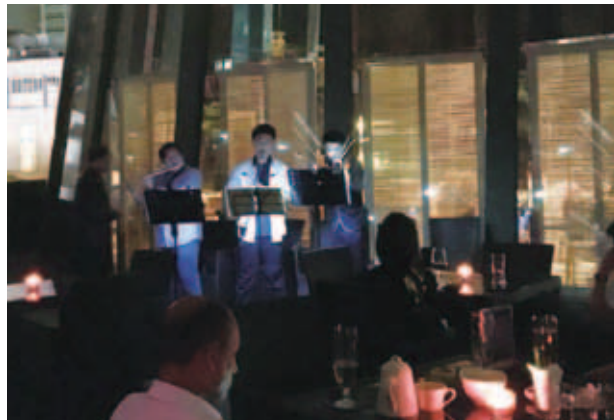
Eaton, Hong Kong also modified some of their internal management systems such as the in-house maintenance Ken Fix programme into a paperless approach.



We continued to seek various energy and water-saving initiatives to ensure an even more efficient operation of the Hotels adhering to the best quality standard.

Engagement – Colleagues, Guests and Suppliers

The Hotels actively engaged with colleagues, guests and suppliers who are our key stakeholders to drive continuous improvement in the sustainability journey. "Loving Earth Month" is the CONNECT featured environment event introduced in 2015. Throughout the month, the Hotels offered meatless dishes at restaurants and colleague cafeterias on Mondays to promote a healthy low carbon diet. Colleagues were encouraged to walk more and use less transportation with the 10,000 steps challenge within the Hotels.



Unplugged music performance at Eaton, Hong Kong to kick off the Loving Earth Month



Green Monday lunch at colleague cafeteria in The Langham, Hong Kong

CORPORATE SOCIAL RESPONSIBILITY REPORT



Coffee ground upcycling workshop at Cordis, Hong Kong during Loving Earth month

The Langham, Hong Kong made their first attempt to introduce fair trade and organic ingredients on a new interpretation to The Langham Afternoon Tea with Wedgwood. These ingredients were sourced from social enterprises, and were originated from Guatemala to Ghana, and India to Vietnam. Agriculture advisors educated the farmers on best practices to create clean produce using no chemicals or pesticides where even organic fertiliser is used to ensure sustainability and quality of the crop.



Fair Trade and Organic Afternoon Tea at The Langham, Hong Kong, and Vegetarian Wedding Menu at Eaton, Hong Kong

The Hotels have been supporting the sustainable seafood movement. To further enhance our commitment in this initiative, a sustainable seafood supplier forum was organised for the colleagues and major seafood suppliers of three hotels in Hong Kong. Speakers from WWF, Marine Stewardship Council and industry leaders were invited to share the latest sustainable seafood market trend and business practices in adopting sustainable seafood in Hong Kong.

The Hotels' food & beverage and procurement team worked together to review their current seafood consumption and identify the seafood items that can be sustainably sourced. The newly renovated Bostonian at The Langham, Hong Kong introduced a menu using sustainable seafood and organic ingredients as an ongoing commitment to social responsibility.



Sustainable seafood in Bostonian

COMMUNITY

We are no strangers to the community where we operate. The Hotel Manager encourages recruiting the right talents and buying products and services from the local area for our hotels. The Hotels have also maintained close relationships with the local business community and academic institutions which are crucial for the sustainability of our business.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Hotel Manager’s Community Engagement Policy offers guidance on how to contribute to local communities, not simply through philanthropy, but also in other ways including donations and visits, free or in-kind sponsorships and employee volunteering. In 2016, our colleagues delivered approximately 2,000 hours of support to charitable and other social initiatives.

Both the Hotel Manager and the Hotels have received accreditation for the past decade and are recognised as caring companies. In addition, Cordis, Hong Kong also received the following accreditation:

- Corporate Citizenship Logo Winners (Enterprise Category 2015) under the Hong Kong Corporate Citizenship Award Scheme organised by Hong Kong Productivity Council
- Silver Certificate for Volunteer Service under the Volunteer Movement organised by the Social Welfare Department.

The following sections highlight some of the major community engagement activities in 2016:

Support of the Arts and Children

Building strategic partnerships for community investment enables us to witness and measure our lasting impacts on the local community. The Hotel Manager and the Hotels have been partnering with Hope worldwide Hong Kong since 2013. In this year, we jointly organised our annual summer event “The New Green Generation” at Eaton, Hong Kong. Forty-six children from local low-income families were invited to discover how to be a greener citizen through various workshops and green hotel experiences. Our volunteers designed and structured these workshops to demonstrate the importance of the “Six Pillar of Character” advocated by Hope worldwide, we also extended our support with media interviews organized for our community partner and also featuring the event.



“The New Green Generation” Summer Event at Eaton, Hong Kong

We bring arts into our community services with children. During the Easter holiday, volunteers from Eaton, Hong Kong organised an upcycling workshop for children from Tung Wah Group of Hospitals, Tuen Mun Integrated Service Centre. The Hotel collected the leftover moon cake boxes from the previous mid-autumn festival, so that the children could upcycle these used boxes into handcrafted boxes for their stationery, toys and accessories.



CORPORATE SOCIAL RESPONSIBILITY REPORT

Support of the Environment

We raise our colleagues' awareness on protecting the environment and promoting the beauty of our nature. In addition to our on-going support for global environmental events such as Earth Hour and Earth Day, the Hotels also organised different volunteer activities for green groups such as meal box preparation at Food Angel and beach clean-up.

The Hotels have been partnering with Food Angel through daily donation of vegetable trimmings from our kitchens. These vegetables would become the balanced diet meal boxes cooked by Food Angel for the underprivileged communities in Hong Kong. Through this meaningful initiative, we re-direct the resources from waste to valuable. The Hotels took further steps in supporting Food Angel by sending our volunteers regularly for food and meal boxes preparation at their central kitchens in Sham Shui Po.



Food preparation at Food Angel with colleagues from The Langham, Hong Kong.

Cordis, Hong Kong and Eaton, Hong Kong organised their annual beach clean-up activities as part of the International Coastal Clean-up campaign which is a global movement towards building a healthy and trash-free water bodies. Our volunteers worked in small groups, picked up the rubbish along the beaches and recorded the type and quantity of the rubbish found on the data card. The data collected would be used for further analysis to understand the waste pollution along the shorelines of Hong Kong.



Beach clean-up at Cafeteria Old Beach in Tuen Mun by colleagues from Cordis, Hong Kong



Beach clean-up at Cheung Chau Beach by colleagues from Eaton, Hong Kong

The Trust Group's CEO Mr. Albert Ip is the Vice-chairman of Board of Governors of the World Green Organisation (WGO). The WGO is an independent non-governmental organisation concerned with environmental conservation and environmentally related livelihood and economic affairs in Hong Kong.

CORPORATE SOCIAL RESPONSIBILITY REPORT



Mr. Albert Ip addressed at WGO (World Green Organization) – GOALS (Green Office Awards Labelling Scheme) Award Presentation Ceremony on 24 June 2016

Support Local Community

Local communities have their own individual social concerns and it is part of our responsibility to take part in making our neighbourhoods better places to live in. Our volunteers serve the community of the elderly, the hungry, the poor, the underprivileged, minority groups, and people with illnesses. Through the talk on “Value of Liberal Arts Education, Student Development & Career” at Lingnan University, the Company’s CEO shared his view on the importance of service-learning which combines academic studies with meaningful service to the community with the rising trend in corporate social responsibility of the real business world. Mr. Ip also gave a Talk on “Art of Bank Lending and Risk Management” at City University of Hong Kong to provide an overview on the credit risk and risk management, and the characteristics of credit lending, and attributes of a successful lending officer.



Honorary Professor Albert Ip’s Talk on “Value of Liberal Arts Education, Student Development & Career” at Lingnan University.



Adjunct Professor Albert Ip gave a Talk on “Art of Bank Lending and Risk Management” at City University of Hong Kong.

Since 2010, our colleagues at Cordis, Hong Kong, in partnering with the Hong Kong Playground Association and the Po Leung Kuk, have been volunteering for the annual elderly home cleaning activities before the Chinese New Year. It is the Chinese tradition to cleanse the home before the Lunar New Year. We provided household cleaning service at a dozen homes in the neighbourhood.

CORPORATE SOCIAL RESPONSIBILITY REPORT



COLLEAGUES

The Hotel Manager and the Hotels are committed to fostering an engaging and respectful work environment for our colleagues to unleash their full potential and inspire them to become our true ambassadors in delivering genuine services to our guests. Colleagues therefore are our most important assets for driving business success. The Hotel Manager and the Hotels continued to be recognised with the award of “Manpower Developer 1st” in the Manpower Developer Scheme by the Employees Retraining Board (ERB) Hong Kong. In 2016, the Hotels also received the 18 Districts Caring Employers 2016 Award by The Hong Kong Joint Council for People with Disabilities and The Hong Kong Council of Social Services. Eaton, Hong Kong also received the Partner Employer Award by The Hong Kong General Chamber of Small and Medium Business.

Employee Health and Safety

The health, safety and wellness of our colleagues remain a priority. The Hotels maintain their health and safety systems with policies, committees, training and incident reporting. The senior management, human resources directors and security departments oversee these systems. The effectiveness of the system is monitored together with the Key Performance Indicators (KPI) system so that our improvement teams analyse the data, find problem root causes, run improvement action plans and follow up on the results.

The frequency of the colleagues being injured and taking work leave was 5.9 reported lost-time accidents per 100 employees. The injury rate has decreased significantly as compared to previous year due to the enhancement in training and awareness programme. Some of the programmes were tailored to focus on specific injury types by departments. The Hotels will continue to monitor the performance and enhance staff awareness in workplace health and safety.



Fire drill at Eaton, Hong Kong

The Hotels organise the Workplace Health and Safety Week every year, as part of the global awareness programme initiated by the Hotel Manager. A week in the fourth quarter was designated for activities that increase colleagues’ awareness and promote the importance of workplace health and safety. Colleague Wellness continued to be the theme for 2016 Workplace Health and Safety Week. The week was dedicated to enhance staff awareness on their wellbeing and support them in developing a healthy lifestyle. Wellness promotion programmes included; healthy food menus with recipes and colour dietary in colleague cafeterias, yoga and Tai Chi class, DIY beauty workshop, Body Mass Index (BMI) measurement and stretch exercise tips in office.

CORPORATE SOCIAL RESPONSIBILITY REPORT



Yoga class for colleagues at Cordis, Hong Kong.



Fresh fruit week at The Langham, Hong Kong

Employee Training

The Hotel Manager is committed to create an environment for our colleagues to achieve their career aspiration and at the same time, nurture a team of competent and motivated colleagues. The learning and development programmes are made up of the First60 Certification programme, Langham Curriculum Certification (LCC), and Advanced Programme for Executives (APEX). These programmes help our colleagues gain new skills and experiences which will be useful in their current and future jobs.

In addition to these programmes, the Hotels regularly reviewed and prioritised their training focus based on the business and operational needs. In 2016, one of the key focus trainings in Cordis, Hong Kong was the Bridal Assistant Certification Programme. “Heartfelt Weddings” is one of the Cordis brand signature, aiming to provide tailored experience to our wedding guests with the highest level of personal and professional service. A key selling point of Heartfelt Weddings is our personal Bridal Assistant – a dedicated person who will provide personal service to the Bride on her Wedding Day with undivided attention. To ensure the capability of our Bridal Assistants, Cordis, Hong Kong designed a Certification Programme which covered a full-day training workshop, job shadowing and personal assessments. Only those who have attended the whole Programme and passed the assessments can become a fully certified Bridal Assistant.

CORPORATE SOCIAL RESPONSIBILITY REPORT



The Hotels achieved an average of 25.9 training hours per colleague in 2016. The Langham, Hong Kong received the HR Excellence Awards 2016 (Change Management) by Hong Kong Institute of Human Resource Management. The award recognised the Hotel's efforts in its two-year repositioning journey to the Five-Star luxury hotel where they attained the internationally recognised Forbes Travel Guide Five-Star Award and also with T'ang Court's coveted Michelin Star Award for five years. T'ang Court has achieved the highest recognition at 3 Michelin Star Award for the past 2 consecutive years, and is one of only two 3 Michelin starred Chinese restaurants in Hong Kong.

The Langham, Hong Kong launched the "First Impression is Last Impression" Campaign to enhance colleague awareness on the importance of first impression from our guests and business partners. The Hotel has deployed a robust training programme in reinforcing the Five-star luxury service standard provided by our colleagues. To further cultivate the genuine service culture, we shared the basic tips to create the first good impression including Smeyes, genuine smile and using guest's name. The campaign ended with the 'Best Smile Award' and the top three winners were selected by the Department Heads.



CORPORATE SOCIAL RESPONSIBILITY REPORT

Cordis, Hong Kong received the Award for Excellence in Training and Development 2016 – Gold winner of the Skills Training category by Hong Kong Management Association. With the introduction of an innovative dining concept combining bar, lounge and restaurant (Alibi) at the Hotel, the training programme was designed to enhance the Alibi team’s product knowledge and communication skills, and instilled an energetic and engaging customer service style.



Cordis, Hong Kong also received the HR Excellence Awards 2016 (Best Business Partner Category) by Hong Kong Institute of Human Resources Management. The Hotel’s entry for this competition presented how the HR team worked with the senior management and all departments in the re-branding of Langham Place, Mongkok to Cordis, Hong Kong in 2015. The team demonstrated the crucial role HR, training and development play during the business transformation in achieving business goals with colleagues.



GOVERNANCE

Governance in the Hotel Manager’s CONNECT programme is about how we run our business and do the right thing. We are accountable and act responsibly at all times on behalf of our stakeholders – from our guests, partners, suppliers and colleagues, to governments, regulators and local community. We value the trust of our stakeholders in pursuit of expanding our business and operations sustainably. To maintain the trust, we must ensure we always conduct our business in an ethical and responsible manner.

The Hotel Manager pledges to adhere to good corporate governance and business integrity in our business activities. We have clearly stated these principles articulated in our Code of Ethics which explains the basic standards of behaviour expected of our colleagues in line with their official duties. The Code of Ethics provides guidance on acceptance, soliciting or offering of advantages, declaration of conflicts of interest, fraud and bribery, gambling, fair dealing, and handling of confidential information. All new colleagues receive the Code through the induction training at the First60 Certification programme. Depending on the job responsibilities of our colleagues, they will also receive regular communications, refresher training, and team briefings on various aspects of our compliance programme. All colleagues are also aware that they have a duty to report any breaches of our Code of Ethics.

CORPORATE SOCIAL RESPONSIBILITY REPORT

In 2016, the Hotel Manager and the Hotels also organised a Compliance Training on Competition Ordinance for colleagues in Hong Kong. The Competition Ordinance came into full effect in December 2015. This training provided an overview of the Ordinance and an understanding on the implementation of the Ordinance for our business activity, particularly in property, real estate management and the hotel industry.

In addition to the training programme at the Hotels, there is a Global CONNECT Event relating to an internal review and refresher training on a selected topic concerning corporate ethics and risk management across the group. In 2016, the Emergency Evacuation Plan for People with Disability was identified to be the topic for review. An internal review of the hotels' emergency plans and training was conducted.

The Hotels prepared the evacuation chairs and vibrating pad pillow alarms for guest use when necessary. Our colleagues received the evacuation chair training and also experienced the chair testing to fully understand and practice how to properly use the chair in case of emergency.

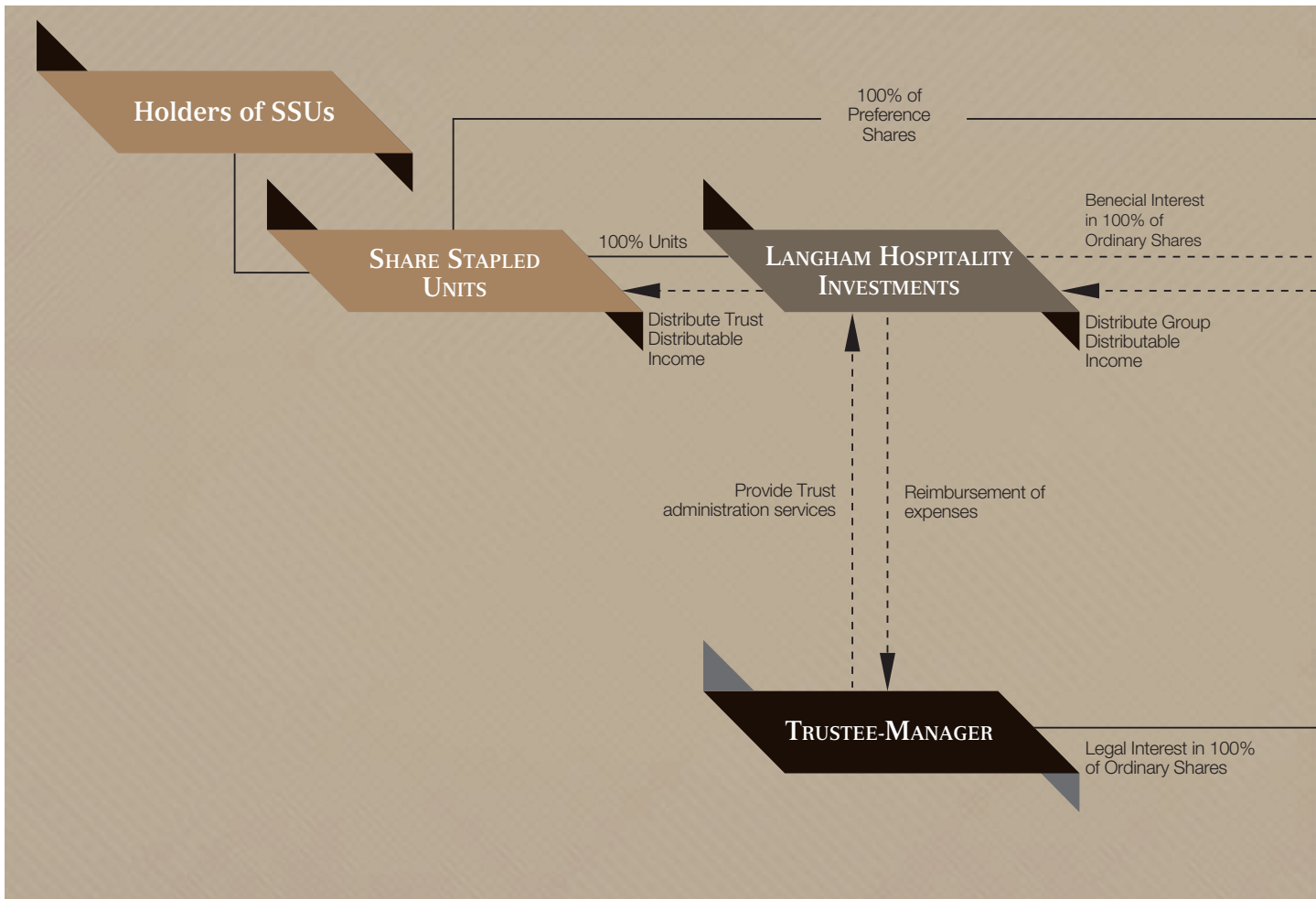


CORPORATE GOVERNANCE REPORT

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. This combined Corporate Governance Report of the Trust and the Company set out a summary of the key processes, systems and measures that have been used in implementing this corporate governance framework being adopted by the Trust, Trustee-Manager and the Company for the year ended 31 December 2016.

STRUCTURE OF THE TRUST GROUP

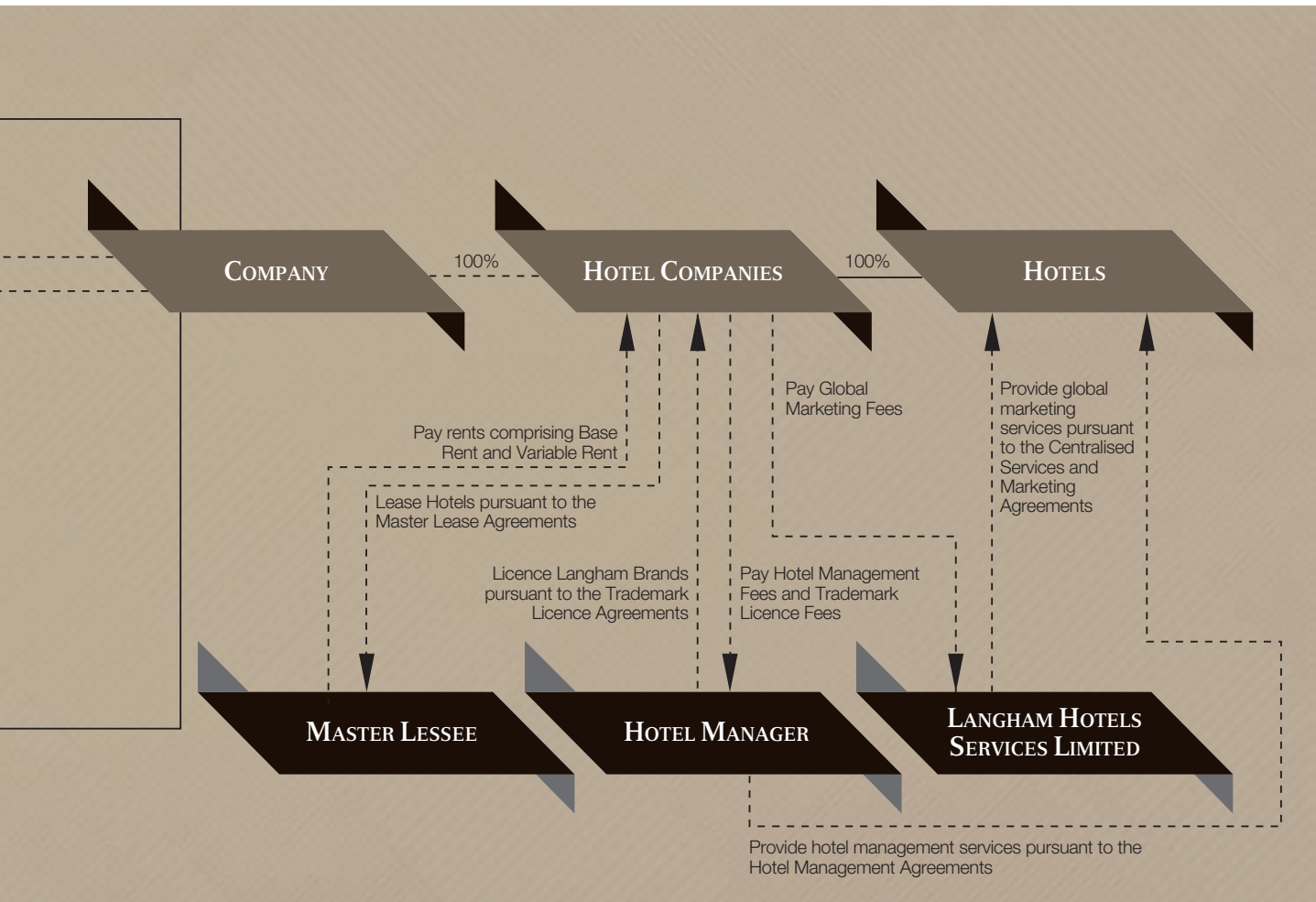
The chart below illustrates a simplified version of the structure of the Trust Group.



CORPORATE GOVERNANCE REPORT

The major activities during the year 2016 are set out below:

- General Mandate to Issue Share Stapled Units of the Trust and the Company**
 General mandate to allot, issue and deal with no more than 20% of the issued Share Stapled Units of the Trust and the Company was granted by the Holders of Share Stapled Units at the AGM of the Trust and the Company held on 22 April 2016.
- Amendments to the Constitutional Documents**
 The Trustee-Manager Board and the Company Board persistently review the policies and constitutional documents of the Trust Group to drive for continuous improvements. In light of the recent amendments made to the Listing Rules, the Companies Law of Cayman Islands and the Companies Ordinance of Hong Kong, the Trustee-Manager Board and the Company Board obtained the approval of the Holders of Share Stapled Units at the 2016 AGM to update the Trust Deed and the Company's Articles in order to bring them up to date and in line with the current laws, regulations and practices in Hong Kong. Updated versions of which are available for download from our website and the HKEX's website.



CORPORATE GOVERNANCE REPORT

Langham Hospitality Investments is constituted by laws of Hong Kong governing the Trust Deed 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; and
- (c) a specifically identified Preference Share in the Company which is “stapled” to the Unit.

As the components of the Share Stapled Units, all of the Units, the Ordinary Shares and the Preference Shares 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.

Business Relationship with Great Eagle

Apart from the parent-subsidary 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 as summarized in the chart on pages 42 to 43. 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 are provided in the Report of the Directors contained in this Annual Report on pages 78 to 84.

From the revenue perspective, each of the Hotels (excluding three retail outlets at Eaton, Hong Kong) is leased to the Master Lessee, an indirect wholly-owned subsidiary of Great Eagle, pursuant to the Master Lease Agreements. In return, the Master Lessee pays rents, which represents the major source of income, to the Trust Group.

From the expense perspective, all the Hotels are managed by the Hotel Manager, another indirect wholly-owned subsidiary of Great Eagle, pursuant to the Hotel Management Agreements, and the Trust Group pays hotel management fees to the Hotel Manager. In addition, the Trust Group has entered into the Trademark Licence Agreements and the Centralised Services and Marketing Agreements in respect of each of the Hotels with the Hotel Manager and Langham Hotels Services Limited (an indirect wholly-owned subsidiary of Great Eagle) respectively and thus incurs licence fees and global marketing fees when carrying on the hospitality business.

CORPORATE GOVERNANCE 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 section headed "Corporate Governance Measures to address Potential Conflicts of Interest" in this Corporate Governance Report.

CORPORATE GOVERNANCE POLICIES AND PRACTICES

The Trustee-Manager Board and the Company Board play a central support and supervisory role in the respective corporate governance duties of the Trust and the Company. The Boards are responsible for reviewing the overall corporate governance arrangements, approving governance policies and reviewing disclosures in Corporate Governance Report prepared on a combined basis.

Corporate Governance Practices

Taking into account the structure of the Trust Group, in particular the business relationship with its holding company, the following policies and procedures are established and constituted the core elements of the governance framework of the Trust Group:

- Reporting and Monitoring Policy on Connected Transactions
- Corporate Governance Measures in respect of the operation of the Right of First Refusal granted by Great Eagle Holdings Limited
- Schedule of Matters Reserved for the Board
- Segregation of Duties between Chairman and Chief Executive Officer
- Policy on the Preservation and Prevention of Misuse of Inside Information
- Unitholder Communication Policy
- Employee's Code of Conduct
- Code of Conduct regarding Securities Transactions by Directors and Relevant Employees

CORPORATE GOVERNANCE REPORT

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 Listing Rules and other relevant rules and regulations.

Throughout the year under review, 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 nor the Trustee-Manager, and the Trustee-Manager does not have any employee.

BOARD OF DIRECTORS

Board Composition

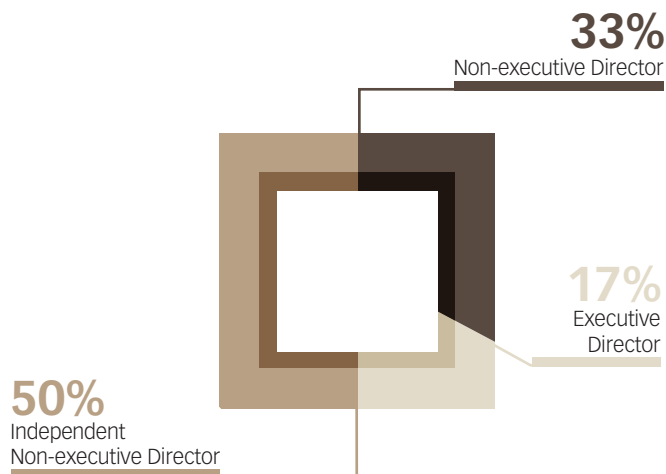
Pursuant to the Trust Deed, the Directors of the Trustee-Manager shall at all times be the same individuals who serve as Directors of the Company.

The Trustee-Manager Board and the Company Board currently comprise two Non-executive Directors, being Dr. Lo Ka Shui (*Chairman*) and Mr. Lo Chun Him, Alexander (appointed on 14 February 2017); one Executive Director being Mr. Ip Yuk Keung, Albert (*Chief Executive Officer*); and three Independent Non-executive Directors, namely Dr. Lin Syaru, Shirley, Mr. So Yiu Wah, Eric and Mr. Wong Kwai Lam respectively.

Ms. Lo Bo Lun, Katherine resigned as a Non-executive Director of the Trustee-Manager and the Company with effect from 14 February 2017.

Biographical details of the Directors of the Trustee-Manager and the Company are set out in this Annual Report on pages 25 to 28.

Dr. Lo Ka Shui, being the Non-executive Chairman of the Trustee-Manager and the Company and also a substantial shareholder, the Chairman and Managing Director of Great Eagle, the holding company of the Trust Group, is the father of Ms. Lo Bo Lun, Katherine and Mr. Lo Chun Him, Alexander. Saved as disclosed above, there are no other financial, business, family or other material or relevant relationships between board members.



CORPORATE GOVERNANCE REPORT

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

	Expertise	Responsibilities
Non-executive Directors		
LO Ka Shui (Chairman)	Property and hotel development and investment both in Hong Kong and overseas	Overseeing the operations and affairs of the Board's effectiveness and the relationships among the Board, management and stakeholders; leading the Board in formulating the corporate and financial strategy in the best interest of the Group by taking into account, among other things, the opportunities and risks of the business of the Group; enhancing further synergies between the Group and Great Eagle; and for the overall supervision of the policies governing the conduct of the Group's business
LO Chun Him, Alexander (appointed on 14 February 2017)	Property development, financial investments, business and project development	Formulation of strategic directions and high level oversight of the financial management and operations of the Group
Executive Director		
IP Yuk Keung, Albert (Chief Executive Officer)	International banking, investment and financing	Responsible for all day-to-day management decisions and for leading the development and implementing the long and short term strategy and plans; identifying potential risks and opportunities of the Group and implementing appropriate policies; developing procedures designed to ensure compliance with the overall risk management policies; acting as a direct liaison between the Board and management and communicating to the Board on behalf of management

CORPORATE GOVERNANCE REPORT

	Expertise	Responsibilities
Independent Non-executive Directors		
LIN Syaru, Shirley	International affairs and global investment	Chairing the Nomination Committee; scrutinizing and monitoring the Group's performance; giving independent judgment, strategic advice and guidance on the business and operations; and reviewing the financial control and systems of risk management and compliance
SO Yiu Wah, Eric	Finance and business development in international hotel management	Chairing the Remuneration Committee; scrutinizing and monitoring the Group's performance; giving independent judgment, strategic advice and guidance on the business and operations; and reviewing the financial control and systems of risk management and compliance
WONG Kwai Lam	Commercial and investment banking	Chairing the Audit Committees; scrutinizing and monitoring the Group's performance; giving independent judgment, strategic advice and guidance on the business and operations; and reviewing the financial control and systems of risk management and compliance

Board Diversity

The Boards recognize the importance and benefits of diversity in the boardroom, and seek to build an effective structure for the Trustee-Manager Board and the Company Board with the capabilities appropriate to the scale, complexity and strategic positioning of our business. Directors are drawn from a wide range of professional backgrounds and expertise with global reach, including property and hospitality development, international affairs, global investment, investment banking and financial services.

The Nomination Committee of the Company is responsible for reviewing Board composition, identifying candidates

and making recommendations to the Company Board. Diversity in board composition is considered to be an important driver of the Board's effectiveness. In reviewing Board composition, the Nomination Committee will take into account the Company's strategic priorities to determine the right skill sets required in the boardroom, which include the appropriate range and balance of skills, experience, knowledge and independence. All appointments of Directors are based on merit against objective criteria. The Nomination Committee will pay due thought to the issues of diversity when compiling a shortlist of suitable candidates, including areas of experience, types of expertise, gender, age, cultural and educational background.

CORPORATE GOVERNANCE REPORT

A Nomination Committee Meeting was held on 16 January 2017. Having taken into account the Company's corporate strategy and the skills, knowledge and experience of the Board members of the Company, the Nomination Committee considered the structure, size and composition of the Board was satisfactory.

Board Responsibilities

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 as mentioned above, the Trustee-Manager Board and the Company Board have distinct responsibilities.

It is the responsibility of the Trustee-Manager Board to ensure that the Trustee-Manager discharges its duties under the Trust Deed, which include but not limited to administering the Trust, keeping safe custody of all the property and rights of any kind whatsoever that are held on trust for the Unitholders and exercising all due diligence and vigilance in protecting the rights and interests of the Unitholders. A Director of the Trustee-Manager shall act in good faith in the best interests of all unitholders. The Trustee-Manager Board exercises a number of reserved powers such as approval of the financial statements of the Trust and the Trustee-Manager, approval of the annual and interim reports and results announcements of the Trust and the Company, declaration of distributions to the Unitholders, approval of terms of reference of the Trustee-Manager's Board Committee(s), and monitoring of the corporate governance of the Trust.

The Company Board, on the other hand, is responsible for setting out the overall strategies and business objectives of the Group and providing oversight of their implementation by the management team to promote the long-term success of the Group and create sustainable value for the Unitholders. While day-to-day management and operation of the business activities of the Group are delegated to senior management who is accountable for the execution of business strategies and initiatives adopted by the Company Board, specific functions reserved to the Company Board are set out in the Schedule of Matters Reserved for the Board and where appropriate shall also applicable to the Trustee-Manager Board. The schedule

is reviewed periodically to ensure that the arrangements remain appropriate to the Group's needs. Provided below is a summary of the key reserved matters which should be discharged by the full Board, the Board Committees, or the independent members of the Board, as appropriate in the circumstances:

- Approval of long-term objectives and corporate strategy
- Extension of business activities into new business of material nature
- Decision of ceasing to operate all or any material part of the business
- Approval of the annual and interim reports and results announcements of the Trust and the Company
- Declaration of distributions to the Trust
- Approval of any significant changes in accounting policies or practices
- Approval of substantial acquisitions or disposals
- Approval of connected transactions
- Approval of major capital expenditures
- Approval of terms of reference of the Company's Board Committees
- Approval of governance policies
- Review of corporate governance arrangements
- Appointment of membership of the Company's Board Committees
- Appointment or removal of the Company Secretary

CORPORATE GOVERNANCE REPORT

Board Independence

Independence is a vital element for Directors fulfilling their duty in overseeing the management of the business and affairs of the Trust and the Company. The Nomination Committee of the Company is accountable for assessing whether any relationships or circumstances would likely to interfere with the exercise of objective and unfettered judgment by relevant Directors. It reviews all relevant facts and circumstances in making an independence determination such as length of service, interlocking, competing businesses and other significant commitment that might potentially impose an impact on Directors' judgment. To be considered independent, an Independent Non-executive Director must also meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

Currently, three out of a total of six Board members are Independent Non-executive Directors. Their participation brings independent and objective judgment on the affairs of the Trust Group including but not limited to issues relating to the Trust Group's strategy, performance, conflicts of interest and management process, thus ensuring that the Trust Group operates in the best interests of Unitholders. Besides, all the Independent Non-executive Directors have the appropriate accounting or related financial management expertise for the purpose of Rule 3.10 of the Listing Rules, which can provide further assurance to the Unitholders that the financial performance of the Trust Group shall be professionally reviewed and monitored. The Independent Non-executive Directors are required to declare his/her independence in respect of the independence guidelines set out in Rule 3.13 of the Listing Rules on an annual basis.

Chairman and Chief Executive Officer

Dr. Lo Ka Shui and Mr. Ip Yuk Keung, Albert hold the positions of Chairman and Chief Executive Officer respectively. The Chairman is responsible to oversee the operations and affairs of the Board's effectiveness and the relationships among the Board, management and stakeholders. He is accountable to the Board for leading the Board in formulating the corporate and financial strategy in the best interest of the Group by taking into account, among other things, the opportunities and risks of the business of the Group and enhancing further

synergies between the Group and its parent company and for the overall supervision of the policies governing the conduct of the Group's business. Chief Executive Officer entails being ultimately responsible for all day-to-day management decisions and for leading the development and implementing the long and short term strategy and plans. He is accountable for identifying potential risks and opportunities of the Group and implementing appropriate policies, and developing procedures designed to ensure compliance with the overall risk management policies. He also acts as a direct liaison between the Board and management and communicating to the Board on behalf of management.

Appointment, Re-election and Rotation of Directors

According to the Company's Articles, no less than one-third of all the Directors shall retire from office by rotation at each Annual General Meeting of the Company, provided that every Director shall be subject to retirement by rotation at least once every three years and any Director appointed either to fill a casual vacancy or as an addition to the Board, shall hold office only until the next following AGM and shall then be eligible for re-election. The provisions of retirement by rotation applicable to the Company Board are also applied, indirectly, to the Trustee-Manager Board in accordance with the Trust Deed. Each of the Non-executive Directors (including the Independent Non-executive Directors) has entered into a letter of appointment with the Company for an initial term of 3 years, renewable automatically for a further term of 3 years on the expiry of such term and every successive period of 3 years thereafter, subject to the provisions of the Company's Articles, the Trust Deed and the Listing Rules. The Nomination Committee of the Company will make recommendations to the Board on the appointment or re-appointment of Directors.

According to the rotation record and as determined by lot, Dr. Lo Ka Shui and Mr. So Yiu Wah, Eric will retire as the Directors at the forthcoming AGM and are eligible for re-election. Mr. Lo Chun Him, Alexander, who was appointed as a Non-executive Director of the Trustee-Manager and the Company on 14 February 2017, will hold office until the 2017 AGM and is eligible for re-election.

CORPORATE GOVERNANCE REPORT

Directors' Orientation and Continuing Development

The Company Secretary shall assist the Chairman and the Chief Executive Officer to manage and oversee the induction process for a new Director and continuing development of Directors and senior management. An induction pack will be provided to the new Director to ensure he has a proper understanding of the Trust Group's operations and business. To keep Directors abreast of their responsibilities and infuse them with new knowledge relevant to the Trust Group's business and operating environment, information packages comprising the latest developments in the legislations, industry news and materials relevant to the roles, functions and duties as a director are provided to each Director by the Company Secretary periodically to foster the continuous development and ongoing updating of Board members' skills and knowledge.

During the year ended 31 December 2016, the Directors received information packages on the subject areas of Hong Kong Competition Law, Personal Data Privacy, Cyber Risk, Consumer Behavior, Hospitality Industry Review and Market Outlook. Apart from the continuous development program organized by the Trust Group internally, individual Director also attended seminars or workshops relevant to his/her profession and duties as director. All Directors had provided confirmation on their respective training records to the Trustee-Manager and the Company and each of them had participated in no less than 10 training hours during the year ended 31 December 2016.

BOARD COMMITTEES

Directors attend Board meetings and make fruitful contribution by sharing views, advices and experiences on matters material to the Trust Group's affairs, on the basis of the shared goal in further enhancing the interests of the Trust Group and the Unitholders as a whole. Board meetings of the Trustee-Manager and the Company are held regularly at least four times a year at approximately quarterly intervals. Proposed dates of the regular Board and Board Committee meetings for each new calendar year are set out in a schedule and notified to all Board members before the beginning of the year concerned to facilitate their attendance. Additional meetings are convened as and when circumstances warrant.

Board Committees

To provide effective oversight, the Trustee-Manager Board and the Company Board have established the following Board Committees with their own terms of reference that have been approved by the respective Boards and are reviewed periodically to ensure that they comply with the latest legal and regulatory requirements and reflect developments in recommended best practices. Each Committee reports its decisions and recommendations to the respective Board. The terms of reference of the Committees setting out in detail their duties and responsibilities are posted on our website and the HKEX's website.

Audit Committees

The composition of each of the Audit Committees of the Trustee-Manager and of the Company comprises three Independent Non-executive Directors:

Chairman:

Mr. Wong Kwai Lam

Members:

Dr. Lin Syaru, Shirley

Mr. So Yiu Wah, Eric

None of the Audit Committee members is a former or existing partner of the external auditor of the Trustee-Manager and the Company.

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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2016, the Audit Committees of the Trustee-Manager and the Company each held two meetings with all members present. The following is a summary of the major work done categorized by the primary areas of duties of the Committee:

Primary areas of duties	Summary of major work done of the Audit Committees in 2016
Disclosure of financial information	<ul style="list-style-type: none"> • reviewed and approved the draft 2016 Interim Report and interim results announcement of the Trust and the Company for the period ended 30 June 2016 • reviewed and approved the draft 2015 Annual Report and final results announcement of the Trust and the Company for the year ended 31 December 2015 • reviewed the unaudited financial statements of the Trust and the Company and the unaudited financial statements of the Trustee-Manager for the period ended 30 June 2016, and the audited financial statements of the Trust and the Company and the audited financial statements of the Trustee-Manager for the year ended 31 December 2015, with particular regard to the qualitative aspects of the Trust Group's accounting practices including the following major judgmental issue: <ol style="list-style-type: none"> (1) the intention and ability to hold the held-to-maturity investments in light of the capital maintenance and liquidity requirements of the Trust Group; (2) the treatment of deferred taxation on changes in fair value of the investment properties of the Trust Group; and (3) the processes and method of valuation of the investment properties and the non-quoted derivative financial instruments of the Trust Group.
Risk management and internal control	<ul style="list-style-type: none"> • reviewed the significant findings and recommendations from the internal auditor • reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager
Reports from external auditor	<ul style="list-style-type: none"> • considered the reports from Deloitte Touche Tohmatsu on interim review of the financial information and annual audit of the financial statements of the Trust and the Company and of the Trustee-Manager
Re-appointment of external auditor	<ul style="list-style-type: none"> • reviewed and considered the re-appointment of Deloitte Touche Tohmatsu as the external auditor and approved its remuneration
Connected Transaction	<ul style="list-style-type: none"> • reviewed and monitored connected transactions through half-yearly reports submitted by management to ensure compliance with the terms of the waivers granted by the Stock Exchange and all other applicable rules and regulations
Great Eagle ROFR Deed	<ul style="list-style-type: none"> • reviewed and adopted the corporate governance measures in respect of the operation of the Great Eagle ROFR Deed • reviewed the implementation and compliance of the Great Eagle ROFR Deed

CORPORATE GOVERNANCE REPORT

Nomination Committee

The composition of the Nomination Committee of the Company currently comprises three Independent Non-executive Directors and one Non-executive Director:

Chairman:

Dr. Lin Syaru, Shirley*

Members:

Dr. Lo Ka Shui#

Mr. So Yiu Wah, Eric*

Mr. Wong Kwai Lam*

* Independent Non-executive Director

Non-executive Director

The Nomination Committee focuses on strengthening, broadening, balancing and understanding the range of skills, experience and diversity on the Company Board. The Committee shall formulate policy and make recommendations to the Company Board on nomination, appointment or re-appointment of Directors and board succession.

During the year ended 31 December 2016, one physical Nomination Committee meeting with the attendance of Dr. Lin Syaru, Shirley, Dr. Lo Ka Shui, Mr. Lo Chun Him, Alexander (as Alternate Director to Ms. Lo Bo Lun, Katherine who ceased to be a member on 14 February 2017), Mr. So Yiu Wah, Eric and Mr. Wong Kwai Lam was held. The following is a summary of the major work done categorized by the primary areas of duties of the Committee:

Primary areas of duties	Summary of major work done of the Nomination Committee in 2016
Board composition	<ul style="list-style-type: none"> reviewed the size, structure and composition of the Company Board by taking into account the diversity of skills, knowledge and experience of the Board members reviewed Directors' time commitment to the affairs of the Trust and the Company through, inter alia, their meeting attendance and other listed companies' directorships
Independence of Independent Non-executive Directors	<ul style="list-style-type: none"> assessed independence of all the Independent Non-executive Directors
Appointment or re-appointment of Directors	<ul style="list-style-type: none"> reviewed and approved the nomination of Dr. Lin Syaru, Shirley and Mr. Wong Kwai Lam, being the retiring Directors for re-election at the 2016 AGM.

The requirement to establish a Nomination Committee is not relevant to the Trustee-Manager as 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.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The composition of the Remuneration Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director:

Chairman:

Mr. So Yiu Wah, Eric*

Members:

Dr. Lo Ka Shui#

Dr. Lin Syaru, Shirley*

Mr. Wong Kwai Lam*

* Independent Non-executive Director

Non-executive Director

The Remuneration Committee set up formal and transparent procedures for setting policy on Executive Director's remuneration and for fixing the remuneration packages for 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.

During the year ended 31 December 2016, one physical Remuneration Committee meeting was held with full attendance of the Committee members. Below is a summary of major work done categorized under the primary areas of duties of the Committee:

Primary areas of duties	Summary of major work done of the Remuneration Committee in 2016
Remuneration packages of Executive Director and senior management	<ul style="list-style-type: none"> approved the salary review and discretionary bonus distribution for the year 2016 and other remuneration packages of the Executive Director and senior management of the Company
Remuneration of Directors	<ul style="list-style-type: none"> recommended to the Company Board on the Directors' fees for the year 2016

The requirement to establish a Remuneration Committee is not applicable to the Trustee-Manager as its Directors are not entitled to any remuneration payable by the Trust nor the Trustee-Manager, and the Trustee-Manager does not have any employees.

CORPORATE GOVERNANCE REPORT

Board and Board Committee Meetings

Apart from understanding the respective responsibilities of the Trustee-Manager Board and the Company Board, the Directors must be able and willing to devote the required amount of time to the affairs of the Trust and the Company, including attendance at Board meetings and Board committee meetings. While the Executive Director works fulltime for the Trust and the Company, all the Non-executive Directors and the Independent Non-executive Directors had confirmed to the Trustee-Manager and the Company that they had given sufficient time and attention to the affairs of the Trust and the Company throughout 2016.

Board Proceedings for Board and Board Committee Meetings

- At least 14 days' formal notice of regular Board and Board Committee Meetings will be given to all Directors, and all Directors are invited to include any matters for discussion in the agenda.
- Directors are provided with the meeting agenda and the relevant board papers at least 3 days in advance of every regular Board and Board Committee meeting, containing complete, adequate and timely information to enable full deliberation on the issues to be considered at the respective meetings.
- To safeguard the interests of the Trust Group and the Unitholders, Directors are required to declare their direct/indirect interests, if any, in any business proposals to be considered at the meetings and, where appropriate, they are required to abstain from voting.
- Minutes of all Board and Board Committee meetings recording key deliberations and decisions taken are kept by the Company Secretary and are available for Directors' inspection. Draft and final versions of minutes are sent to all Directors in a timely manner for their comment and record.

In addition to Board meetings, the Chairman schedules a meeting annually with Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Director to discuss the affairs of the Trust Group.

CORPORATE GOVERNANCE REPORT

During the year under review, each of the Trustee-Manager and the Company held four physical Board meetings. Directors attended the meetings in person or by his/her appointed alternate or by means of telephone or other audio communications equipment in accordance with the Trustee-Manager's articles of association and the Company's Articles. The attendance of individual Directors at all the Board and Board Committee meetings and AGM held during the year ended 31 December 2016 is set out below:

Number of Meeting(s) Attended/Eligible to Attend in 2016

Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	2016 Annual General Meeting
Non-executive Directors					
LO Ka Shui (<i>Chairman</i>)	4/4	–	1/1	1/1	1/1
LO Bo Lun, Katherine (<i>resigned on 14 February 2017</i>)	1*+3#/4	–	1#/1	–	1#/1
Attendance Rate	100%	–	100%	100%	100%
Executive Director					
IP Yuk Keung, Albert (<i>Chief Executive Officer</i>)	4/4	–	–	–	1/1
Attendance Rate	100%	–	–	–	100%
Independent Non-executive Directors					
LIN Syaru, Shirley	4/4	2/2	1/1	1/1	–/1
SO Yiu Wah, Eric	4/4	2/2	1/1	1/1	1/1
WONG Kwai Lam	3/4	2/2	1/1	1/1	1/1
Attendance Rate	91.67%	100%	100%	100%	66.67%
Overall Attendance Rate	95.83%	100%	100%	100%	83.3%

Note:

* Attended personally by Ms. LO Bo Lun, Katherine

Attended by Ms. Lo's Alternate Director, Mr. LO Chun Him, Alexander (ceased to be an alternate on 14 February 2017)

^ The Board and Board Committee meetings of the Trustee-Manager and the Company were held on a concurrent basis

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

The framework of the remuneration offered to the Executive Director and senior management of the Company is a combination of pre-determined elements plus discretionary components:

Remuneration Framework

- | | |
|-----------------------------|--|
| Basic compensation | <ul style="list-style-type: none"> • includes basic salary, retirement benefits and other allowances • it is fixed and set to be at the level sufficient to retain and motivate employees, taking into account the scope and complexity of responsibilities, individual performance as well as market pay levels |
| Bonus and incentives | <ul style="list-style-type: none"> • vital to align the interest of the executives with that of Holders of Share Stapled Units • the level is determined by reference to factors such as the financial performance and profitability of the Trust and the Company, individual performance, prevailing market conditions and remuneration benchmark in the industry |

As discussed above, Directors of the Trustee-Manager are not entitled to any remuneration payable by the Trust nor the Trustee-Manager. The Directors' fees entitled to be received by each Director of the Company and the members of the respective Board Committees of the Company for the year 2016 are set out hereinbelow. The remuneration levels were proposed with reference to the time and effort involved in the individual Directors' specific duties and services and the prevailing market conditions.

An Alternate Director shall be entitled to enter into contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified to the same extent mutatis mutandis as if he were a Director, but he shall not be entitled to receive from the Company in respect of his appointment as Alternate Director any remuneration except only such part (if any) of the remuneration otherwise payable to his appointor as such appointor may by notice in writing to the Company from time to time direct.

CORPORATE GOVERNANCE REPORT

Further details of Directors' emoluments are provided in note 14 to the consolidated financial statements of the Trust and the Company.

Director's Fee and Board Committee Remuneration

Capacity	Annual Fee (HK\$)
Board of Directors	
• Executive Director	50,000
• Non-executive Director	150,000
• Independent Non-executive Director	200,000
• Chairman	250,000
Audit Committee	
• Chairman	100,000
• Committee Member	50,000
Remuneration Committee	
• Chairman	50,000
• Committee Member	25,000
Nomination Committee	
• Chairman	30,000
• Committee Member	20,000

CORPORATE GOVERNANCE REPORT

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;
 - 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; and
- specific corporate governance measures have also been put in place in respect of the operation of the Great Eagle ROFR Deed as follows:
 - (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 will, through the internal audit function, review the implementation of the Great Eagle ROFR Deed each year;
 - (iii) the Audit Committee of the Company will review 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 will include an examination of supporting documents and such other information deemed necessary by the Audit Committee; and
 - (iv) the Independent Non-executive Directors will review on an annual basis compliance by Great Eagle with the terms of the Great Eagle ROFR Deed and will 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.

CORPORATE GOVERNANCE REPORT

The Audit Committees of the Trustee-Manager and the Company shall be responsible for overseeing the implementation of the above measures. During the year 2016, there were no properties or investment opportunities being acquired by or made available to the Great Eagle Group that were subject to the Great Eagle ROFR Deed.

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.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Through the Audit Committees of the Trustee-Manager and the Company and the Great Eagle Group's Internal Audit Department, the Trustee-Manager Board and the Company Board have conducted an annual review on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

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 3-year audit plan of the Internal Audit Department is approved by the Audit Committees. The Head of Internal Audit Department reports directly to the Audit Committees and the Chairman of the Trustee-Manager and the Company. 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.

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

The Trustee-Manager Board and the Company Board therefore are satisfied that the Trust (together with the Trustee-Manager) and the Company have maintained appropriate and effective risk management and internal control systems for the year ended 31 December 2016.

HOLDERS OF SHARE STAPLED UNITS

Communication with Holders of Share Stapled Units

We recognize the importance of maintaining an ongoing dialogue with our Unitholders. The Unitholder Communication Policy has been adopted to promote effective engagement with individual Unitholders, institutional investors and other stakeholders.

Our corporate website (www.langhamhospitality.com) is one of the key channels by which the Unitholders and potential investors can find a wealth of information about the Trust Group. All corporate communications of the Trust and the Company, including but not limited to annual and interim reports, announcements, circulars, key corporate governance policies, terms of reference of the various Board Committees, press releases and other corporate information, are made available on this website. For Unitholders who have supported the use of environmentally-friendly means in receiving corporate communications, our website provides the most convenient way for locating the desired information. We also address the needs of those Unitholders who are more accustomed to reading offline by sending corporate communications to them in printed form free of charge upon receipt of their election in writing as such.

CORPORATE GOVERNANCE REPORT

To facilitate a two-way dialogue with Unitholders and other stakeholders, the corporate communications and website are supplemented by various briefings and conferences. The management and the Head of Investor Relations meet existing and potential investors, financial analysts and media regularly at road shows, analyst briefings, investor conferences and one-on-one group meetings where our senior executives can exchange and share views and opinions with the participants and address any queries that they may have about the business development and corporate strategies of the Trust Group based on publicly available information. Relevant presentation materials from analyst briefings on annual and interim results are also posted on our website so as to deliver a more in-depth understanding on the Trust Group's financial performance and position.

Unitholders may at any time direct their enquiries about the Trust and the Company to the Trustee-Manager Board and the Company Board by writing to the Company's principal place of business in Hong Kong or by email to enquiry@langhamhospitality.com.

General Meeting

The Trustee-Manager Board and the Company Board recognise the significance of general meetings which provide the best opportunity for a genuine dialogue between the Directors and our Unitholders. General meetings of the Trust and the Company are held on a combined basis, proceedings of general meetings as summarized hereinbelow are reviewed from time to time to ensure that the best appropriate corporate governance practices are followed.

The 2016 AGM of the Trust and the Company was held on 22 April 2016 at Yat Tung Heen, 2nd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The matters resolved thereat are listed below:

- Received and adopted the audited consolidated Financial Statements of the Trust and the Company for the year ended 31 December 2015, the audited Financial Statements of the Trustee-Manager for the year ended 31 December 2015, together with their respective Reports of the Directors and the Independent Auditor.
- Declared a final distribution of HK12.9 cents per Share Stapled Unit for the year ended 31 December 2015.
- Re-elected Dr. Lin Syaru, Shirley and Mr. Wong Kwai Lam as Independent Non-executive Directors.
- Authorized the Directors of the Company to fix their remuneration.
- Re-appointed Messrs. Deloitte Touche Tohmatsu as Auditor of the Trust, the Trustee-Manager and the Company, and authorized the Directors to fix their remuneration.
- Approved the grant of a general mandate to the Directors of the Trustee-Manager and the Company to allot, issue and deal with additional Share Stapled Units not exceeding 20% of the issued number of Share Stapled Units.
- Approved the amendments to the Trust Deed and the Company's Articles in order to bring them up to date and in line with current laws, regulations and practices in Hong Kong.

CORPORATE GOVERNANCE REPORT

Proceedings of General Meetings

- Notice of general meetings together with other relevant corporate communications in printed form (or the notification letters for receiving the said corporate communications by electronic means through our corporate website, as the case may be) will be despatched to Holders of Share Stapled Units (i) no less than 20 clear business days prior to the AGM and general meeting where a special resolution is proposed for consideration and (ii) no less than 10 clear business days for all other general meetings.
- The Chairman of the Trustee-Manager Board and the Company Board as well as the chairmen of each of the Board Committees or, in their absence, their duly appointed delegates or other members of the respective Committees are available to answer questions at the general meetings.
- The chairman of the independent board committee or, in his/her absence, his/her duly appointed delegates or other member(s) of the committee will be available to answer questions at any general meetings at which approval for a connected transaction or approval from independent Holders of Share Stapled Units for any other transaction is sought.
- The external auditor will attend the AGM to answer questions relating to the audit.
- To safeguard the interests and rights of the Holders of Share Stapled Units, separate resolutions are proposed at the general meetings on each substantial issue, including the election/re-election of each individual Director.
- Holders of Share Stapled Units will be provided opportunities to ask questions for each of the proposed resolutions at general meetings.
- All votes of the Holders of Share Stapled Units at general meetings will be taken by poll. The procedures for conducting a poll will be clearly explained at the meeting.
- Poll results will be made available by way of an announcement, which will be published on our corporate website and the HKEX's website on the same day after the general meeting.

CORPORATE GOVERNANCE REPORT

Rights of Holders of Share Stapled Units

Under paragraph 1.2 of Schedule 1 of the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of holders of Units holding not less than 10% of the Units for the time being in issue and outstanding) at any time convene a meeting of holders of Units at such time or place in Hong Kong as the party convening the meeting may think fit and propose resolutions for consideration at such meeting.

Pursuant to Article 12.3 of the Company's Articles, general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 10% of the paid up capital of the Company which carries the right of voting at general meetings of the Company. Within 21 days from the date of deposit of the requisition, the Company Board shall proceed to convene the meeting to be held with such notice in accordance with Article 12.4.

In respect of the right to appoint and remove the trustee-manager of the Trust, under Clause 23.1 of the Trust Deed, holders of Units of the Trust may (i) by requisition convene a meeting to vote on a resolution to remove the trustee-manager and (ii) nominate a company which has consented in writing to serve as the replacement trustee-manager for appointment at general meeting by serving the requisition/nomination on the incumbent trustee-manager, provided that the holders of Units making such requisition and/or nomination hold not less than 5% of the total voting rights of all holders of Units at the date of the requisition/nomination.

Pursuant to Article 16.5 of the Company's Articles, two members of the Company (not including the person to be proposed) together representing not less than 10% of the total voting rights of all the members are entitled to propose a person for election as a Director of the Company at the general meeting by lodging a written notice with the principal office of the Company in Hong Kong of their such intention together with the consent of the nominated person at least 7 days before the date of the general meeting.

EXTERNAL AUDITORS

Auditor's responsibilities for the financial statements

The statement by the Auditor about its reporting responsibilities for the Trust Group and the Trustee-Manager are set out in the Independent Auditor's Report on pages 89 to 92 and pages 148 to 150 respectively of this Annual Report.

CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

During the year ended 31 December 2016, the total fees in respect of audit and non-audit services provided to the Trust Group and the Trustee-Manager by the external auditor, Messrs. Deloitte Touche Tohmatsu, are set out as follows:

Services rendered	For the year ended 31 December 2016	
	Trust Group HK\$'000	Trustee-Manager HK\$'000
Audit services	1,230	20
Non-audit services		
Interim review fee	350	–
Other review fees including continuing connected transactions review, etc	98	2
Total:	1,678	22

Note: The total amounts of Auditor's Remuneration as disclosed in note 13 to the consolidated financial statements of the Trust and the Company and note 4 to the financial statements of the Trustee-Manager are HK\$1,230,000 and HK\$20,000 respectively and do not include the fees in respect of non-audit services

CONSTITUTIONAL DOCUMENTS

At the 2016 AGM of the Trust and the Company, the Trust Deed and the Company's Articles were amended by the approval of the Holders of Share Stapled Units, updated versions of the Trust Deed and the Company's Articles are available for download from our website and the HKEX's website.

CONNECTED TRANSACTIONS AND/ OR CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, the Trust Group and the Trustee-Manager entered into certain connected transactions and/or continuing connected transactions. Disclosure requirements in accordance with the Listing Rules were fully complied with.

Details of the connected transactions and/or continuing connected transactions entered into during the year under review and the annual review are set out in the Report of the Directors contained in this Annual Report on pages 78 to 84.

SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Trust Group has adopted its own 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 members of the Board and relevant employees of the Company confirmed that they had fully complied with the Code of Conduct for Securities Transactions during the year ended 31 December 2016. The Directors' interests in the securities of the Trust and the Company and the associated corporations (within the meaning of the SFO) as at 31 December 2016 are set out in the Report of the Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Trustee-Manager Board and the Company Board, supported by the Accounts and Finance Department, are responsible for the preparation of the financial statements of the Trust Group and the Trustee-Manager for the year ended 31 December 2016.

DIRECTORS' AND OFFICERS' INSURANCE

During the year ended 31 December 2016, appropriate Directors' and Officers' liabilities insurance coverage had been arranged in respect of legal action that might be taken against the Directors and officers of the Trustee-Manager and the Company.

PUBLIC FLOAT

So far as the Trustee-Manager Board and the Company Board are aware of, as at the date of this Report, the Trust and the Company had maintained a sufficient public float with more than 25% of the issued and outstanding Share Stapled Units being held by the public.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, the Trust Group and the Trustee-Manager also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Several of these related party transactions also constituted connected transactions as defined under the Listing Rules. Details of related party transactions are disclosed in note 34 to the consolidated financial statements of the Trust and the Company.

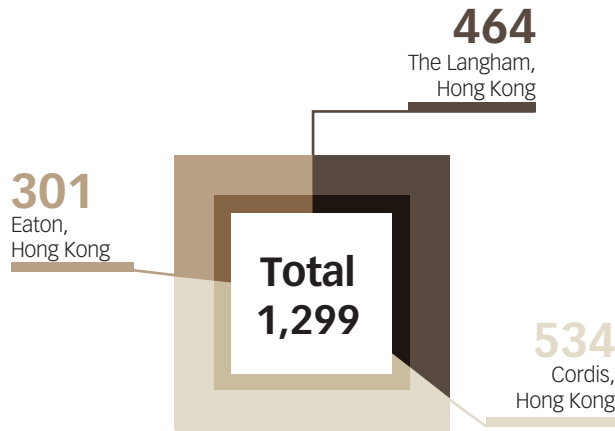
HOTEL MANAGER AND EMPLOYEES

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 2015, there is a decrease of 55 headcount in 2016.

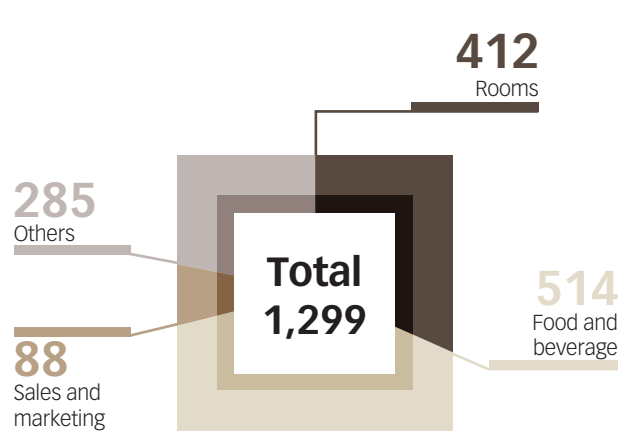
CORPORATE GOVERNANCE REPORT

The following charts show the breakdown of the employees of the Hotel Manager and its subsidiaries who were engaged in the operation and management of the Hotels as at 31 December 2016:

By Hotel



By Function



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.

The total remuneration of the three current senior management (including the Chief Executive Officer) borne by the Company for the year ended 31 December 2016 are provided in note 15 to the consolidated financial statements of the Trust and the Company.

REPORT OF THE DIRECTORS

The Trustee-Manager Board and the Company Board have pleasure in presenting the annual report together with the audited consolidated financial statements of the Trust Group for the year ended 31 December 2016.

The Trustee-Manager Board also presents its audited financial statements of the Trustee-Manager for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Trust

The Trust is constituted, upon and subject to the terms and conditions of the Trust Deed entered into between the Trustee-Manager and the Company, as a fixed single investment trust in Hong Kong. The scope of activity of the Trust is limited to investing in the Company.

The Company

The principal activities of the Group are primarily to own and invest in a portfolio of hotels, with a focus on completed hotels located in Asia. The current hotel portfolio of the Group comprises: The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong.

The principal activities and other particulars of the Company's principal subsidiaries as at 31 December 2016 are set out in note 36 to the consolidated financial statements of the Trust Group.

The Trustee-Manager

The Trustee-Manager has a specific and limited role to administer the Trust. The Trustee-Manager is not actively engaged in running the businesses operated by the Trust Group.

BUSINESS REVIEW

Business Performance and Future Prospects

A detailed review on the Trust Group's business performance during the reporting period, as well as the future prospects of the Trust Group are set out in the Chairman's Statement and CEO's Review on pages 14 to 24 of this Annual Report, the discussions thereof form part of this Directors' Report.

Risks and Uncertainties

The Trustee-Manager Board and the Company Board are aware that the Trust Group is exposed to various risks, including some which are specific to the Trust Group or the hospitality industry as well as others that are common to most if not all other businesses. The Trustee-Manager Board and the Company Board have established a practice to ensure that significant risks which may adversely affect the Trust Group's performance are identified, reported, monitored, and managed on a continuous basis. The following principal risks and uncertainties are considered to have the potential to adversely affect the Trust Group's performance if they are not managed effectively.

Stability of Revenue

The Company's primary source of income is rental payments payable for the lease of the Hotels under the Master Lease Agreements, which will comprise the Base Rent and the Variable Rent. The Variable Rent payable under the Master Leases is expected to constitute the majority of the Trust Group's total revenue and will vary according to the level of Gross Operating Profit before deduction of the Global Marketing Fees of each Hotel. The current basis for calculating the amount of Variable Rent payable only applies until 31 December 2019 and thereafter the Variable Rent will be calculated on a basis to be determined by an independent property valuer, to be appointed by the Company, for the period from 1 January 2020 to 31 December 2023, and from 1 January 2024 for the remaining term of the Master Lease Agreements.

REPORT OF THE DIRECTORS

There can be no assurance that the Variable Rent will be consistent from year to year. Variable Rent fluctuation depends on the actual performance of the hotels. To mitigate the risk, we have adopted the Active Asset Management Strategy and the following are the major measures:

- Supervise the Master Lessee and the Hotel Manager to enhance the quality and value of the Hotels, and achieve growth in operating performance.
- Meeting with the Hotel General Manager to monitor and control hotels' performance.
- Regularly review on hotels' performance.
- Review future 3 months' outlook and booking pace.

Valuation of the Hotels

The Hotels are classified as investment properties of the Trust Group in its financial statement and they are stated at fair value based on a valuation carried out by an independent professional property valuer. The results of operations of the Trust Group will include unrealised revaluation adjustments and therefore the future fair value of the Hotels is likely to fluctuate from time to time and may increase or decrease significantly. A such decrease may have a material negative impact on our balance sheet and profitability and compliance with financial covenants.

In the case of losses arising from changes in the fair value of the Hotels, this could have an adverse impact on our ability to comply with the financial covenants under the loan facility as well as any external borrowings we may incur in the future, and may also lead to an adverse market perception of the performance of our business, even though such losses are not realised.

Fair value gains (or losses) will not change our cash position and therefore do not increase or decrease respectively our liquidity in spite of the increased or decreased profit. Therefore, fair value gains would not generate a flow of funds from which distributions could be paid.

The Trust Group will closely monitor its debt and cash position. Cash flow forecasts with sensitivity analysis will be prepared to ensure that all sources of liquidity risk are identified to evaluate the impact of different levels of business activity in relation to the existing loan facilities.

Funding for Renovation of Hotels

The Hotels may need to undergo renovation works from time to time to retain their attractiveness and may also require ad hoc maintenance or repairs in respect of faults or problems that may develop or because of new planning laws or regulations. Such repairs, redevelopment or renovation of the Hotels may have a material effect on our ability to attract hotel guests and customers for our catering business and restaurants and in some circumstances may require partial closure of a hotel or the restaurants or other facilities within that hotel. As a result, during the period of any such repairs, redevelopment or renovation, the Trust Group may experience a reduction in the occupancy rate and/or RevPAR of the Hotels and/or the number of customers using our restaurants and catering facilities.

The cost of maintaining the Hotels, the need to renovate or redevelop and the risk of unforeseen maintenance or repair requirements tend to increase over time as the Hotels age. If the operation of the Hotels or the restaurant or catering facilities is disrupted as a result of such repairs and/or maintenance, this will adversely affect the results of operations of the Hotels and reduce the level of Variable Rent payable to the Trust Group. In view of the above, the following control activities are identified and implemented by the Trust Group:

- The Trust Group has obtained additional revolving banking facility to meet the unforeseen renovations.
- The Trust Group will communicate with the Project Manager on cash requirements for hotel renovation on an on-going basis and the renovation progress report will be reviewed regularly.
- The cash position of the Trust Group will be reviewed on a regular basis.

REPORT OF THE DIRECTORS

Hong Kong Hospitality Industry

The Hong Kong hospitality industry has been, and will continue to be, significantly impacted by potential customers travelling to Hong Kong and is closely linked to the development of tourist activity in Hong Kong. Potential customers' desire and willingness to travel to and stay in Hong Kong may be affected by a number of external factors which are outside our control, including adverse global, regional or local economic conditions, travel disruptions, viral epidemics and fluctuations in the Hong Kong dollar exchange rate against other currencies. The Trustee-Manager Board and the Company Board cannot predict the occurrence of these events and the extent to which they will, directly or indirectly, impact the hospitality industry in Hong Kong.

The attractiveness of Hong Kong to corporations and firms and their employees and the associated business-related travel is influenced by economic conditions, political and economic stability of Hong Kong and China, Hong Kong's regulatory, legal, tax and financial framework, Hong Kong's environment and levels of pollution, and Hong Kong's transport and infrastructure and other amenities. In addition, travel disruptions arising from natural disasters, adverse weather conditions, terrorist acts, riots or civil commotions may adversely impact the number of travellers coming to Hong Kong.

Changes in travel patterns can be erratic and this may adversely affect the performance of the Hotels. The Trust Group will adopt Active Asset Management Strategy as mentioned above to monitor the situation.

Risks associated with the Group's financial instruments

The major financial instruments of the Trust Group include trade debtors, interest receivables, bank balances, trade and other creditors and secured bank loans. The risk associated with the financial instruments of the Trust Group include market risk, credit risk and liquidity risk. Details of the same and the policies on how to mitigate these risks are set out in Note 28 to the Financial Statements contained in this Annual Report.

Stability of Distributions

The parent group has agreed, under the Distribution Waiver, to waive its entitlement to receive any distributions payable in respect of certain numbers of Share Stapled Units held for each of the years ended/ending 31 December 2013, 2014, 2015, 2016 and 2017. The amount of the distributions waived by the parent group pursuant to the Distribution Waiver will be available for distribution to Holders of Share Stapled Units in respect of which the distributions have not been waived (including the parent group but only to the extent of the Share Stapled Units held by it to which the Distribution Waiver does not apply).

The Distribution Waiver therefore elevates the distribution of Share Stapled Units in respect of which distributions have not been waived to a level which is higher than would otherwise be the case based solely on the Trust Distributable Income. The Distribution Waiver will only apply for a limited period and up to the financial year ending 31 December 2017. When the Distribution Waiver expires, the distribution of the Share Stapled Units will be adversely affected. Active Asset Management Strategy as mentioned above will be adopted with an aim to further enhance the financial performance of the Trust Group.

DISTRIBUTION

Distributable Income

Total distributable income is the profit for the year attributable to Holders of Share Stapled Units as adjusted to eliminate the effects of adjustments (as set out in the Trust Deed). Details of which are set out in notes 11 and 12 to the consolidated financial statements to the Trust Group.

REPORT OF THE DIRECTORS

Distribution per Share Stapled Unit

As stipulated in the Distribution Entitlement Waiver Deed entered into among the Trustee-Manager, LHIL Assets Holdings Limited (an indirect wholly owned subsidiary of Great Eagle) and Great Eagle on 10 May 2013, LHIL Assets Holdings Limited has agreed to waive its entitlement to receive distribution payable in respect of a portion of the Share Stapled Units held for each of the following the years ended/ending 31 December 2016 and 2017:

Year ended/ending 31 December	Number of Distribution Waiver Units
2016	100,000,000
2017	50,000,000

After taking into account the Distribution Waiver, the Trustee-Manager Board and the Company Board have recommended the payment of a final distribution of HK13.8 cents per Share Stapled Unit for the year ended 31 December 2016 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 8 May 2017, except for the number of Distribution Waiver Units waived by LHIL Assets Holdings Limited pursuant to the Distribution Entitlement Waiver Deed. Subject to the approval of the Holders of Share Stapled Units at the forthcoming 2017 AGM, the payment of the final distribution will be made on 19 May 2017. Taken together with the interim distribution of HK11.7 cents per Share Stapled Unit paid in October 2016, the total distribution per Share Stapled Unit for the year 2016 is HK25.5 cents.

FINANCIAL SUMMARY

A summary of the results and of the assets and/or liabilities of the Trust Group is set out on page 158 of this Annual Report.

MOVEMENTS IN RESERVES

Details of the movements in the reserves of the Trust Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements.

FIXED ASSETS

Details of the movements in the property, plant and equipment of the Trust Group during the year are set out in note 17 to the consolidated financial statements of the Trust Group.

INVESTMENT PROPERTIES

Movements in the investment properties of the Trust Group during the year ended 31 December 2016 are set out in note 18 to the consolidated financial statements. All of the Trust Group's investment properties were revalued by independent professional property valuer as at 31 December 2016 adopting income approach by using discounted cashflow analysis and market approach by using comparison method of valuation to arrive the valuation of investment properties.

Details of the investment properties of the Trust Group as at 31 December 2016 are set out in the Schedule of Investment Properties on page 157 of this Annual Report.

REPORT OF THE DIRECTORS

ISSUED SHARE STAPLED UNITS

As at 31 December 2016, the total number of issued Share Stapled Units of the Trust and the Company was 2,067,226,456. As compared with the position as at 31 December 2015, a total of 24,320,519 new Share Stapled Units were issued during the year as follows:

Date	Particulars	No. of Share Stapled Units
31 December 2015	Total number of issued Share Stapled Units	2,042,905,937
4 March 2016	Issue of new Share Stapled Units at the price of HK\$2.51 per Share Stapled Unit as payment of the Hotel Management Fees and Licence Fees (collectively the "Hotel Manager's Fees") to the Hotel Manager of approximately HK\$35,758,000 for the second half of 2015	14,246,352
30 August 2016	Issue of new Share Stapled Units at the price of HK\$3.15 per Share Stapled Unit as payment of the Hotel Manager's Fees to Hotel Manager of approximately HK\$31,734,000 for the first half of 2016	10,074,167
31 December 2016	Total number of Issued Share Stapled Units	2,067,226,456

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 year ended 31 December 2016, none of the Trust, the Trustee-Manager, the Company nor the Company's subsidiaries had bought back, sold or redeemed any Share Stapled Units.

REPORT OF THE DIRECTORS

DIRECTORS

In accordance with clause 29.1(a) of the Trust Deed, the Directors of the Trustee-Manager shall be the same individuals who serve as Directors of the Company. The Directors of the Trustee-Manager Board and the Company Board during the year 2016 and up to the date of this Report are set out as follows:

Non-executive Directors

Dr. LO Ka Shui (*Chairman*)

Mr. LO Chun Him, Alexander

(*appointed on 14 February 2017*)

Ms. LO Bo Lun, Katherine

(*resigned on 14 February 2017*)

Executive Director

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

Independent Non-executive Directors

Dr. LIN Syaru, Shirley

Mr. SO Yiu Wah, Eric

Mr. WONG Kwai Lam

Pursuant to the Trustee-Manager's articles of association and the Company's Articles, Mr. Lo Chun Him, Alexander ceased to be an Alternate Director to Ms. Lo Bo Lun, Katherine as Ms. Lo has ceased to be a Director of the Trustee-Manager and the Company with effect from 14 February 2017.

Pursuant to clause 29.2(g) of the Trust Deed and Article 16.3 of the Company's Articles, any Director appointed to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election. Hence, Mr. Lo Chun Him, Alexander who appointed on 14 February 2017 shall retire and subject to re-election in the forthcoming AGM of the Trust of the Company. In accordance with clause 29.2(m) of the Trust Deed and Article 16.21 of the Company's Articles, Dr. Lo Ka Shui and Mr. So Yiu Wah, Eric shall retire from office at the 2017 AGM and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

The biographical details of the Directors of the Trustee-Manager and the Company, and the Senior Management of the Company are set out on pages 25 to 29 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Trustee-Manager or the Company or any of the subsidiaries of the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensations).

DIRECTORS' EMOLUMENTS

Details of emoluments of the Directors of the Company are set out in note 14 to the consolidated financial statements of the Trust Group.

Pursuant to the terms of letters of appointment/employment contract, all emoluments of the Directors shall be borne by the Company.

PERMITTED INDEMNITY

The Trust Deed, the Company's Articles and the articles of association of Trustee-Manager provide that every Director is entitled to be indemnified out of the assets of the Trust or the Company against all losses or liabilities incurred or sustained by him/her as a Director of the Trustee-Manager and the Company.

Pursuant to the Trust Deed, the Trustee-Manager shall, save in the case of fraud, wilful default or negligence, be entitled to have recourse to the Trust Property (as defined in the Trust Deed) and shall incur no personal liability in respect of any losses or liabilities which may arise directly or indirectly from such engaging in any Authorised Business (as defined in the Trust Deed).

During the year ended 31 December 2016, appropriate Directors' and Officers' liabilities insurance coverage had been arranged in respect of legal action that might be taken against the Directors and Officers of the Trustee-Manager and the Company.

REPORT OF THE DIRECTORS

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

As at 31 December 2016, 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	Capacity	Nature of Interests	Number of SSUs/ Underlying SSUs Held	Total	Percentage of Issued SSUs ⁽²⁾
Lo Ka Shui	Beneficial Owner	Personal Interests	8,073,500		
	Interests of Controlled Corporations	Corporate Interests	1,281,673,956 ⁽¹⁾		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	44,000,000	1,333,747,456	64.52
Ip Yuk Keung, Albert	Interest held jointly with spouse	Joint Interests	1,515,000	1,515,000	0.07

Notes:

(1) These 1,281,673,956 Share Stapled Units comprise the following:

(i) 1,279,613,956 Share Stapled Units respectively held by LHIL Assets Holdings Limited as to 1,215,052,456 Share Stapled Units (58.78%), Fine Noble Limited as to 58,596,500 Share Stapled Units (2.83%) and Great Eagle Nichemusic Limited as to 5,965,000 Share Stapled Units (0.29%), 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 75; and

(ii) 2,060,000 Share Stapled Units (0.1%) were held by two companies wholly-owned by Dr. Lo Ka Shui who is also a director of these companies.

(2) This percentage has been compiled based on 2,067,226,456 Share Stapled Units of the Trust and the Company in issue as at 31 December 2016.

REPORT OF THE DIRECTORS

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Great Eagle

As at 31 December 2016, Great Eagle owned 61.90% 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 31 December 2016 are disclosed as follows:

Name of Director	Capacity	Nature of Interests	Number of Ordinary Shares/ Underlying Shares Held	Total	Percentage of Issued Share Capital ⁽²⁾
Lo Ka Shui	Beneficial Owner	Personal Interests	45,115,435		
	Interests of Controlled Corporations	Corporate Interests	71,723,568 ⁽¹⁾		
	Discretionary Beneficiary of a Discretionary Trust	Discretionary Trust Interests	226,815,595		
	Founder of a Discretionary Trust	Trust Interests	59,218,519		
	Beneficial Owner	Share Options	1,310,000	404,183,117	59.66
Lo Chun Him, Alexander*	Beneficial Owner	Share Options	175,000	175,000	0.03
Lo Bo Lun, Katherine*	Beneficial Owner	Share Options	90,000	90,000	0.01
Ip Yuk Keung, Albert	Beneficial Owner	Share Options	30,000	30,000	0.00
So Yiu Wah, Eric	Beneficial Owner	Personal Interests	446	446	0.00

* Mr. Lo Chun Him, Alexander was appointed as a Non-executive Director of the Trustee-Manager and the Company on 14 February 2017. He was the alternate to Ms. Lo Bo Lun, Katherine up to her resignation a Non-executive Director with effect from 14 February 2017.

Notes:

(1) These interests were held by certain companies wholly-owned by Dr. Lo Ka Shui who is also a director of these companies.

(2) This percentage has been compiled based on 677,469,835 shares of Great Eagle in issue as at 31 December 2016.

REPORT OF THE DIRECTORS

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 31 December 2016, Great Eagle owned 65.50% 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 31 December 2016 are disclosed as follows:

Name of Director	Capacity	Nature of Interests	Number of Units/ Underlying Units Held	Total	Percentage of Issued Units ⁽²⁾
Lo Ka Shui	Interests of Controlled Corporations	Corporate Interests	3,800,267,098 ⁽¹⁾		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	19,000,000	3,819,267,098	65.87
So Yiu Wah, Eric	Beneficial Owner	Personal Interests	400,873		
	Interests of Spouse	Family Interests	60,000	460,873	0.01

Notes:

(1) These 3,800,267,098 units comprise the following:

- (i) 3,797,688,098 units (65.50%) 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 75; and
- (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.

(2) This percentage has been compiled based on 5,798,237,327 units of Champion REIT in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESSES

The interests of Directors (other than Independent Non-executive Directors) in a business apart from the business of the Trust Group which competes or is likely to compete either directly or indirectly with the Trust Group's business as informed by the relevant Directors pursuant to Rule 8.10(2) of the Listing Rules are as follows:

- (i) Dr. Lo Ka Shui, being the Chairman and Non-executive Director of the Trustee-Manager and the Company, is a substantial shareholder, the Chairman and Managing Director of Great Eagle and a director of various subsidiaries of the Great Eagle including LHIL Assets Holdings Limited, a substantial Holder of Share Stapled Units of the Trust and the Company, and Langham Hospitality Group Limited, the parent company of the Hotel Manager of the three hotels of the Trust Group, namely the Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong.
- (ii) Mr. Lo Chun Him, Alexander, being a Non-executive Director of the Trustee-Manager and the Company, is an Executive Director of Great Eagle and holds directorships in various subsidiaries of Great Eagle, including LHIL Assets Holdings Limited.
- (iii) Ms. Lo Bo Lun, Katherine, being a Non-executive Director of the Trustee-Manager and the Company (resigned on 14 February 2017), is a director of certain subsidiaries of Great Eagle, including Langham Hospitality Group Limited.

Great Eagle Group, as an associated corporation of the Trust and the Company and a controlling Holder of Share Stapled Units, develops, invests in and manages high quality offices, retail, residential, furnished apartments, hotel properties and restaurants in Asia, Australia, New Zealand, North America and Europe. The interests of Dr. Lo, Mr. Lo and Ms. Lo held in Great Eagle are disclosed in the section headed "Long Positions in Shares and Underlying Shares of Associated Corporations".

As mentioned in the Corporate Governance Report under the section headed "Business Relationship with Great Eagle", Great Eagle Group and the Trust Group have distinct business focuses of their own and adopt different development strategy. While the existing properties of the Trust Group are situated in Hong Kong where the Great Eagle Group maintains no similar business operations, to further maintain a clear delineation of the geographical location of their hotel properties in and outside Asia, Great Eagle ROFR Deed was entered into between Great Eagle and the Company to ensure the Trust Group would 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 is given the opportunity to invest in these hotels.

As for daily operation, the sole Executive Director and Chief Executive Officer of the Trustee-Manager and the Company, Mr. Ip Yuk Keung, Albert, is primarily responsible for the overall day-to-day management of the Group and has oversight of the performance of the Master Lessee and the Hotel Manager. The management team and staff of the Group report directly to Mr. Ip and he is accountable to the Trustee-Manager Board and Company Board, operates and manages the Trust Group under various corporate governance measures and the Schedule of Matters Reserved for the Board with due care and in the best interest of the Trust Group and Unitholders.

In addition, the Trust Group has established various corporate governance measures to address any potential conflict of interest of the common Directors of the Trust Group and the Great Eagle Group. For details, please refer to the Corporate Governance Report.

In view of the above, the Directors believe that the Trust Group is able to operate independently with the Great Eagle Group and has been capable of carrying on its businesses at arm's length from the businesses of Great Eagle Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and continuing connected transactions are set out in this report and note 34 to the consolidated financial statements. Save for the above, no contracts of significance to which the Trustee-Manager, the Company or any of its subsidiaries, substantial Unitholders, holding company or fellow subsidiaries was a party and in which a Director of the Trustee-Manager and the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT AND/OR ADMINISTRATION CONTRACT

On 10 May 2013 (date of listing), the Company and Great Eagle entered into an Administrative Support Services Agreement pursuant to which Great Eagle Group provides certain administrative and non-management services to the Trust Group, including 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 for an initial term of 3 years and shall be automatically renewed for a further term of 3 years each upon expiration of any such term, subject to compliance with the applicable disclosure and reporting requirements under the Listing Rules. The sharing of the above administrative services is an exemption connected transaction under Rule 14A.98 of the Listing Rules.

Great Eagle is a controlling Holder of Share Stapled Units of the Trust and the Company. Dr. Lo Ka Shui, being the Chairman and Non-executive Director of the Trustee-Manager and the Company, is a substantial shareholder, the Chairman and Managing Director of Great Eagle. Mr. Lo Chun Him, Alexander, being a Non-executive Director of the Trustee-Manager and the Company, is an Executive Director of Great Eagle. Ms. Lo Bo Lun, Katherine, a Non-executive Director of the Trustee-Managers and the Company (resigned on 14 February 2017), is a director of certain subsidiaries of Great Eagle. Details of the interests and shareholdings of Dr. Lo, Mr. Lo and Ms. Lo in Great Eagle are disclosed in the sections headed "Directors' Interest in Competing Businesses" and "Long Positions in Shares and Underlying Shares of Associated Corporations".

Saved as disclosed above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Trustee-Manager or the Company were entered into or existing during the year.

DISCLOSURE OF CONNECTED TRANSACTION AND/OR CONTINUING CONNECTED TRANSACTIONS PURSUANT TO CHAPTER 14A OF THE LISTING RULES

Pre-existing Continuing Connected Transactions subject to Waivers granted by the Stock Exchange

As disclosed in the initial public offering prospectus dated 16 May 2013, continuing connected transactions set out in paragraphs 1 to 5 below were entered prior to the listing of the Trust and the Company and waivers by the Stock Exchange from strict compliance with, inter alia, the announcement and approval of independent Holders of Share Stapled Units requirements of the Listing Rules had been granted. Principal details and conditions of the waivers are disclosed in the latter section headed "Waivers".

REPORT OF THE DIRECTORS

	Aggregate Transaction Amount for the year 31 December 2016 (HK\$'000)
1. Master Lease Agreements ^(a)	
– Base Rent	225,000
– Variable Rent ^(b)	475,705
2. Hotel Management Agreements ^{(a)(b)(c)}	
– Base Fee	23,299
– Incentive Fee	31,187
3. Centralized Services and Marketing Agreements ^{(a)(b)}	
– Reimbursement of Cost	6,528
– Global Marketing Fees	17,009
– Reservation Fees	3,498
4. Trademark Licence Agreements ^{(a)(b)(c)}	15,533
5. Deed of Mutual Covenant and Management Agreement ^(a)	2,700

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 waiver from compliance with Rule 13.36(1)(a) of the Listing Rules and the fees payable for the period from and including the Listing Date to 31 December 2017 will be settled in the form of Share Stapled Units.

REPORT OF THE DIRECTORS

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, Hong Kong) 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 Fees, the Global Marketing Fees, 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 Fees 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 the adjusted gross operating profit (being gross operating profit less the base fee (as mentioned above) and Licence Fees payable under the relevant Trademark Licence Agreement).

REPORT OF THE DIRECTORS

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.

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 Stapled 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 Fees*: 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 Fees payable under the Centralized Services and Marketing Agreements are determined by reference to the formula for determining the Global Marketing Fees 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 non-transferable 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 Fees 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.

REPORT OF THE DIRECTORS

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

5. **Property Management Services Agreement**

– a Deed of Mutual Covenant and Management Agreement dated 27 June 2005 entered into between The Great Eagle Properties Management Company, Limited (“GEPM”) and Cordis Hong Kong Limited, an indirect wholly-owned subsidiary of the Company. As GEPM is an indirect wholly-owned subsidiary of Great Eagle, which is the controlling Holder of Share Stapled Units of the Trust and the Company, it is a connected person of the Company under the Listing Rules.

Pursuant to the Property Management Services Agreement, GEPM shall provide property management services in respect of common areas and facilities at the lot of land on which Cordis, Hong Kong is situated, the cost of which Cordis Hong Kong Limited is required to contribute in proportion to the number of management shares allocated to it. The appointment of GEPM for the provision of property management services under the Deed of Mutual Covenant and Management Agreement was initially for a term of 2 years and such appointment will continue for an indefinite term until it is terminated pursuant to the terms of the Deed of Mutual Covenant and Management Agreement.

The annual service fee payable is determined based on the annual budget prepared by GEPM, taking into account the actual cost incurred, plus remuneration to GEPM and the number of management shares allocated to Cordis, Hong Kong in respect of the lot of land on which it is situated. The fee is in line with the fee charged by GEPM in respect of such services rendered to other tenants in accordance with the allocated management shares.

The aggregate value of the services provided by GEPM for the year ended 31 December 2016 was HK\$2.7 million, it was within the de minimis threshold under Rule 14A.76 of the Listing Rules and exempt from the requirements of reporting, announcement and approval of independent Unitholders.

Waivers

Requirements to obtain approval of independent Holders of Share Stapled Units and make announcements

The transactions described in paragraphs 1 to 4 above constitute non-exempt continuing connected transactions pursuant to Chapter 14A of the Listing Rules and normally are required to be announced, reported on, subject to annual review and approved by independent Unitholders. Rule 14A.52 of the Listing Rules also requires that the period for the agreement in respect of non-exempt continuing connected transactions must be fixed and, except in special circumstances, must not exceed 3 years.

The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from strict compliance with the announcement and, if applicable, the approval of independent Unitholders requirements of the Listing Rules in respect of each of the above non-exempt continuing connected transactions for the entire duration of each of those transactions, other than, in the case of the Hotel Management Agreements and the Trademark Licence Agreements, the payment of fees payable by way of Share Stapled Units, which shall only be subject to a waiver until 31 December 2017 (but the payment of fees in cash shall be subject to a waiver for the duration of the Hotel Management Agreements and the Trademark Licence Agreements).

REPORT OF THE DIRECTORS

Requirement to set a monetary cap

The Trustee-Manager and the Company have also applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from the setting of a monetary cap for the variable rent payable under the Master Lease Agreements and the fees payable under the Hotel Management Agreements, the Centralised Services and Marketing Agreements and the Trademark Licence Agreements for the duration of these agreements more particularly set out in the description of these transactions in paragraphs 1 to 4 above.

Compliance with Rule 13.36(1)(a) of the Listing Rules

Note (1) to Rule 13.36(2)(b) of the Listing Rules provides further that independent shareholders' approval shall be obtained for an issue of securities to a connected person pursuant to a general mandate given to the directors of an issuer by the existing shareholders.

The Trustee-Manager and the Company have applied for, and the Stock Exchange has granted to the Trustee-Manager and the Company, a waiver from strict compliance with Rule 13.36(1)(a) of the Listing Rules in respect of the Share Stapled Units that may be issued to the Hotel Manager pursuant to the Hotel Management Agreements and the Trademark Licence Agreements, during the period from the Listing Date until 31 December 2017.

Further details and the conditions of the waivers are disclosed in the initial public offering prospectus.

Other Continuing Connected Transactions Subject to Reporting Requirement

Apart from the above continuing connected transactions entered prior to the listing of the Trust Group, during the year 2016, the Trust Group had made the following continuing connected transactions which are subject to annual reporting requirement.

Framework Agreement for Provision of Procurement Services, Project Management Services, and Design and Construction Contracting Services

– an agreement dated 11 June 2014 entered into between the Company and Great Eagle, the controlling Holder of Share Stapled Units of the Trust and the Company and thus a connected person of the Company under the Listing Rules.

Pursuant to the Framework Agreement, (i) procurement services, (ii) project management services, and (iii) design and construction contracting services will be provided by Champion Global Services Limited ("CGS"), The Great Eagle Development and Project Management Limited ("GEDPM"), and Keysen Engineering Company, Limited ("Keysen") and/or its associated companies respectively. CGS is a 93%-owned subsidiary of Great Eagle while GEDPM and Keysen are wholly-owned subsidiaries of Great Eagle. The initial term of the Framework Agreement began on 11 June 2014, and shall continue until 31 December 2016. On 14 February 2017, the Boards approved the renewal of the annual caps for the transactions contemplated under the Framework Agreement for each of the three financial years ending 31 December 2017, 2018 and 2019.

The service fees payable to CGS, GEDPM and Keysen and/or its associated companies in respect of each type of services under the Framework Agreement are determined on the following basis:

- *Fees for Procurement Services payable to CGS:* 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.

REPORT OF THE DIRECTORS

- *Fees for Project Management Services payable to GEDPM*: 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.
- *Fees for Design and Construction Contracting Services payable to Keysen and/or its associated companies*: the contract sum for the work of Design and Construction Contracting Services shall be negotiated on an arm's length basis and determined between Keysen and/or its associated companies and the Trust Group subject to tender or price comparison process to be arranged by the Trust Group in accordance with its internal control policy.

Annual caps in respect of the aggregate value of the services to be provided by Great Eagle Group under the Framework Agreement for the financial year ended 31 December 2016 was HK\$11.93 million as disclosed in the announcement published by the Trustee-Manager and the Company on 11 June 2014.

During the year ended 31 December 2016, the aggregated transaction amounts incurred under the Framework Agreement was HK\$1.65 million.

Review of Connected Transactions

The Internal Audit Department has conducted review on the connected transactions, including continuing connected transactions, of the Trust Group for the year ended 31 December 2016. It has confirmed to the Trustee-Manager Board and the Company Board that adequate and effective policies and procedures on checking, identifying, recording, monitoring and reporting connected transactions are in place and have been properly complied with during the year. Connected transactions are subject to the approval of the full Board as provided under the Schedule of Matters Reserved for the Board. Continuing connected transactions are reported monthly and reviewed by the Audit Committee half yearly.

In accordance with Rule 14A.55 of the Listing Rules, the Directors (including the Independent Non-executive Directors) of the Trustee-Manager and the Company have reviewed the above continuing connected transactions for the period ended 31 December 2016 and confirmed they have been entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms or on terms no less favourable to the Trust Group than terms available to or obtained from the independent third parties; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Staped Units as a whole.

The external auditor of the Trustee-Manager and the Company was engaged to report on the above continuing connected transactions of the Trust Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above by the Trust Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Trustee-Manager and the Company to the Stock Exchange.

The Trustee-Manager Board has also confirmed that the charges paid or payable out of the Trust Property (as defined in the Trust Deed) of the Trust to the Trustee-Manager are in accordance with the Trust Deed; and they are not aware of any violation of duties of the Trustee-Manager which would have a materially adverse effect on the business of the Trust or on the interests of all the Holders of Share Staped Units as a whole.

REPORT OF THE DIRECTORS

INTERESTS OF SUBSTANTIAL HOLDERS' OF SHARE STAPLED UNITS

As at 31 December 2016, 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	Capacity	Nature of Interests	Number of SSUs/ Underlying SSUs Held	Total	Percentage of Issued SSUs ⁽⁴⁾
Great Eagle Holdings Limited	Interests of Controlled Corporations	Corporate Interests	1,279,613,956 ⁽¹⁾	1,279,613,956	61.90
LHIL Assets Holdings Limited	Beneficiary	Corporate Interests	1,215,052,456	1,215,052,456	58.78
HSBC International Trustee Limited	Trustee	Trust Interests	1,255,498,289 ⁽²⁾	1,255,498,289	60.73

Notes:

- (1) These 1,279,613,956 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 4 March 2016) received from HSBC International Trustee Limited ("HITL"). HITL in its capacity as a trustee of a discretionary trust held 33.48% interests in Great Eagle as at 31 December 2016.
- (3) This percentage has been compiled based on 2,067,226,456 Share Stapled Units of the Trust and the Company in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, no person (other than Directors of the Trustee-Manager and the Company whose interests are set out on page 74) 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 X of the SFO, or which were recorded in the register required under Section 336 of the SFO.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holder of Share Stapled Units.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the combined value of the Group's contracts with its five largest suppliers, which were not of a capital nature, was about 74.2% of the total value of supplies purchased. Among these five largest suppliers, three of them as tabled below are wholly-owned subsidiaries of Great Eagle, a substantial Unitholders which indirectly owned 61.9% interest in the Trust and the Company as at 31 December 2016. The values of the contracts with the fourth and fifth largest suppliers each were less than 1.5% of the total value of supplies purchased.

Suppliers	Nature of Services	Relevant Cost %
1. Langham Hotels International Limited	Hotel Management Fees and Licence Fees	55.8%
2. Langham Hotels Services Limited	Global Marketing Fee	13.6%
3. The Great Eagle Properties Management Limited	Property Management Services Fee	2.2%

Total rental income of the Trust Group for the year ended 31 December 2016 amounted to HK\$706,379,000, 99.17% of which were derived from the leases of the Hotels to the Master Lessee, GE (LHIL) Lessee Limited, a wholly-owned subsidiary of Great Eagle and no more than 1% of the rental income were received from leases of three retail outlets at Eaton, Hong Kong. Breakdown of the revenue is set out in note 6 to the consolidated financial statements of the Trust Group contained in this Annual Report.

The business relationship with Great Eagle and the measures to mitigate the potential conflicts of interest between the Trust Group and Great Eagle are disclosed in the Corporate Governance Report.

Save as disclosed above, other suppliers and customers are independent third parties and none of the Directors, their associates or any Holders of Share Stapled Units (which to the knowledge of the Trustee-Manager Board and the Company Board own more than 5% of the issued Share Stapled Units) has any interest in the Trust Group's suppliers and customers.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu and a resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Trustee-Manager and the Company will be proposed at the forthcoming AGM to be held on 25 April 2017.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that is publicly available and within the knowledge of the Directors of the Trustee-Manager and the Company, the Trust and the Company maintain a sufficient public float with more than 25% of the issued Share Stapled Units being held by the public.

CORPORATE GOVERNANCE

The Trust, the Trustee-Manager and the Company embraced the importance of maintaining and developing a high standard of corporate governance practices to sustain and protect the interests of Holders of Share Stapled Units. Throughout the year ended 31 December 2016, the Trustee-Manager and the Company have complied with all the applicable code provisions, and where appropriate, adopted some of the recommended best practices as set out in the Corporate Governance Code.

Details on the Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 42 to 67 of this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is integral to the Trust Group's business. Our commitment to Corporate Social Responsibility stems from a core belief that our business will prosper as the community and environment around us flourish. A report on Corporate Social Responsibility covering the environmental policies and performance of and relationships with the key stakeholders of our Group is set out on pages 30 to 41 of this Annual Report. During the reporting period, the Trust Group made no charitable and other donations.

On behalf of the boards of
LHIL Manager Limited
(as trustee-manager of the Trust) and
Langham Hospitality Investments Limited



LO Ka Shui
Chairman

Hong Kong, 14 February 2017

FINANCIAL INFORMATION

LANGHAM HOSPITALITY INVESTMENTS AND LANGHAM HOSPITALITY INVESTMENTS LIMITED

89	Independent Auditor's Report
93	Consolidated Statement of Profit or Loss and Other Comprehensive Income
94	Consolidated Statement of Financial Position
95	Consolidated Statement of Changes in Equity
96	Consolidated Statement of Cash Flows
98	Notes to the Consolidated Financial Statements

LHIL MANAGER LIMITED

148	Independent Auditor's Report
151	Statement of Profit or Loss and Other Comprehensive Income
151	Statement of Financial Position
152	Statement of Changes in Equity
152	Statement of Cash Flows
153	Notes to the Financial Statements

INDEPENDENT AUDITOR'S REPORT OF THE TRUST AND OF THE COMPANY



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 Cayman Islands with limited liability)*

Opinion

We have audited the 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 93 to 147 (hereinafter collectively referred to as "the Trust and the Company's consolidated financial statements"). As explained in note 2 to the Trust and the Company's consolidated financial statements, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together. The Trust and the Company's consolidated financial statements together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Trust Group and of the Group for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the Trust and the Company's consolidated financial statements give a true and fair view of the consolidated financial position of the Trust Group and the Group as at 31 December 2016, and of the Trust Group and the Group's consolidated financial performance and their consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT OF THE TRUST AND OF THE COMPANY

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p>	
<p>We identified the valuation of investment properties as a key audit matter due to significance of the balance to the consolidated financial statements as a whole, combined with significant judgment associated with determining the fair value. As at 31 December 2016, the Trust Group and the Group's hotel properties, comprising of The Langham, Hong Kong, Cordis, Hong Kong and Eaton, Hong Kong, amounted to HK\$18,432 million and represented 98% of the Trust Group and the Group's total assets. Decrease in fair value of investment properties of HK\$4 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.</p>	<p>Our procedures in relation to valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluating the competence, capabilities and objectivity of the independent professional property valuer; • Obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations;
<p>As disclosed in note 18 to the consolidated financial statements, these investment properties are stated at fair value based on valuation performed by an independent professional property valuer. In determining the fair value of investment properties, the independent professional property valuer adopted income approach by using discounted cash flow analyses based on assumptions about future market conditions and market approach by using comparison method. The valuation is dependent on certain key inputs that involve the management and independent professional property valuer's judgment. The key inputs used in valuing the investment properties by the independent property valuer include discount rate as adopted in the valuation report and average daily rates per room per night. A table showing the Groups' sensitivity to the fair value measurement is also disclosed in this note.</p>	<ul style="list-style-type: none"> • Assessing the reasonableness of source data used in the valuations by benchmarking the assumptions to relevant market information on sales prices and rentals achieved in other similar hotel properties in the neighbourhood; • Evaluating the reasonableness of the information provided by the management to independent professional property valuer by comparing with average daily rates per room per night and discount rates for valuation of other hotels; • Assessing the integrity of information provided by the management to the independent professional property valuer by comparing the details of hotel operational performance, on a sample basis, to the hotel revenue and market data; and • Reperforming sensitivity analysis on the key inputs to evaluate the magnitude of their impacts to the fair values as disclosed in note 18 to the consolidated financial statements.

Other Information

The directors of LHIL Manager Limited (the "Trustee-Manager") are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT OF THE TRUST AND OF THE COMPANY

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Group and the Group's internal control.

INDEPENDENT AUDITOR'S REPORT OF THE TRUST AND OF THE COMPANY

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Group and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Group and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust Group and the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Sze Ching Yiu.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

14 February 2017

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

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	6	706,379	682,194
Property related expenses		(25,639)	(34,438)
Service fees		(87,028)	(84,383)
Net property income		593,712	563,373
Other income	8	1,917	9,323
(Decrease) increase in fair value of investment properties	18	(3,613)	1,099,032
Fair value change on derivative financial instrument	19	31,795	–
Trust and other expenses		(12,778)	(21,105)
Finance costs	9	(118,164)	(131,783)
Profit before tax		492,869	1,518,840
Income tax expense	10	(83,260)	(76,649)
Profit and total comprehensive income for the year attributable to holders of Share Stapled Units	13	409,609	1,442,191
Basic and diluted earnings per Share Stapled Unit	16	HK\$0.1987	HK\$0.7077

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

At 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Property, plant and equipment	17	21	19
Investment properties	18	18,432,000	18,381,000
Derivative financial instrument	19	31,795	–
		18,463,816	18,381,019
Current assets			
Debtors, deposits and prepayments	20	121,195	116,153
Tax recoverable		61	1,666
Restricted cash	21	–	60,064
Bank balances	21	238,473	244,133
		359,729	422,016
Current liabilities			
Creditors, deposits and accruals	22	78,358	86,355
Secured bank loans due within one year	23	–	6,786,016
Tax payable		32,818	91
		111,176	6,872,462
Net current assets (liabilities)		248,553	(6,450,446)
Total assets less current liabilities		18,712,369	11,930,573
Non-current liabilities			
Secured bank loans due after one year	23	6,738,597	–
Deferred tax liabilities	24	297,229	248,576
		7,035,826	248,576
NET ASSETS		11,676,543	11,681,997
Capital and reserves			
Issued capital	25	2,067	2,043
Reserves		11,674,476	11,679,954
TOTAL EQUITY		11,676,543	11,681,997

The consolidated financial statements on pages 93 to 147 and the statement of financial position of the Company on page 131 were approved and authorised for issue by the Board of Directors on 14 February 2017 and are signed on its behalf by:

LO Ka Shui
DIRECTOR

IP Yuk Keung, Albert
DIRECTOR

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

For the year ended 31 December 2016

	Share capital 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 2015	2,022	9,334,289	(11,562,543)	–	12,598,157	310,581	10,682,506
Profit and total comprehensive income for the year	–	–	–	–	–	1,442,191	1,442,191
Distribution paid (note 12(e))	–	(513,519)	–	–	–	–	(513,519)
Recognition of equity-settled share based payments	–	–	–	131	–	–	131
Issue of Share Stapled Units (see notes 25 and 30)	21	70,667	–	–	–	–	70,688
At 31 December 2015	2,043	8,891,437	(11,562,543)	131	12,598,157	1,752,772	11,681,997
Profit and total comprehensive income for the year	–	–	–	–	–	409,609	409,609
Distribution paid (note 12(e))	–	(482,638)	–	–	–	–	(482,638)
Recognition of equity-settled share based payments	–	–	–	83	–	–	83
Issue of Share Stapled Units (see notes 25 and 30)	24	67,468	–	–	–	–	67,492
At 31 December 2016	2,067	8,476,267	(11,562,543)	214	12,598,157	2,162,381	11,676,543

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). The 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.

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

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Operating activities		
Profit before tax	492,869	1,518,840
Adjustments for:		
Hotel management fees and licence fee payable in form of Share Stapled Units	70,019	67,813
Fair value change on derivate financial instrument	(31,795)	–
Decrease (increase) in fair value of investment properties	3,613	(1,099,032)
Interest expense	92,939	97,493
Interest income	(1,587)	(9,194)
Depreciation on property, plant and equipment	6	6
Amortisation on loan front-end fee	24,581	34,000
Net exchange loss	–	8,647
Recognition of share-based payments	83	131
Operating cash flows before movements in working capital	650,728	618,704
Increase in debtors, deposits and prepayments	(5,608)	(61,452)
Decrease in creditors, deposits and accruals	(1,120)	(5,496)
Cash generated from operations	644,000	551,756
Interest paid	(91,551)	(97,496)
Hong Kong Profits Tax paid	(275)	(14,975)
Net cash from operating activities	552,174	439,285

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

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Investing activities		
Additions of investment properties	(65,405)	(271,687)
Additions of property, plant and equipment	(8)	–
Decrease (increase) in restricted cash	60,064	(64)
Interest received	2,153	9,517
Net cash used in investing activities	(3,196)	(262,234)
Financing activities		
Distribution paid	(482,638)	(513,519)
Payment of loan front-end fee	(72,000)	–
Cash used in financing activities	(554,638)	(513,519)
Net decrease in cash and cash equivalents	(5,660)	(336,468)
Cash and cash equivalents at the beginning of the year	244,133	589,248
Effect of foreign exchange rate changes	–	(8,647)
Cash and cash equivalents at the end of the year, represented by bank balances	238,473	244,133

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

For the year ended 31 December 2016

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 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 is linked to the unit 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. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent company is LHIL Assets Holdings Limited, a limited liability company incorporated in the British Virgin Islands. The Directors consider the Trust and 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. The addresses of the registered offices of the Trustee-Manager and of the Company and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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

2. BASIS OF PRESENTATION AND PREPARATION

In accordance with 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 consolidated financial statements for the year ended 31 December 2016 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (collectively referred to as the "Trust Group"). The Company's consolidated financial statements for the year ended 31 December 2016 comprise the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2016 was investment in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated financial statements of the Company with the only differences being disclosures of capital of the Company. The Trustee-Manager and the Directors of the Company believe therefore that it is clearer to present the consolidated financial statements of the Trust and the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as "the Trust and the Company's consolidated financial statements".

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity, consolidated statements of cash flows, significant accounting policies and the related explanatory information are identical to the Trust and the Company.

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

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

For the year ended 31 December 2016

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

Amendments to HKFRSs that are mandatory effective for the current year

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

The Directors anticipate that the application of new and amendments to HKFRSs will have no material impact on the results and the financial position of the Groups.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and derivative financial instrument that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Groups take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

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

The significant accounting policies are set out below.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

The Groups reassess whether or not they control an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Groups obtain control over the subsidiary and ceases when the Groups lose control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Groups gain control until the date when the Groups cease to control the subsidiary.

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

b. Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. See also note 6.

The Groups' accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Groups and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. See also note 8.

d. Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. See also note 17.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. **Investment properties**

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

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised. See also note 18.

f. **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. See also note 32.

The Groups as lessor

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

The Groups as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

g. **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. **Borrowing costs**

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

All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred. See also note 9.

i. **Equity-settled share-based payment transactions**

Equity-settled share-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Groups' estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, for share options with non-market performance vesting conditions, the Groups revise its estimates of the number of options that are expected to vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

When the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after vesting period or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits. See also note 13.

j. **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered the service entitling them to the contributions. See also note 33.

k. **Taxation**

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

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

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Taxation (continued)

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Groups are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. See also notes 10 and 24.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. See also note 28.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Impairment of financial assets

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

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. **Financial instruments (continued)**

Financial assets (continued)

Impairment of financial assets (continued)

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

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Groups after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

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

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities (including trade and other creditors, other payables and secured bank loans) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instrument

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

Derecognition

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

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

m. Impairment losses on tangible assets

At the end of the reporting period, the Groups review the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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

For the year ended 31 December 2016

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Groups' accounting policies, which are described in note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

a. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the Directors have made in the process of applying the Groups' accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

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

b. Key sources of estimation uncertainty

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

i. Investment properties

As described in note 18, investment properties are stated at fair value of HK\$18,432,000,000 (2015: HK\$18,381,000,000) based on the valuations performed by independent professional valuers.

In determining the fair value of investment properties situated in Hong Kong, the valuer has used income approach which discounted cash flow analyses 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. Comparison method was also considered whereby comparisons on a per unit room basis on actual sales transactions and offering of comparable properties have been made.

In relying on those valuation reports, the Directors have exercised their judgments and are satisfied that the methods of valuations are reflective of the current market conditions.

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

For the year ended 31 December 2016

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

b. Key sources of estimation uncertainty (continued)

ii. *Derivative financial instrument*

In addition, as described in note 19, the fair value of derivative financial instrument that is not quoted in active market is provided by counterparty financial institution and determined by using certain valuation techniques. Valuation technique commonly used by market practitioners is applied. Derivative financial instrument is valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

Where the actual future market data varies, a material adjustment on the fair values of derivative financial instrument may result. In relying on the valuation provided by counterparty financial institution, management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

iii. *Fair value measurements and valuation processes*

Some of the Groups' assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset, the Groups use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Groups engage third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the valuation report and findings to the board of directors of the Trustee-Manager and of the Company half yearly to explain the cause of fluctuations in the fair value of the assets.

The Groups use valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. Note 18 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties.

Note 28(d) provides detailed information about the valuation techniques and key inputs used in the determination of the fair value of derivative financial instrument.

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

For the year ended 31 December 2016

6. REVENUE

	2016 HK\$'000	2015 HK\$'000
Rental income from GE (LHIL) Lessee Limited ("Master Lessee") (see note 34(a))		
Base rent	225,000	225,000
Variable rent	475,705	451,769
Rental income from retail shops in Eaton, Hong Kong	700,705	676,769
	5,674	5,425
Total rental income	706,379	682,194

See also note 4(c).

7. SEGMENT INFORMATION

The Groups' operating segments, based on information reported to the chief operating decision maker ("CODM"), management of the Trustee-Manager and the Directors of 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.

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

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

For the year ended 31 December 2016

7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

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

2016

	The Langham, Hong Kong HK\$'000	Cordis, Hong Kong HK\$'000	Eaton, Hong Kong HK\$'000	Consolidated HK\$'000
Segment revenue	256,946	305,426	144,007	706,379
Segment results*	215,375	255,735	122,602	593,712
Other income				1,917
Decrease in fair value of investment properties				(3,613)
Fair value change on derivative financial instrument				31,795
Trust and other expenses				(12,778)
Finance costs				(118,164)
Profit before tax				492,869
Income tax expense				(83,260)
Profit for the year attributable to holders of Share Stapled Units				409,609

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

For the year ended 31 December 2016

7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

2015

	The Langham, Hong Kong HK\$'000	Cordis, Hong Kong HK\$'000	Eaton, Hong Kong HK\$'000	Consolidated HK\$'000
Segment revenue	244,183	292,712	145,299	682,194
Segment results*	203,852	236,657	122,864	563,373
Other income				9,323
Increase in fair value of investment properties				1,099,032
Trust and other expenses				(21,105)
Finance costs				(131,783)
Profit before tax				1,518,840
Income tax expense				(76,649)
Profit for the year attributable to holders of Share Stapled Units				1,442,191

* The above segment results of each of the investment properties are arrived at after deducting the property related expenses and service fees from the revenue respectively.

Segment assets and liabilities

For the purpose of performance assessment, the fair values of investment properties 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, Hong Kong were HK\$7,000,000,000, HK\$7,775,000,000 and HK\$3,657,000,000 (2015: HK\$6,845,000,000, HK\$7,770,000,000 and HK\$3,766,000,000), respectively.

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

Geographical information

All of the Groups' revenue is derived from activities and customers located in Hong Kong and the Groups' non-current assets are all located in Hong Kong.

Information about major customers

Revenue from the Master Lessee is HK\$700,705,000 (2015: HK\$676,769,000), contributing over 10% of the total revenue of the Groups for the year ended 31 December 2016.

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

For the year ended 31 December 2016

8. OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Interest on bank deposits	1,587	9,194
Sundry income	330	129
	1,917	9,323

See also note 4(c).

9. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest on bank borrowings wholly repayable within five years	92,107	97,493
Interest on interest rate swap	832	–
Loan front-end fee amortisation	24,581	34,000
Other borrowing costs	644	290
	118,164	131,783

See also note 4(h).

10. INCOME TAX EXPENSE

	2016 HK\$'000	2015 HK\$'000
Current tax:		
Hong Kong Profits Tax:		
Current year	34,413	13,676
Under(over)provision in prior years	194	(54)
	34,607	13,622
Deferred tax (note 24):		
Current year	48,885	63,027
Overprovision in prior years	(232)	–
	48,653	63,027
	83,260	76,649

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

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

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK\$'000	2015 HK\$'000
Profit before tax	492,869	1,518,840
Tax at Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	81,323	250,609
Tax effect of expenses not deductible for tax purposes	30,317	9,505
Tax effect of income not taxable for tax purposes	(28,342)	(183,412)
Overprovision in prior years	(38)	(54)
Others	–	1
Tax charge for the year	83,260	76,649

See also note 4(k).

11. TOTAL DISTRIBUTABLE INCOME

Total distributable income is the profit for the year 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 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 year are set out below:

	2016 HK\$'000	2015 HK\$'000
Profit for the year attributable to holders of Share Stapled Units	409,609	1,442,191
Adjustments:		
Add:		
Depreciation	6	6
Deferred tax	48,653	63,027
Non-cash finance costs	24,581	34,000
Hotel management fees and licence fee payable in form of Share Stapled Units (see notes 30 and 34(b))	70,019	67,813
Decrease in fair value of investment properties	3,613	–
Less:		
Increase in fair value of investment properties	–	(1,099,032)
Increase in fair value of derivative financial instrument	(31,795)	–
Non-cash exchange difference	–	(7,499)
Reserve for furniture, fixtures and equipment	(23,299)	(22,972)
Total distributable income	501,387	477,534

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

For the year ended 31 December 2016

12. DISTRIBUTION STATEMENT

	Note	2016 HK\$'000	2015 HK\$'000
Interim distribution period (note a)			
Total distributable income in respect of the six months ended 30 June 2016 (2015: in respect of the six months ended 30 June 2015)		228,054	226,433
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for interim distribution period		228,054	226,433
Interim distribution (note c)		228,054	226,433
Final distribution period (note a)			
Total distributable income in respect of the financial year ended 31 December 2016 (2015: in respect of the financial year ended 31 December 2015)	11	501,387	477,534
Less: distributable income paid for interim distribution period (note e)		(230,165)	(227,320)
Distributable income available for final distribution period		271,222	250,214
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for final distribution period		271,222	250,214
Final distribution (note c)		271,222	250,214
Distribution per Share Stapled Unit			
Interim distribution per Share Stapled Unit paid			
– Before taking into account the effect of the Distribution Waiver (note d)		HK\$0.111	HK\$0.111
– After taking into account the effect of the Distribution Waiver (note e)		HK\$0.117	HK\$0.117
Final distribution per Share Stapled Unit to be paid			
– Before taking into account the effect of the Distribution Waiver (note d)		HK\$0.131	HK\$0.122
– After taking into account the effect of the Distribution Waiver (note e)		HK\$0.138	HK\$0.129

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

For the year ended 31 December 2016

12. DISTRIBUTION STATEMENT (CONTINUED)

Notes:

- (a) The final distribution in 2016 is based on total distributable income for the year ended 31 December 2016.
- The interim distribution in 2016 was based on total distributable income for the six months ended 30 June 2016.
- The final distribution in 2015 was based on total distributable income for the year ended 31 December 2015.
- (b) The Trust Deed and the articles of association of the Company state that it is the intention of the Directors to declare and distribute (i) 100% of the total distributable income in respect of the financial year ended 31 December 2015, and (ii) not less than 90% of the total distributable income in respect of each financial year thereafter.
- (c) The final distribution after 31 December 2016 has not been recognised as a liability as at 31 December 2016.
- The interim distribution after 30 June 2016 has not been recognised as a liability as at 30 June 2016.
- The final distribution after 31 December 2015 has not been recognised as a liability as at 31 December 2015.
- (d) The final distribution per Share Stapled Unit of HK\$0.131 (2015: HK\$0.122) for the final distribution period in 2016 is calculated based on the final distribution to be paid of HK\$271,222,000 (2015: HK\$250,214,000) for the period and 2,067,226,456 (2015: 2,042,905,937) Share Stapled Units as at 31 December 2016.
- The interim distribution per Share Stapled Unit of HK\$0.111 (2015: HK\$0.111) for the interim distribution period in 2016 is calculated based on the interim distribution to be paid of HK\$228,054,000 (2015: HK\$226,433,000) for the period and 2,057,152,289 (2015: 2,032,888,934) Share Stapled Units as at 30 June 2016.
- (e) Pursuant to a distribution entitlement waiver deed, LHIL Assets Holdings Limited, immediate holding company of the Company after the listing, has waived its entitlement to receive any distributions payable of the Share Stapled Units held by it for the periods as set out below (the "Distribution Waiver"):

	Number of Share Stapled Units '000
Listing date to 31 December 2013	150,000
Year ended 31 December 2014	150,000
Year ended 31 December 2015	100,000
Year ended 31 December 2016	100,000
Year ending 31 December 2017	50,000

The final distribution per Share Stapled Unit of HK\$0.138 (2015: HK\$0.129) for the final distribution period in 2016 is calculated based on 1,967,226,456 (2015: 1,942,905,937) Share Stapled Units after taking into account of the 100,000,000 (2015: 100,000,000) units waived by LHIL Assets Holdings Limited. The final distribution for the final distribution period in 2016 will be paid to holders of Share Stapled Units on or before 19 May 2017.

After the issue of 14,246,352 Share Stapled Units as payment of hotel management fees and licence fee for the six months ended 31 December 2015 on 4 March 2016, the number of Share Stapled Units entitled for the final distribution in 2015 should be 1,957,152,289. The final distribution for the final distribution period in 2015 of HK\$252,473,000 was paid to holders of Share Stapled Units on 16 May 2016.

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

For the year ended 31 December 2016

12. DISTRIBUTION STATEMENT (CONTINUED)

Notes: (continued)

(e) (continued)

After the issue of 10,498,075 Share Stapled Units as payment of hotel management fees and licence fee for the six months ended 31 December 2014 on 3 March 2015, the number of Share Stapled Units entitled for the final distribution in 2014 should be 1,882,888,934. The final distribution for the final distribution period in 2014 of HK\$286,199,000 was paid to holders of Share Stapled Units on 14 May 2015.

The interim distribution per Share Stapled Unit of HK\$0.117 (2015: HK\$0.117) for the interim distribution period in 2016 is calculated based on 1,957,152,289 (2015: 1,932,888,934) Share Stapled Units after taking into account of the 100,000,000 (2015: 100,000,000) units waived by LHIL Assets Holdings Limited.

After the issue of 10,074,167 Share Stapled Units as payment of hotel management fees and licence fee for the six months ended 30 June 2016 on 30 August 2016, the number of Share Stapled units entitled for the interim distribution in 2016 should be 1,967,226,456. The interim distribution of HK\$230,165,000 was paid to holders of Share Stapled Units on 5 October 2016.

After the issue of 10,017,003 Share Stapled Units as payment of hotel management fees and licence fee for the six months ended 30 June 2015 on 21 August 2015, the number of Share Stapled Units entitled for the interim distribution in 2015 should be 1,942,905,937. The interim distribution of HK\$227,320,000 was paid to holders of Share Stapled Units on 2 October 2015.

13. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO HOLDERS OF SHARE STAPLED UNITS

	2016 HK\$'000	2015 HK\$'000
Profit and total comprehensive income for the year has been arrived at after charging:		
Staff costs (including directors' emoluments)	5,240	5,011
Share-based payment expenses (including directors' emoluments) (note a)	83	131
	5,323	5,142
Depreciation	6	6
Auditor's remuneration	1,230	1,180
Operation lease payments on rented premises	2,086	6,403
Net exchange loss (included in trust and other expenses)	–	8,647

Note:

- (a) The Groups recognised the total expenses of HK\$83,000 (2015: HK\$131,000) for the year ended 31 December 2016 in relation to share options granted by the ultimate holding company under their share option scheme. See also note 4(i).

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

For the year ended 31 December 2016

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the six (2015: six) Directors and the chief executive were for their services of the Groups as follows:

	2016					2015	
	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses (note a) HK\$'000	Share-based payment expenses HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000	Total HK\$'000
Executive Director							
Mr. IP Yuk Keung, Albert (note b)	50	1,643	307	39	18	2,057	1,965
Non-executive Directors							
Dr. LO Ka Shui	295	-	-	-	-	295	295
Ms. LO Bo Lun, Katherine	170	-	-	-	-	170	170
Independent Non-executive Directors							
Dr. LIN Syaru, Shirley	305	-	-	-	-	305	305
Mr. SO Yiu Wah, Eric	320	-	-	-	-	320	320
Mr. WONG Kwai Lam	345	-	-	-	-	345	345
	1,485	1,643	307	39	18	3,492	3,400

Notes:

- Discretionary bonuses are determined by the remuneration committee of the Company from time to time by reference to the prevailing market conditions, the performance of the Company as well as the individual performance.
- The fees, salaries and other benefits, discretionary bonuses, share-based payment expenses and retirement benefits schemes contributions of Mr. Ip Yuk Keung, Albert for the year ended 31 December 2015 are HK\$50,000, HK\$1,589,000, HK\$296,000, HK\$12,000, HK\$18,000, respectively.

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

For the year ended 31 December 2016

15. EMPLOYEES' EMOLUMENTS

Of the five (2015: four) individuals with the highest emoluments in the Groups, one (2015: one) was Director and the chief executive of the Trustee-Manager and the Company whose emoluments are included in the disclosures in note 14 above. The emoluments of the remaining four (2015: three) individuals were as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and other benefits	1,463	1,269
Discretionary bonuses	263	296
Share-based payment expenses	44	119
Retirement benefits scheme contributions	61	58
	1,831	1,742

	2016 Number of employees	2015 Number of employees
Bands: Nil – HK\$1,000,000	4	3

16. 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:

	2016 HK\$'000	2015 HK\$'000
Earnings		
Profit for the year for the purposes of basic and diluted earnings per Share Stapled Unit	409,609	1,442,191

	2016 '000	2015 '000
Number of Share Stapled Units		
Weighted average number of Share Stapled Units for the purposes of basic and diluted earnings per Share Stapled Unit	2,061,188	2,037,959

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

For the year ended 31 December 2016

17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK\$'000
COST	
At 1 January 2015 and 31 December 2015	30
Additions	8
At 31 December 2016	38
DEPRECIATION	
At 1 January 2015	5
Depreciation	6
At 31 December 2015	11
Depreciation	6
At 31 December 2016	17
CARRYING VALUES	
At 31 December 2016	21
At 31 December 2015	19

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives on the following basis:

Furniture and fixtures	
Hotel renovation	10% per annum
Other furniture and fixtures	10% – 20% per annum

See also 4(d).

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

For the year ended 31 December 2016

18. INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
FAIR VALUE		
At the beginning of the year	18,381,000	17,000,000
Additions	54,613	281,968
(Decrease) increase in fair value recognised in profit or loss	(3,613)	1,099,032
At the end of the year	18,432,000	18,381,000

The fair values of the Groups' investment properties of HK\$18,432,000,000 as at 31 December 2016 (2015: HK\$18,381,000,000) have 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. 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 yearly pre-tax 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. The comparison method of valuation whereby comparisons on a per unit room basis on actual sales transactions and offering of comparable properties during the year have been made. There has been no change to the valuation technique during the year.

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

The key inputs used in valuing the investment properties by the independent property valuer under the aforesaid income approach were the discount rates used at 7.75% (2015: 8%) and average daily rates, which ranged from HK\$1,050 to HK\$2,193 (2015: HK\$1,137 to HK\$2,203) per room per night. A 50 basis points increase in the discount rate used would result in 4% decrease in fair value measurement of the investment properties, and vice versa. There is no indication that a slight increase in the average daily rate used would result in a significant increase in fair value measurement of the investment properties, and vice versa.

The following table details the Groups' sensitivity to a 50 basis points (2015: 50 basis points) increase/decrease in discount rate holding all other variables constant.

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

For the year ended 31 December 2016

18. INVESTMENT PROPERTIES (CONTINUED)

	2016		2015	
	50 basis points increase HK\$'000	50 basis points decrease HK\$'000	50 basis points increase HK\$'000	50 basis points decrease HK\$'000
The Langham, Hong Kong	(280,000)	290,000	(270,000)	290,000
Cordis, Hong Kong	(310,000)	330,000	(300,000)	320,000
Eaton, Hong Kong	(130,000)	140,000	(140,000)	140,000
	(720,000)	760,000	(710,000)	750,000

Details of the Groups' investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2016 HK\$'000
The Langham, Hong Kong	–	–	7,000,000	7,000,000
Cordis, Hong Kong	–	–	7,775,000	7,775,000
Eaton, Hong Kong	–	–	3,657,000	3,657,000
	–	–	18,432,000	18,432,000

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2015 HK\$'000
The Langham, Hong Kong	–	–	6,845,000	6,845,000
Cordis, Hong Kong	–	–	7,770,000	7,770,000
Eaton, Hong Kong	–	–	3,766,000	3,766,000
	–	–	18,381,000	18,381,000

There were no transfers into or out of Level 3 during the year.

The carrying amounts of investment properties comprise properties situated in Hong Kong.

See also notes 4(e), 5(b)(i) and 5(b)(iii).

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

For the year ended 31 December 2016

19. DERIVATIVE FINANCIAL INSTRUMENT

	2016 HK\$'000	2015 HK\$'000
Non-current asset Interest rate swap	31,795	–

The Groups entered interest rate swap 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 year. See also notes 5(b)(ii).

Major terms of the interest rate swap are as follows:

Notional amount	Maturity	Floating interest rate	Fixed interest rate	Interest period
HK\$1,000,000,000	10 November 2020	Hong Kong Interbank Offered Rate ("HIBOR")	1.035%	Monthly

20. DEBTORS, DEPOSITS AND PREPAYMENTS

	2016 HK\$'000	2015 HK\$'000
Trade debtors	116,365	109,332
Interest receivable	136	702
Deposits and prepayments	4,694	6,119
	121,195	116,153

Rentals receivable from Master Lessee and other tenants are payable on presentation of invoices.

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

	2016 HK\$'000	2015 HK\$'000
0 – 3 months	116,365	109,332

No trade debtor is past due as at 31 December 2015 and 2016.

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

For the year ended 31 December 2016

20. DEBTORS, DEPOSITS AND PREPAYMENTS (CONTINUED)

Deposits and prepayments mainly consist of deposits paid to contractors for hotels renovation and prepayment of rates.

Included in trade debtors is an amount due from a fellow subsidiary of HK\$116,365,000 (2015: HK\$109,136,000) which is unsecured, interest-free and payable on presentation of invoices. At 31 December 2015, included in deposits and prepayments was an amount due from a fellow subsidiary of HK\$1,351,000 which was unsecured, interest-free and payable within 30 days after the expiration of respective lease agreement.

21. RESTRICTED CASH, BANK BALANCES

Restricted cash

At 31 December 2015, amount of HK\$60,064,000 was placed in designated bank account pursuant to applicable loan facilities requirements.

Bank balances

Bank balances comprised short-term bank deposits carrying interest at prevailing annual deposit rates which range from 0.01% to 1.79% (2015: 0.001% to 4.55%) per annum.

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

For the year ended 31 December 2016

22. CREDITORS, DEPOSITS AND ACCRUALS

	2016 HK\$'000	2015 HK\$'000
Trade creditors	40,073	37,432
Deposits received	1,394	1,394
Other creditors	7,002	13,755
Accruals and other payables	29,889	33,774
	78,358	86,355

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

	2016 HK\$'000	2015 HK\$'000
0 – 3 months	24,673	23,607
3 – 6 months	15,400	13,825
	40,073	37,432

Other creditors, accruals and other payables mainly consist of accrued renovation expenses for the Hotels.

Trade creditors are amounts due to fellow subsidiaries of HK\$40,073,000 (2015: HK\$37,432,000) which are unsecured, interest-free and payable on presentation of invoices. Included in other creditors are amounts due to fellow subsidiaries of HK\$501,000 (2015: HK\$188,000) which are unsecured, interest-free and payable on presentation of invoices. At 31 December 2015, included in accruals and other payables was an amount due to a fellow subsidiary of HK\$1,759,000 which was unsecured, interest-free and payable on presentation of invoices.

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

For the year ended 31 December 2016

23. SECURED BANK LOANS

	2016 HK\$'000	2015 HK\$'000
Secured term loans	6,800,000	6,800,000
Loan front-end fee	(61,403)	(13,984)
	6,738,597	6,786,016
Less: Amount due within one year shown under current liabilities	–	(6,786,016)
Amount due after one year	6,738,597	–

The exposure of the Groups' floating-rate borrowings and the contractual maturity dates are as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	–	6,800,000
More than three years but not exceeding four years	6,800,000	–
	6,800,000	6,800,000

The secured bank loans of HK\$6,800,000,000 (2015: HK\$6,800,000,000) are variable-rate borrowings, bearing interest at HIBOR plus a margin of 0.98% (2015: 1.2%) per annum and are repayable in one lump sum on maturity date which will be fall due in 2020 (2015: fully repaid on 30 May 2016). Bank loans are secured by the Groups' investment properties (2015: the Groups' investment properties and certificate of deposit).

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

For the year ended 31 December 2016

24. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2015	230,340	(44,791)	185,549
Charge to profit or loss	36,428	26,599	63,027
At 31 December 2015	266,768	(18,192)	248,576
Charge to profit or loss	30,693	18,192	48,885
Overprovision in prior years	(232)	–	(232)
At 31 December 2016	297,229	–	297,229

At 31 December 2015, the Groups have unutilised tax losses of HK\$110,265,000 available to offset against future profits. A deferred tax asset has been recognised in respect of HK\$110,265,000 of such losses. See also note 4(k).

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

For the year ended 31 December 2016

25. ISSUED CAPITAL

	Number of shares	Nominal value HK\$
Authorised: Ordinary shares of HK\$0.0005 each At 1 January 2015, 31 December 2015 and 2016	5,000,000,000	2,500,000
Preference shares of HK\$0.0005 each At 1 January 2015, 31 December 2015 and 2016	5,000,000,000	2,500,000
	Number of shares	Nominal value HK\$
Issued and fully paid: Ordinary shares of HK\$0.0005 each (note a)		
At 1 January 2015	2,022,390,859	1,011,196
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,498,075	5,249
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,017,003	5,009
At 31 December 2015	2,042,905,937	1,021,454
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	14,246,352	7,123
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,074,167	5,037
At 31 December 2016	2,067,226,456	1,033,614
Preference shares of HK\$0.0005 each		
At 1 January 2015	2,022,390,859	1,011,196
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,498,075	5,249
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,017,003	5,009
At 31 December 2015	2,042,905,937	1,021,454
Issue of preference shares as payment of hotel management fees and licence fee (note b)	14,246,352	7,123
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,074,167	5,037
At 31 December 2016	2,067,226,456	1,033,614

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

For the year ended 31 December 2016

25. ISSUED CAPITAL (CONTINUED)

	2016 HK\$'000	2015 HK\$'000
Issued capital as shown in the consolidated financial statements	2,067	2,043

Notes:

- (a) All of the issued ordinary shares of the Company would be held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust.
- (b) Details of Share Stapled Units issued for both years as payment of hotel management fees and licence fee are as follows (see notes 30 and 34(b)):

Issue date	Relevant period	Issue price HK\$	Aggregate issue price HK\$'000	Number of shares
3 March 2015	1 July 2014 to 31 December 2014	3.68	38,633	10,498,075
21 August 2015	1 January 2015 to 30 June 2015	3.20	32,055	10,017,003
4 March 2016	1 July 2015 to 31 December 2015	2.51	35,758	14,246,352
30 August 2016	1 January 2016 to 30 June 2016	3.15	31,734	10,074,167

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

For the year ended 31 December 2016

26. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 HK\$'000	2015 HK\$'000
Non-current assets		
Investments in subsidiaries	581,353	469,048
Amounts due from subsidiaries	8,318,895	8,722,370
	8,900,248	9,191,418
Current assets		
Prepayments	69	71
Bank balances	814	3,500
	883	3,571
Current liability		
Accruals	770	1,047
Net current assets	113	2,524
Non-current liability		
Amount due to a subsidiary	638	358
NET ASSETS	8,899,723	9,193,584
Capital and reserves		
Issued capital	2,067	2,043
Reserves	8,897,656	9,191,541
TOTAL EQUITY	8,899,723	9,193,584

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

For the year ended 31 December 2016

26. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2015	9,334,289	173,691	9,507,980
Distribution paid	(513,519)	–	(513,519)
Issue of Share Stapled Units (see notes 25 and 30)	70,667	–	70,667
Profit and total comprehensive income for the year	–	126,413	126,413
At 31 December 2015	8,891,437	300,104	9,191,541
Distribution paid	(482,638)	–	(482,638)
Issue of Share Stapled Units (see notes 25 and 30)	67,468	–	67,468
Profit and total comprehensive income for the year	–	121,285	121,285
At 31 December 2016	8,476,267	421,389	8,897,656

27. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Groups manage their capital to ensure that entities in the Groups will be able to continue as a going concern while maximising the return to holders of Share Stapled Units through the optimisation of the debt and equity balances. The Groups' overall strategy remains unchanged from prior year.

The capital structure of the Groups consists of debt, which includes bank borrowings disclosed in note 23, net of cash and cash equivalents and equity attributable to holders of Share Stapled Units, comprising issued share capital, reserves and retained profits. The capital structure of the Company consists of equity attributable to holders of Share Stapled Units, comprising issued share capital, reserve and retained profits.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the Directors, the Groups will balance its overall capital structure through new share issues.

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
Financial assets		
<i>Derivative financial instrument</i>		
Interest rate swap	31,795	–
<i>Loans and receivables</i>		
Trade debtors	116,365	109,332
Interest receivable	136	702
Restricted cash	–	60,064
Bank balances	238,473	244,133
	354,974	414,231
	386,769	414,231
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
Trade creditors	40,073	37,432
Other creditors	7,002	13,755
Other payables	1,653	–
Secured bank loans	6,738,597	6,786,016
	6,787,325	6,837,203

See also note 4(l).

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Groups' major financial instruments include derivative financial instrument, trade debtors, interest receivable, restricted cash, bank balances, trade and other creditors, other payables and secured bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with the Groups' financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Groups are exposed to cash flow interest rate risk in relation to pay-fixed/receive-floating interest rate swap, bank deposits, variable-rate secured bank loans. Interest rate risk is managed by the management on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates. Interest rate risk on bank deposits is considered immaterial and therefore has been excluded from the sensitivity analysis below. The Groups' cash flow interest rate risk is mainly concentrated on the unfavourable change of HIBOR arising from the Groups' pay-fixed/receive-floating interest rate swap and variable-rate secured bank loans.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for derivative financial instrument and secured bank loans at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2015: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from possible change in interest rates.

If the interest rates had been 50 basis points (2015: 50 basis points) higher or lower and all other variables were held constant, the Groups' profit for the year would decrease/increase by HK\$24,215,000 (2015: HK\$28,390,000). This is mainly attributable to the Groups' exposure to interest rates on its floating rate secured bank loans.

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk

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

In order to minimise the credit risk, the management of the Groups has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Groups review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Groups' credit risk is significantly reduced.

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

With respect to credit risk arising from the Groups' trade debtors which mainly due from the Master Lessee, the Groups' exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Groups' do not expect to incur a significant loss arising from trade debtors.

The Groups have concentration of credit risk as most of the trade debtors were due from the Master Lessee.

Other than concentration of credit risk on trade debtors which mainly due from the Master Lessee, and liquid funds which are deposited with several banks with high credit-ratings, the Groups do not have any other significant concentration of credit risk.

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk

In management of the liquidity risk, the Groups monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Groups' operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Liquidity risk analysis

The following table details the Groups' contractual maturity for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which the Groups can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from the interest rate at the end of the reporting period.

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2016 HK\$'000
Non-derivative financial liabilities							
Trade creditors	N/A	40,073	-	-	-	40,073	40,073
Other creditors	N/A	7,002	-	-	-	7,002	7,002
Other payables	N/A	1,653	-	-	-	1,653	1,653
Secured bank loans – variable rate	1.27	21,590	64,770	86,360	6,921,753	7,094,473	6,738,597
		70,318	64,770	86,360	6,921,753	7,143,201	6,787,325

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2015 HK\$'000
Non-derivative financial liabilities							
Trade creditors	N/A	37,432	-	-	-	37,432	37,432
Other creditors	N/A	13,755	-	-	-	13,755	13,755
Secured bank loans – variable rate	1.43	24,310	6,815,675	-	-	6,839,985	6,786,016
		75,497	6,815,675	-	-	6,891,172	6,837,203

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk (continued)

Liquidity risk analysis (continued)

In addition, the following table details the Groups' liquidity analysis for its derivative financial instrument based on its contractual maturity. For derivative financial instrument settled on a net basis, undiscounted contractual net cash inflows (outflows) are presented. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	On demand or less than 3 month HK\$'000	3 months to 1 year HK\$'000	1 year to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December 2016 HK\$'000
2016						
Derivative settlement						
Interest rate swap	(566)	989	6,909	26,241	33,573	31,795

(c) Fair value

The fair value of the financial asset representing derivative financial instrument is determined as detailed in note 28(d).

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions. The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

(d) Fair value measurement of financial instrument

One of the Groups' financial asset is measured at fair value at the end of the reporting period. The following table provides an analysis of financial instrument that is measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. See also note 5(b)(iii).

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2016				
<i>Derivative financial instrument</i>				
Interest rate swap	–	31,795	–	31,795

There were no transfers between Levels 1 and 2 in the current year.

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

For the year ended 31 December 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurement of financial instrument (continued)

The following table gives information about how the fair value of the financial asset is determined (in particular, the valuation techniques and inputs used).

Financial asset	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2016 HK\$'000	2015 HK\$'000		
Interest rate swap	31,795	–	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.

29. PLEDGE OF ASSETS

At 31 December 2016, all of the Groups' investment properties (2015: the Groups' investment properties and certificate of deposit) have been pledged to secure banking facilities granted to the Groups.

30. MAJOR NON-CASH TRANSACTION

The Groups incurred hotel management fees and licence fee payable to Langham Hotels International Limited for the year ended 31 December 2016 of HK\$70,019,000 (2015: HK\$67,813,000) (see note 34(b)), of which HK\$31,734,000 (2015: HK\$32,055,000) was settled by Share Stapled Units. The remaining balance of HK\$38,285,000 (2015: HK\$35,758,000) will also be settled by Share Stapled Units subsequent to the end of the reporting period.

On 30 May 2016, the Group had a refinancing in full of secured bank loans of HK\$6,800,000,000 by HK\$7,200,000,000 term and revolving loan facilities.

31. COMMITMENTS

At 31 December 2016, the Groups had authorised capital expenditures for investment properties which were not provided for in these consolidated financial statements amounting to HK\$167,526,000 (2015: HK\$126,407,000) of which HK\$29,755,000 (2015: HK\$16,182,000) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. OPERATING LEASE COMMITMENTS

As lessor

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

	2016 HK\$'000	2015 HK\$'000
With Master Lessee		
Within one year	225,000	225,000
In the second to fifth year	450,000	675,000
	675,000	900,000
With other tenants		
Within one year	703	4,780
In the second to fifth year	–	797
	703	5,577

Leases in respect of the retail shops in Eaton, Hong Kong are negotiated for a term of less than one year to three years at fixed monthly rentals. Leases in respect of the Hotels are negotiated for a term of seven years at fixed annual base rent and variable rent based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fees in accordance with the master lease agreements (see note 34(a)). The above future minimum lease payments only include base rent as the variable rent cannot be determined as of the date of approval of the consolidated financial statements.

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

For the year ended 31 December 2016

32. OPERATING LEASE COMMITMENTS (CONTINUED)

As lessee

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

	2016 HK\$'000	2015 HK\$'000
With Moon Yik Company, Limited		
Within one year	20	682
In the second to fifth year	–	20
	20	702
With other landlords		
Within one year	516	230
In the second to fifth year	774	–
	1,290	230

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

See also note 4(f).

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

For the year ended 31 December 2016

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The Groups are required to contribute 5% to 10%, while the employees are required to contribute 5% of their salaries to the scheme, capped at HK\$1,000 effective from 1 December 2000, HK\$1,250 effective from 1 June 2012 and HK\$1,500 effective from 1 June 2014.

Total contributions to retirement fund schemes for the year ended 31 December 2016 charged to the consolidated statement of profit or loss and other comprehensive income amounted to HK\$79,000 (2015: HK\$76,000). See also note 4(j).

34. CONNECTED AND RELATED PARTY DISCLOSURES

Other than as disclosed in notes 12, 20, 22, 30 and 32, the Groups had the following significant transactions with related parties during the year. All of the following related parties are subsidiaries of Great Eagle Holdings Limited 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 as defined in the chapter 14A of the Listing Rules upon the listing. Details of the connected transactions have been disclosed in the prospectus for the global offering of Share Stapled Units dated 16 May 2013.

	Notes	2016 HK\$'000	2015 HK\$'000
Rental income			
Master Lessee	(a)	700,705	676,769
Hotel management fees and licence fee			
Langham Hotels International Limited	(b)	70,019	67,813
Global marketing fees			
Langham Hotels Services Limited	(c)	17,009	16,570

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

For the year ended 31 December 2016

34. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

	Notes	2016 HK\$'000	2015 HK\$'000
Property management services fee			
The Great Eagle Properties Management Company, Limited	(d)	2,700	2,471
Rental and building management fee expenses			
Renaissance City Development Company, Limited	(e)	–	5,267
Clever Gain Investment Limited	(f)	15	–
Master Lessee	(g)	26	–
Moon Yik Company, Limited	(h)	682	682
Lease agency fee			
The Great Eagle Estate Agents Limited	(i)	229	299
Administrative support service fee			
The Great Eagle Company, Limited	(j)	960	960
Procurement services fee			
Champion Global Services Limited	(k)	549	3,058
Project management services fee			
The Great Eagle Development and Project Management Limited	(l)	502	7,963
Design and construction contracting services fee			
Keysen Engineering Company, Limited	(m)	581	1,838
Toptech Company Limited	(m)	18	1,084
Staff laundry services fee			
Master Lessee	(n)	2	–
Hotel accommodation expenses			
Master Lessee	(o)	23	–

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

For the year ended 31 December 2016

34. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes:

- (a) Rental income is charged to Master Lessee in accordance with the master lease agreement. Annual base rent of HK\$225 million was proportionately charged over the period for the year ended 31 December 2016. Variable rent payable was recorded based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fees of HK\$679,578,000 (2015: HK\$645,384,000) earned by Master Lessee.

A reconciliation between the Hotels' aggregate gross operating profit and the Groups' segment profit, which is calculated as revenue less operating expenses before depreciation, and calculation of variable rent are shown as follows:

	2016 HK\$'000	2015 HK\$'000
Hotels' aggregate gross operating profit before deduction of global marketing fees	679,578	645,384
70% thereon, variable rent	475,705	451,769
Base rent	225,000	225,000
Add:		
Rental income from retail shops in Eaton, Hong Kong	5,674	5,425
Groups' segment revenue	706,379	682,194
Less:		
Hotel management fees (i.e. base fee and incentive fee)	(54,486)	(52,498)
Licence fee	(15,533)	(15,315)
Global marketing fees	(17,009)	(16,570)
Property taxes, rates and insurance	(24,600)	(32,723)
Other deductions	(1,039)	(1,715)
Groups' segment profit	593,712	563,373

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

For the year ended 31 December 2016

34. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes: (continued)

- (b) Langham Hotels International Limited is entitled, in accordance with hotel management agreement, to (i) a base fee of 1.5% of the total revenue of the relevant hotel; (ii) licence fee of 1% of the total revenue of the relevant hotel (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 hotel. The hotel management fees and licence fee would be settled by Share Stapled Units (see notes 25 and 30).

	2016 HK\$'000	2015 HK\$'000
(A) Total revenue of relevant hotel	1,553,259	1,531,454
(B) Adjusted Hotel's aggregate gross operating profit	623,738	590,528
(i) Base fee (A x 1.5%)	23,299	22,972
(ii) Licence fee (A x 1%)	15,533	15,315
(iii) Incentive fee (B x 5%)	31,187	29,526
Total fees	70,019	67,813

- (c) Global marketing fees were payable on a fixed percentage of 2% of the total room revenue of the relevant hotel (i.e. HK\$850,446,000 (2015: HK\$828,518,000)) under centralised services fees and marketing agreements.
- (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) Rental and building management fee expenses were payable to Renaissance City Development Company, Limited for leasing an office premises at Langham Place Office Tower, 555 Shanghai Street, Mongkok, Kowloon, Hong Kong.
- (f) The rental was charged by Clever Gain Investment Limited for venue of annual general meeting at Yat Tung Heen.
- (g) The rental was changed by Master Lessee for venue of loan signing ceremony at The Langham, Hong Kong.
- (h) Rental expenses were payable to Moon Yik Company, Limited for leasing an office premises at Suite 2702, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.
- (i) Lease agency fee is charged at the rate of 4% of the monthly rental income receivable from Eaton, Hong Kong'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.
- (j) 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.
- (k) 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.
- (l) 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.

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

For the year ended 31 December 2016

34. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes: (continued)

- (m) The contract sum for the work of design and construction contracting services shall be negotiated on an arm's length basis and determined between Keysen Engineering Company, Limited and/or its associated companies and the Groups subject to tender or price comparison process to be arranged by the Groups in accordance with its internal control policy.
- (n) Staff laundry services fee was payable to Master Lessee for staff laundry services.
- (o) The hotel accommodation expenses paid to Master Lessee for the hotel accommodation of the designers of Eaton, Hong Kong renovation.
- (p) Pursuant to a distribution entitlement waiver deed, LHIL Assets Holdings Limited has agreed to waive its entitlement to receive any distributions payable of the Share Stapled Units held by it for the periods as set out in note 12. During the year, net amount of HK\$8,142,000 (2015: HK\$14,069,000) was waived by LHIL Assets Holdings Limited and its fellow subsidiaries.

The remuneration of Directors and other members of key management during the year was as follows:

	2016 HK\$'000	2015 HK\$'000
Short-term benefits	3,474	3,382
Post-employment benefits	18	18
	3,492	3,400

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

35. EVENT AFTER THE END OF THE REPORTING PERIOD

The Groups entered two 4-year interest rate swap contracts of total notional amount of HK\$1 billion with The Hongkong and Shanghai Banking Corporation Limited on 10 January 2017 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.

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

For the year ended 31 December 2016

36. PARTICULARS OF THE SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2016 and 2015 are set out below:

Direct subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company	
			2016	2015
– incorporated in the British Virgin Islands:				
LHIL Properties Limited	1 share of US\$1	Investment holding	100%	100%
LHIL Treasury Holdings Limited	1 share of US\$1	Investment holding	100%	100%

Direct subsidiary	Share capital issued Issued and paid up		Principal activities	Percentage of issued equity share capital held by the Company	
	Number of shares	share capital HK\$		2016	2015
– incorporated and operating in Hong Kong:					
LHIL Company Limited	1	1	Provision for administrative services	100%	100%

Indirect subsidiaries	Issued and paid up equity share capital	Principal activities	Percentage of issued equity share capital held by the Company	
			2016	2015
– incorporated in the British Virgin Islands:				
Braveforce Investments Limited	1 share of US\$1	Investment holding	100%	100%
LHIL Finance Holdings Limited	1 share of US\$1	Investment holding	100%	100%
LHIL (EHK) Limited	1 share of US\$1	Investment holding	100%	100%
LHIL (LHK) Limited	1 share of US\$1	Investment holding	100%	100%
LHIL (Cordis) Limited	1 share of US\$1	Investment holding	100%	100%
Rowan Enterprises Limited	1 share of US\$1	Investment holding	100%	100%
– incorporated in Liberia:				
Baxter Investment Limited	500 shares of US\$1 each	Investment holding	100%	100%
Glendive Investment Limited	500 shares of US\$1 each	Investment holding	100%	100%

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

For the year ended 31 December 2016

36. PARTICULARS OF THE SUBSIDIARIES (CONTINUED)

Indirect subsidiaries	Share capital issued		Principal activities	Percentage of issued equity share capital held by the Company	
	Number of shares	Issued and paid up share capital HK\$		2016	2015
– incorporated and operating in Hong Kong:					
Grow On Development Limited	5,000	5,000	Property investment	100%	100%
Harvest Star International Limited	2	2	Property investment	100%	100%
Cordis Hong Kong Limited	2	2	Property investment	100%	100%
LHIL Finance Limited	1	1	Financing	100%	100%
LHIL Treasury (HK) Limited	1	1	Financing	100%	100%
LHIL Treasury Company Limited	1	1	Treasury management	100%	100%

None of the subsidiaries had any debt securities subsisting at 31 December 2016 and 2015 or at any time during the year.

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED



TO THE MEMBER OF LHIL MANAGER LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of LHIL Manager Limited (the "Company") set out on pages 151 to 156, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

14 February 2017

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

For the year ended 31 December 2016

	Notes	2016 HK\$	2015 HK\$
Revenue		–	–
Administrative expenses		(23,955)	(23,955)
Less: Amount borne by a fellow subsidiary		23,955	23,955
Profit or loss before tax	4	–	–
Income tax	5	–	–
Profit or loss and total comprehensive income/expense for the year		–	–

STATEMENT OF FINANCIAL POSITION OF LHIL MANAGER LIMITED

At 31 December 2016

	Note	2016 HK\$	2015 HK\$
Current asset			
Cash on hand		1	1
NET ASSET		1	1
Capital			
Share capital	6	1	1
TOTAL EQUITY		1	1

The financial statements on pages 151 to 156 were approved and authorised for issue by the Board of Directors on 14 February 2017 and are signed on its behalf by:

LO Ka Shui
DIRECTOR

IP Yuk Keung, Albert
DIRECTOR

STATEMENT OF CHANGES IN EQUITY OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

	Share capital HK\$
At 1 January 2015, 31 December 2015 and 31 December 2016	1

STATEMENT OF CASH FLOWS OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

	2016 HK\$	2015 HK\$
Net cash from operating activity	–	–
Cash and cash equivalent of the beginning of the year	1	1
Cash and cash equivalent at the end of the year, represented by cash on hand	1	1

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

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 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 register 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 for both years, thus the distribution statement is not presented.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

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

New and amendments to HKFRSS in issue but not yet effective

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

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

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

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

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

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

The Directors anticipate that the application of new and amendments to HKFRSS will have no material impact on the results and the financial position of the Company.

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

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

The significant accounting policies are set out below.

Financial instruments

Financial asset

Financial asset represents cash on hand.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instrument issued by the Company is recognised at the proceeds received, net of direct issue costs.

4. PROFIT OR LOSS BEFORE TAX

	2016 HK\$	2015 HK\$
Profit or loss before tax has been arrived at after charging:		
Auditor's remuneration	20,000	20,000

5. INCOME TAX

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

6. SHARE CAPITAL

	Number of ordinary share	Nominal value HK\$
Issued and fully paid:		
Ordinary share with no par value		
At 31 December 2015 and 2016	1	1

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2016

7. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the equity balance. The Company's overall strategy remains unchanged from prior year.

The capital structure of the Company consists of equity attributable to shareholder, comprising issued share capital.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the associated risks. Based on recommendations of the Directors, the Company will balance its overall capital structure through new share issues.

8. FINANCIAL INSTRUMENT

(a) Category of financial instrument

	2016 HK\$	2015 HK\$
Financial asset		
<i>Loan and receivable</i>		
Cash on hand	1	1

(b) Financial risk management objective and policy

The Company's financial instrument represents cash on hand. The risk associated with the Company's financial instrument is limited.

9. RELATED PARTY DISCLOSURES

Transaction with a fellow subsidiary is disclosed in the 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.

SCHEDULE OF INVESTMENT PROPERTIES

The Trust Group has 100% interest in the investment properties listed below, which are held under medium term leases.

Name and Location	Use	Gross Floor Area (sq.ft.)
The Langham, Hong Kong 8 Peking Road, Tsim Sha Tsui, Kowloon, Hong Kong	Hotel/Commercial	375,000
Cordis, Hong Kong 555 Shanghai Street, Mong Kok, Kowloon, Hong Kong	Hotel	580,000
Eaton, Hong Kong 380 Nathan Road, Yau Ma Tei, Kowloon, Hong Kong	Hotel/Commercial	339,000

FIVE YEARS' FINANCIAL SUMMARY

	For the year ended 31 December					2016 Continuing operation HK\$'000
	2012	2013	2014	2015		
	Discontinued operation HK\$'000	Discontinued operation HK\$'000	Continuing operation HK\$'000	Continuing operation HK\$'000	Continuing operation HK\$'000	
RESULTS						
Revenue	1,623,459	657,356	471,764	751,738	682,194	706,379
Profit before tax	448,932	206,317	309,958	644,088	1,518,840	492,869
Income taxes	(51,441)	(33,429)	(37,571)	(87,025)	(76,649)	(83,260)
Profit for the year attributable to Holders of shares of the Company/Share Stapled Units	397,491	172,888	272,387	557,063	1,442,191	409,609
		2012	2013	2014	2015	2016
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES						
Total assets		5,305,842	17,582,749	17,704,580	18,803,035	18,823,545
Total liabilities		(5,974,036)	(6,912,503)	(7,022,074)	(7,121,038)	(7,147,002)
Net (liabilities)/assets		(668,194)	10,670,246	10,682,506	11,681,997	11,676,543

Note:

After the execution of the master lease agreements, the Groups' business changed from hotel operations to property investment. Therefore, hotel operations were discontinued on the Listing Date. As such, the Groups' 2016, 2015, 2014 and 2013 consolidated results were not directly comparable to the results for the year ended 31 December 2012.

GLOSSARY OF TERMS

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

Terms	Definition												
"AGM"	The annual general meeting of the Trust and the Company to be held on a combined basis as a meeting												
"Corporate Governance Code"	Appendix 14 "Corporate Governance Code and Corporate Governance Report" of the Listing Rules												
"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 (朗廷酒店投資有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2013												
"Company's Articles"	The amended and restated articles of association of the Company adopted on 22 April 2016 as amended, supplemented, substituted or otherwise modified for the time being in force												
"Company Board"	The board of directors of the Company												
"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												
"Distribution Waiver Units"	Pursuant to the Distribution Entitlement Waiver Deed, number of Share Stapled Units waived by LHIL Assets Holdings Limited for the financial period/year as set out below: <table border="1" data-bbox="630 1244 1433 1436"> <thead> <tr> <th>Financial Period/Year</th> <th>Number of SSUs waived</th> </tr> </thead> <tbody> <tr> <td>Listing Date to 31 December 2013</td> <td>150,000,000</td> </tr> <tr> <td>Year ended 31 December 2014</td> <td>150,000,000</td> </tr> <tr> <td>Year ended 31 December 2015</td> <td>100,000,000</td> </tr> <tr> <td>Year ended 31 December 2016</td> <td>100,000,000</td> </tr> <tr> <td>Year ending 31 December 2017</td> <td>50,000,000</td> </tr> </tbody> </table>	Financial Period/Year	Number of SSUs waived	Listing Date to 31 December 2013	150,000,000	Year ended 31 December 2014	150,000,000	Year ended 31 December 2015	100,000,000	Year ended 31 December 2016	100,000,000	Year ending 31 December 2017	50,000,000
Financial Period/Year	Number of SSUs waived												
Listing Date to 31 December 2013	150,000,000												
Year ended 31 December 2014	150,000,000												
Year ended 31 December 2015	100,000,000												
Year ended 31 December 2016	100,000,000												
Year ending 31 December 2017	50,000,000												
"Great Eagle"	Great Eagle Holdings Limited (Stock Code: 41), the holding company of the Trust Group holding 61.90% issued Share Stapled Units as at 31 December 2016												
"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												
"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												
"HKTB"	Hong Kong Tourism Board												
"Holder(s) of Share Stapled Units" or "Unitholder(s)"	Holder(s) of Share Stapled Units of the Trust and the Company												

GLOSSARY OF TERMS

Terms	Definition
“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 (朗廷酒店國際有限公司), 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, Hong Kong
“Listing Date”	30 May 2013, being the date of listing of the Share Stapled Units on the Stock Exchange
“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
“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: <ul style="list-style-type: none"> (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager; and (c) a specifically identified preference share of the Company stapled to the unit
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	Langham Hospitality Investments (朗廷酒店投資), 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 a first supplemental deed dated 22 April 2016
“Trust Group”	The Trust and the Group
“Trustee-Manager”	LHIL Manager Limited (朗廷酒店管理人有限公司), 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 directors of the Trustee-Manager

This annual report is available in both English and Chinese versions and has been published on our website at www.langhamhospitality.com and the designated website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

Where (i) Holders of Share Stapled Units who have chosen to receive or are deemed to have consented to receiving this annual report by electronic means wish to receive printed form of this annual report; or (ii) Holders of Share Stapled Units who have received or chosen to receive printed form wish to receive another language version of this annual report; or (iii) Holders of Share Stapled Units who wish to change their choice of means of receipt or language of our future corporate communications (including but not limited to directors' report, annual accounts, independent auditor's report, interim report, notice of meeting and circular), they may at any time send their request by reasonable notice in writing by post or by email to Langham.ecom@langhamhospitality.com or by completing and returning the Change Request Form to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited by using the mailing label on the Change Request Form (postage prepaid if delivered within Hong Kong). The Change Request Form is being sent to Holders of Share Stapled Units together with the printed form of this annual report or written notification (as the case may be).

LANGHAM
HOSPITALITY
INVESTMENTS

(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)

&

LANGHAM
HOSPITALITY
INVESTMENTS
LIMITED

(Incorporated in the Cayman Islands with limited liability)



Suite 2702, 27th Floor, Great Eagle Centre
23 Harbour Road, Wanchai, Hong Kong
Tel: 2186 2500 Fax: 2186 9867



www.langhamhospitality.com