

LANGHAM

HOSPITALITY INVESTMENTS

Stock code : 1270



A N N U A L R E P O R T 2 0 1 8





LANGHAM HOSPITALITY INVESTMENTS

CORPORATE PROFILE

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

The Langham, Hong Kong;

Cordis, Hong Kong; and

Eaton HK.

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



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THE LANGHAM

HONG KONG

The Langham, Hong Kong seeks to provide a unique European-style refined service to its guests. The Langham, Hong Kong 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, Hong Kong 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.



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

H_{KTB} RATING *High Tariff A*

R_{ROOMS} 498

G_{FA} ('000 SQ.FT) 375

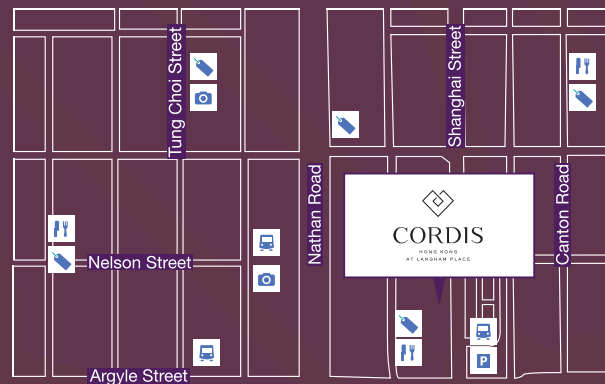




CORDIS

HONG KONG
AT LANGHAM PLACE

Cordis, Hong Kong provides a contemporary luxury hotel experience, with sleek and modern design inspired by contemporary Chinese art. Cordis, Hong Kong 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, Hong Kong 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, Hong Kong is the only large-scale luxury hotel in the heart of Mongkok

H_{KT B} RATING *High Tariff A*

ROOMS *669*

G_{FA} ('000 SQ.FT) *580*



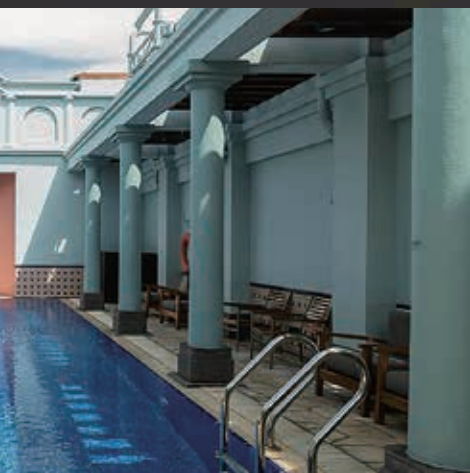


Eaton

Eaton HK is located on Nathan Road, a popular street in Hong Kong in a famous shopping, entertainment and commercial district. Eaton HK is easily accessible by various modes of public transportation and is located between Tsim Sha Tsui and Mongkok. Eaton HK has undergone a spectacular transformation with extensive renovation in its F&B outlets, common areas, facilities and some of its rooms in 2018, becoming the first hotel in Hong Kong to focus immensely on culture, socialization and the community.



Located on Nathan Road, Eaton HK's designs are amongst the most stylish and targeted to attract millennials, who are looking for a thorough experience-based stay.



H_{KTIB RATING} *High Tariff B*

R_{ROOMS} *465*

G_{FA ('000 SQ.FT)} *339*

The Trust Group comprises a hotel portfolio of three Hong Kong hotels including The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK. 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 22 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 HK is the physical arm of Eaton Workshop, a new global purpose-driven company and creative lab from Katherine Lo at the intersection of culture, media, hospitality, wellness, and progressive social change. With distinct parts—Hotel, House, Media, Wellness, and Impact Eaton Workshop transcends the notion of a traditional hotel to provide a physical, digital, and analog platform to artists, activists, healers, and leaders in their pursuit of making the world a better place.

LANGHAM

HOSPITALITY GROUP

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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- | | | | | | |
|---|----------------------------------|----|-------------------------------------|----|----------------------------|
| 1 | The Langham, Hong Kong | 8 | The Langham, Fifth Avenue, New York | 15 | Langham Place, Ningbo |
| 2 | Cordis, Hong Kong | 9 | The Langham, Melbourne | 16 | Langham Place, Xiamen |
| 3 | Eaton HK | 10 | The Langham, Sydney | 17 | Langham Place, Haining |
| 4 | The Langham, London | 11 | Cordis, Auckland | 18 | The Langham, Shenzhen |
| 5 | The Langham, Boston | 12 | The Langham, Xintiandi, Shanghai | 19 | The Langham, Haikou |
| 6 | The Langham, Huntington Pasadena | 13 | Cordis, Beijing Capital Airport | 20 | Cordis, Hongqiao, Shanghai |
| 7 | The Langham, Chicago | 14 | Langham Place Guangzhou | 21 | Eaton Washington DC |
| | | | | 22 | The Langham, Hefei |



Note:
The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK 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

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TRUST

Langham Hospitality Investments

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

COMPANY

Langham Hospitality Investments Limited

(incorporated in the Cayman Islands with limited liability)

TRUSTEE-MANAGER

LHIL Manager Limited

(as Trustee-Manager of the Trust)

COMPANY AND TRUSTEE-MANAGER BOARDS OF DIRECTORS

Non-executive Directors

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

Executive Director

Brett Stephen BUTCHER *(Chief Executive Officer)*
(appointed on 1 April 2019)
IP Yuk Keung, Albert *(Chief Executive Officer)*
(resigned on 1 April 2019)

Independent Non-executive Directors

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

COMPANY AND TRUSTEE-MANAGER AUDIT COMMITTEES

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

COMPANY REMUNERATION COMMITTEE

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

COMPANY NOMINATION COMMITTEE

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

COMPANY SECRETARY

WONG Mei Ling, Marina

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Conyers Dill & Pearman (Cayman) Limited
Mayer Brown

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

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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COMPANY PRINCIPAL SHARE REGISTRAR

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

COMPANY HONG KONG BRANCH SHARE REGISTRAR AND SHARE STAPLED UNITS REGISTRAR

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

WEBSITE

www.langhamhospitality.com

INVESTORS ENQUIRIES

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

HKEX STOCK CODE

1270

FINANCIAL CALENDAR

Event	Date
2018 Interim Results Announcement	8 August 2018
Payment of 2018 Interim Distribution of HK9.0 cents per Share Stapled Unit	28 September 2018
2018 Annual Results Announcement	14 February 2019
Closure of Registers for ascertaining the entitlement to attend and vote at the 2019 Annual General Meeting	6 May 2019 – 10 May 2019 (both days inclusive)
2019 Annual General Meeting	10 May 2019
Ex-distribution Date	17 May 2019
Closure of Registers for ascertaining the entitlement to the proposed 2018 Final Distribution	21 May 2019 – 23 May 2019 (both days inclusive)
Record Date for 2018 Final Distribution	23 May 2019
Payment of 2018 Final Distribution of HK10.5 cents per Share Stapled Unit	5 June 2019

DISTRIBUTION NOTICE

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

FINAL DISTRIBUTION

Total distributable income of the Trust Group for the year ended 31 December 2018 was HK\$410,491,000 (2017: HK\$437,200,000). It is the present policy of the Trust Group to distribute not less than 90% of total distributable income to its Holders of Share Stapled Units.

The Trustee-Manager Board has recommended the payment of a final distribution of HK10.5 cents per Share Stapled Unit (2017: HK11.1 cents) for the year ended 31 December 2018, representing a payout ratio of 100%, to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 23 May 2019. Subject to the approval of the Holders of Share Stapled Units at the 2019 AGM, the payment of the final distribution will be made on 5 June 2019. Taken together with the interim distribution of HK9.0 cents per Share Stapled Unit paid in September 2018, the total distribution per Share Stapled Unit for the year 2018 is HK19.5 cents. Based on the closing Share Stapled Unit price of HK\$2.90 as at 31 December 2018, Total Distribution per Share Stapled Unit is equivalent to a distribution yield of 6.7%.

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 (collectively, the "Registers") 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 2019 AGM

For the purpose of ascertaining the entitlement of Holders of Share Stapled Units to attend and vote at the 2019 AGM, the Registers will be closed from Monday, 6 May 2019 to Friday, 10 May 2019, both days inclusive.

In order to be eligible to attend and vote at the 2019 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 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 May 2019.

(ii) To qualify for the proposed 2018 final distribution

For the purpose of ascertaining the entitlement of Holders of Share Stapled Units to the proposed 2018 final distribution, the Registers will be closed from Tuesday, 21 May 2019 to Thursday, 23 May 2019, both days inclusive.

In order to qualify for the proposed 2018 final distribution, all properly completed transfer forms accompanied by the relevant Share Stapled Units certificates must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 May 2019.

FINANCIAL HIGHLIGHTS

(in HK\$ million, unless otherwise specified)	2018	2017	Change
Revenue of hotel portfolio	1,629.8	1,533.0	6.3%
Total rental income for the Trust Group under HKFRS 15 ^(a)	615.5	607.6	1.3%
Total rental income for the Trust Group, if without HKFRS 15 adoption	706.6	694.2	1.8%
Profit attributable to Holders of Share Stapled Units excluding Fair Value change on Investment Properties and Derivative Financial Instruments	311.6	341.2	-8.7%
Distributable Income	410.5	437.2	-6.1%
Distributions per Share Stapled Unit	HK19.5 cents	HK21.4 cents ^(b)	-8.9%

Notes:

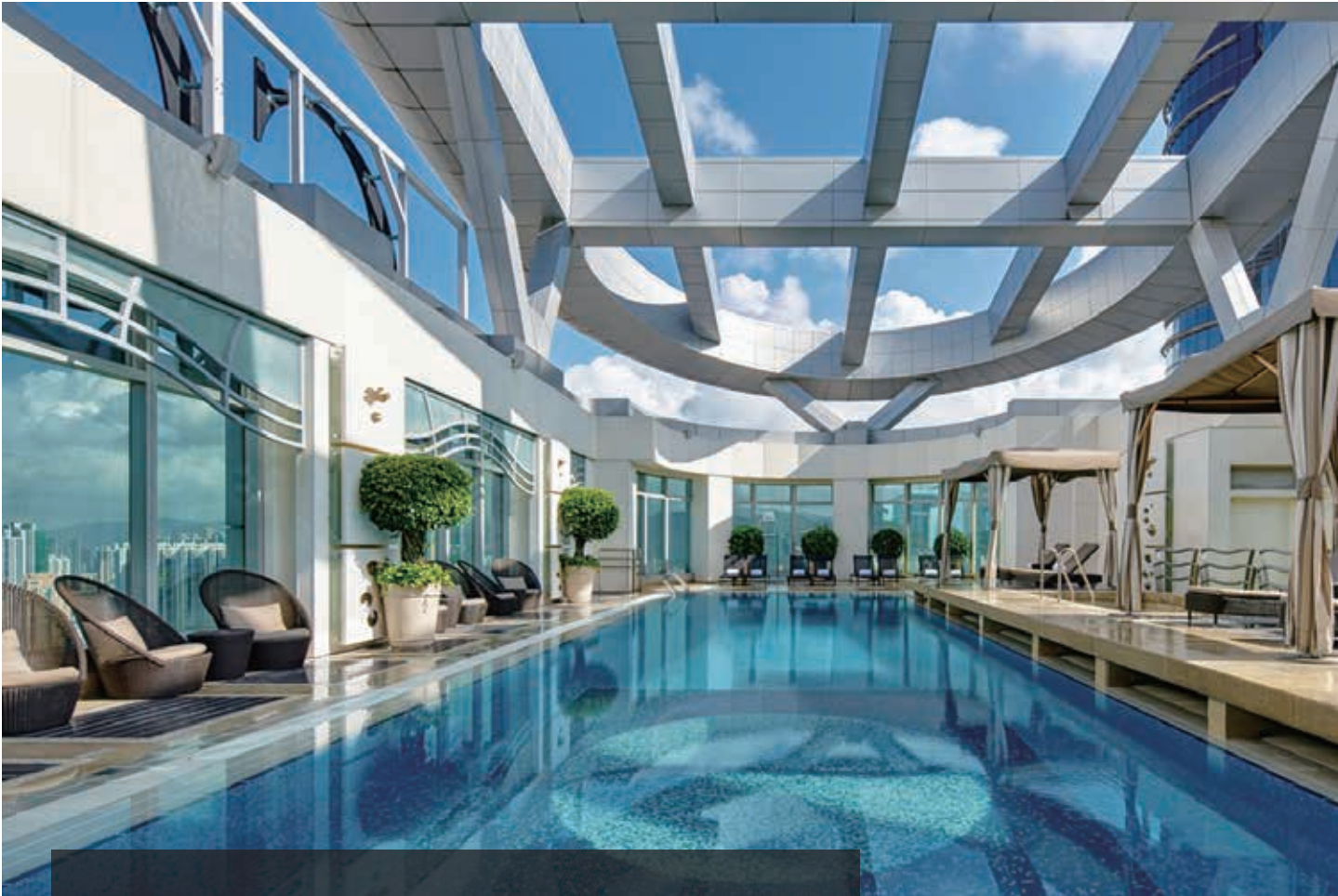
- (a) In 2018, the Trust Group has applied Hong Kong Financial Reporting Standard 15 ("HKFRS 15"), which has resulted in a net off of service fees from total rental income and be presented on a net basis. While the application of HKFRS 15 has resulted in a change in the presentation of total rental income, it does not impact the Group's net property income. Management Discussion and Analysis is based on total rental income under HKFRS 15. Figure has been restated in the comparative year.
- (b) Pursuant to the Distribution Entitlement Waiver Deed which expired in 2017, LHIL Assets Holdings Limited had agreed to waive its entitlement of distributions in respect of 50,000,000 Share Stapled Units held by it for the year ended 31 December 2017. The Distribution per Share Stapled Unit in the distribution period of 2017 had been adjusted for the effect of distribution waiver. Without such waiver, the Distribution per Share Stapled Unit would be HK21.0 cents.

As at	31 Dec 2018	30 Jun 2018	31 Dec 2017
Gross Value of Hotel Portfolio (in HK\$ million)	20,177	20,000	19,373
Net Asset Value per Share Stapled Unit	HK\$6.14	HK\$6.15	HK\$5.94
Gearing Ratio	34.2%	34.2%	34.7%

CHAIRMAN'S STATEMENT

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018



On the back of continued growth in overnight visitor arrivals from Mainland China, Hong Kong's overall hotel market posted strong growth in revenue per available room ("RevPAR") in 2018. Driven primarily by improvement in average room rate, growth in RevPAR for Hong Kong's hotels surged 9.2% year-on-year in 2018, which marked a clear acceleration from the growth of 2.3% in 2017.

CHAIRMAN'S STATEMENT

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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Fuelled by robust demand, all of our hotels witnessed higher RevPARs in 2018. The Langham, Hong Kong delivered a 12.4% growth in RevPAR, followed by Cordis, Hong Kong with a 10.0% growth. Revenue momentum also picked up at Eaton HK in the second half of 2018 as a revitalising partial renovation programme was completed in the third quarter of 2018. Hence, as compared with the 1.1% growth in RevPAR witnessed in the first half of 2018, Eaton HK managed an overall 4.1% growth in RevPAR in 2018. Except for Eaton HK, our hotels outperformed their respective hotel markets in 2018.

Overall RevPAR for the portfolio came in at 11.5% year-on-year in 2018, but room revenue increased at a more moderate rate of 7.7% year-on-year, given that there was a reduction in the number of available rooms amid renovation at Eaton HK. Revenue from food and beverage ("F&B") of the portfolio grew by 4.5% in 2018. F&B revenue performed well at Cordis, Hong Kong, while there was growth of restaurant businesses at The Langham, Hong Kong, its banqueting businesses remained soft in 2018. F&B revenue growth picked up for Eaton HK after the completion of renovation works in the second half of 2018. All-in-all, total revenue of the portfolio rose by 6.3% in 2018.

As compared with the same period in prior year, operating margin for the overall portfolio declined in 2018 due to planned renovations at Eaton HK, and therefore, operating profit before global marketing fee of the hotel portfolio only rose by 2.8%. Total gross rental income prepared under HKFRS 15 rose by 1.3% to HK\$615.5 million in 2018, which has factored in a 5.2% increase in service fee expense. Net property income of the Trust Group rose by 1.1% year-on-year to HK\$587.0 million in the corresponding period.

Finance costs of the Trust Group rose by 23.1% year-on-year to HK\$188.8 million in 2018 primarily due to higher interest rate. Although there was a booking of HK\$594.2 million due to the increase in fair value of investment properties (hotel portfolio), the increase was less than

the HK\$808.4 million booked in the prior year, hence net profit still dropped by 21.8% to HK\$895.6 million for the year ended 31 December 2018. The Trust Group's 2018 results also factored in a decrease in fair value of derivative financial instruments amounting to HK\$10.2 million, reflecting the decline in market value of the interest rate swap contracts as at the end of December 2018. Net profit excluding fair value change of investment properties and derivative financial instruments was HK\$311.6 million, representing a decline of 8.7% from 2017.

As at 31 December 2018, valuation of the hotel portfolio rose to HK\$20,177 million as compared with HK\$19,373 million at the end of December 2017. Net Asset Value ("NAV") of the Trust Group amounted to HK\$12,959 million or HK\$6.14 per Share Stapled Unit as at the end of December 2018. Based on the Company's closing price of HK\$2.90 per Share Stapled Unit on 31 December 2018, this represented a discount of 52.8% to the Trust Group's NAV. Gearing ratio was 34.2% as at the end of December 2018 as compared with 34.7% as at the end of December 2017.

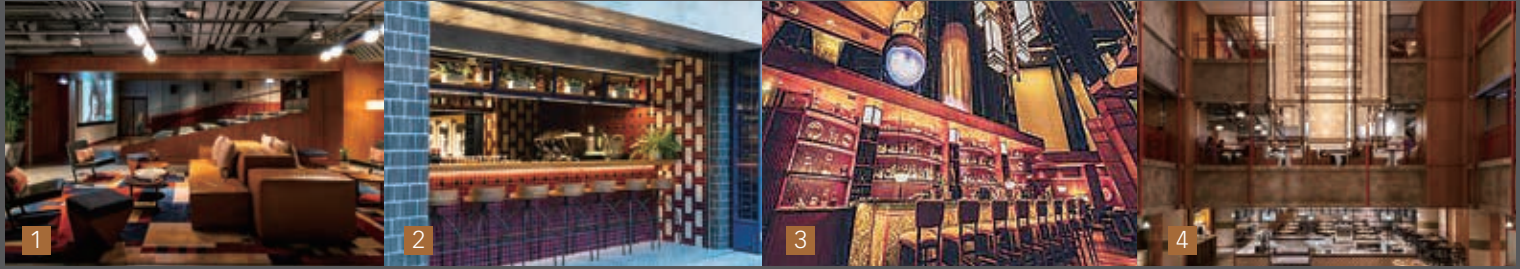
The Trust Group has been keeping a close monitor on interest rate movements, especially as interest rates in Hong Kong have been rising in accordance with the tightening of monetary policies by the U.S.. During 2018, the Trust entered into an additional interest rate swap contract with a notional amount of HK\$0.5 billion, which further raised the total notional worth of swap contracts to HK\$4.0 billion, such that 57.1% of our HK\$7.0 billion bank loan was effectively fixed through these contracts. The swap rates on these contracts averaged 1.65% as at 31 December 2018.

With the transformation of Eaton HK completed in 2018, the hotel is breaking new ground with its unique operating philosophy and immense focus on culture, socialisation and the community. Such unprecedented Corporate Social Responsibility activities may incur some expenditure in the early phases of this socially motivated transformation. Nevertheless, in addition to the traditional F&B offerings like our Michelin-starred Chinese cuisine and an impressive atrium all-day dining venue, Eaton HK targets to grow its share of the millennial travellers market with other unconventional facilities including a co-working space and area dedicated for communal activities. As millennial travellers will enter their peak earnings over the next

CHAIRMAN'S STATEMENT

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018



1: Hotel's communal space, with the theatre behind 2: Flower Years opens up into the outdoor Astor Plaza
3: Terrible Baby 4: The impressive three-floor atrium used to house the hotel's ballrooms on the bottom floor

decade, and will be one of the fastest growing customer groups in the future, we expect the repositioned Eaton HK, with its designs specifically tailored to the changing lifestyle of the millennials, is well placed to capture this tremendous growth opportunity.

OUTLOOK

Potential macro headwinds from trade tensions and other political issues will lower global economic growth in 2019. In fact, economic data released from China already revealed that there has been a marked slowdown in its economy since late 2018. However, thus far, the slowdown has yet to deter visitor arrivals from the Mainland to Hong Kong, which is still showing growth over the past few months. Meanwhile, China has been very proactive in providing stimulus to boost its economy and its constructive policy stance should help avoid the risk of a hard landing for China's economy. At the same time, the completion of major transport infrastructures included the high-speed rail link to Hong Kong and the Hong Kong-Zhuhai-Macau Bridge has made it much more convenient for Mainland tourists to travel to Hong Kong, and we hope the easier access might provide new opportunities for Hong Kong's hotel market in the farther horizon. As such, we expect the growth momentum in visitor arrivals will be sustained into 2019, albeit at a more moderate rate.

On the hotel room supply side, the pipeline of new hotels in development is expected to be more moderate and slow to a compound annual growth rate ("CAGR") of 3.3% over the next three years, as compared with the CAGR of 3.6% in the past three years, which should be supportive of medium term RevPAR outlook. Furthermore,

these projections have not accounted for potential hotel redevelopments, which will partly reduce new supply in the coming years.

In 2019, revenue of the hotel portfolio is expected to grow as renovation of the F&B outlets at Eaton HK was completed in 2018, which will lay the foundation for high-quality revenue growth in the coming years. We believe the hotel's unique positioning, which is at the forefront of catering to millennials' needs, will give Eaton HK a first mover advantage in this rapidly shifting trend. The focus of management for the next few years will be to strengthen the hotels' positioning in their respective markets and in time, to deliver improvements in RevPAR and F&B business, and also in embracing corporate social responsibility and in creating a platform for social progress.

Going forward, there will be completion of other tourism and infrastructure projects including the expansion of major theme parks and a new terminal at the Hong Kong airport, which will serve to support tourist visitations to Hong Kong in the long run, and we expect our renovated and repositioned hotels will be in a better position to capitalize on such growth trajectory.

Lo Ka Shui
Chairman

CEO'S REVIEW

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

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

Reflecting an increase in the Hotels' aggregate gross operating profit before deduction of global marketing fee for the year ended 31 December 2018, variable rental income from the Master Lessee rose by 2.8% year-on-year to HK\$481.2 million in 2018. In addition to fixed rental income of HK\$225.0 million and HK\$0.4 million in retail rental income, total rental income received by the Trust Group, if without HKFRS 15 adoption, was HK\$706.6 million for the reporting period, representing a growth of 1.8% year-on-year. As a result of the adoption of HKFRS 15, an adjustment has been made by netting off HK\$91.1 million in service fees incurred and total rental income was HK\$615.5 million, representing a year-on-year growth of 1.3%.

(in HK\$ million)	2018	2017	Change
Variable rental income	481.2	468.3	2.8%
Fixed rental income	225.0	225.0	–
Rental income from retail shops	0.4	0.9	-55.6%
Total rental income for the Trust Group, if without HKFRS 15 adoption	706.6	694.2	1.8%
Adjustment of HKFRS 15 adoption (netting of service fees)	(91.1)	(86.6)	5.2%
Total rental income for the Trust Group under HKFRS 15	615.5	607.6	1.3%

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

Share Stapled Units, cash or a combination of both. For 2018, the Hotel Manager has elected to be paid wholly in the form of Share Stapled Unit for the payment of hotel management fees and licence fee.

In 2018, global market fee rose by 8.0% year-on-year as a result of increased total room revenue. In addition to a 6.5% year-on-year increase in licence fee, these led to an overall increase in total service fees payable to the hotel management company, which rose by 5.2% year-on-year to HK\$91.1 million in 2018.

CEO'S REVIEW

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

(in HK\$ million)	2018	2017	Change
Hotel management fees	55.8	53.7	3.9%
Licence fee	16.3	15.3	6.5%
Global marketing fee	19.0	17.6	8.0%
Total service fees expense	91.1	86.6	5.2%

Hotel properties' related expenses rose by 5.9% year-on-year to HK\$28.5 million in 2018, which was mainly driven by increase in government rates. The Trust Group's net

property income rose by 1.1% year-on-year to HK\$587.0 million in 2018 after accounting for the increase in properties related expense.

(in HK\$ million)	2018	2017	Change
Total rental income under HKFRS 15	615.5	607.6	1.3%
Hotel properties related expenses	(28.5)	(26.9)	5.9%
Net property income	587.0	580.7	1.1%

As we strive to reduce the negative impact from potential hike in interest rate on distributable income, the Trust Group has effectively fixed the interest rate of HK\$4,000 million of bank loan by entering into four-year interest rate swap contracts since early November 2016 and through June 2018 at weighted average swap rate of 1.65%. Hence, the Trust Group's total finance costs included net interest settlement on the interest rate swaps, which came to HK\$11.4 million in 2018, a reduction from the HK\$30.7 million incurred in 2017.

As a result of higher interest rate, interest expense on the loan rose by 52.2% to HK\$159.4 million in 2018. Including amortisation of loan upfront fee of HK\$18.0 million and net interest settlement of HK\$11.4 million, total finance costs came to HK\$188.8 million, representing a year-on-year increase of 23.1%.

CEO'S REVIEW

(in HK\$ million)	2018	2017	Change
Breakdown of Finance costs			
Interest expense	(159.4)	(104.7)	52.2%
Amortisation of loan upfront fee	(18.0)	(18.0)	–
Interest paid on fixed interest rate swaps	(11.4)	(30.7)	-62.9%
Total Finance costs	(188.8)	(153.4)	23.1%

In 2018, there was a decrease in fair value of derivative financial instruments amounting to HK\$10.2 million, which reflects a decrease in the market value of the contracts. As fair value changes are non-cash items, they do not impact distributable income.

An increase in fair value of investment properties amounting to HK\$594.2 million was booked in 2018, but as the amount was 26.5% lower than that booked in the prior year, profit attributable to Holders of Share Stapled Units declined by 21.8% to HK\$895.6 million in 2018. Excluding the impact of fair value change on investment properties and financial derivative instruments, profit attributable to Holders of Share Stapled Units was HK\$311.6 million in 2018, representing a drop of 8.7% year-on-year.

(in HK\$ million)	2018	2017	Change
Net property income	587.0	580.7	1.1%
Interest and other income	0.2	2.3	-91.3%
Increase in fair value of investment properties (Hotel portfolio)	594.2	808.4	-26.5%
Fair value change on derivative financial instruments (interest rate swaps)	(10.2)	(3.6)	183.3%
Finance costs	(188.8)	(153.4)	23.1%
Trust and other expenses	(12.0)	(11.1)	8.1%
Profit before tax	970.4	1,223.3	-20.7%
Income tax expense	(74.8)	(77.3)	-3.2%
Profit attributable to Holders of Share Stapled Units	895.6	1,146.0	-21.8%
Profit attributable to Holders of Share Stapled Units excluding Fair Value change on Investment Properties and Derivative Financial Instruments	311.6	341.2	-8.7%

CEO'S REVIEW

To derive the Trust Group's distributable income, net profit was adjusted for the following items. Items deducted from net profit were: i) increase in fair value of investment properties 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 profit included: i) hotel management and licence fees paid in Share Stapled Units, ii) amortisation of upfront loan fee, iii) decrease in fair value on derivative financial instruments and iv) deferred taxation.

Of the adjustment items, deferred tax added back for distribution rose by 3.8% to HK\$33.2 million in 2018, which was a result of increased capital expenditure related to renovations incurred over the past year. Distributable income of the Trust Group, based on a 100% distribution payout for 2018, dropped by 6.1% year-on-year to HK\$410.5 million.

(in HK\$ million)	2018	2017	Change
Profit attributable to Holders of Share Stapled Units	895.6	1,146.0	-21.8%
Add:			
Hotel management fees and Licence fee paid in Share Stapled Units	72.1	69.0	4.5%
Amortization of upfront loan fee, a non-cash cost	18.0	18.0	–
Deferred tax	33.2	32.0	3.8%
Decrease in fair value on derivative financial instruments	10.2	3.6	183.3%
Less:			
Furniture, fixtures and equipment reserve	(24.4)	(23.0)	6.1%
Increase in fair value of investment properties	(594.2)	(808.4)	-26.5%
Distributable income	410.5	437.2	-6.1%

Up to 2017, the Great Eagle Group has waived its entitlement to receive distributions for some of its Share Stapled Units held. However, from 2018 onward, all of the holdings of Share Stapled Units of Great Eagle Group will be entitled to receive distribution payable. Hence, Distribution per Share Stapled Unit before and after the impact of distribution waiver will be the same from 2018 onward and will be simply referred to as Distribution per Share Stapled Unit.

In 2018, distribution per Share Stapled Unit was HK19.5 cents, representing a year-on-year decline of 8.9% when compared with a distribution per Share Stapled Unit of HK21.4 cents achieved for 2017 after the impact of distribution waiver.

CEO'S REVIEW

Hotel Performance

	Average Daily Rooms Available		Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	2018	2017	2018	2017	2018	2017	2018	2017
The Langham, Hong Kong	498	498	91.2%	88.8%	2,336	2,135	2,130	1,895
<i>year-on-year growth</i>			+2.4ppt		+9.4%		+12.4%	
Cordis, Hong Kong	666	663	95.0%	93.9%	1,806	1,660	1,715	1,559
<i>year-on-year growth</i>			+1.1ppt		+8.8%		+10.0%	
Eaton HK	405	465	87.0%	94.4%	1,114	986	969	931
<i>year-on-year growth</i>			-7.4ppt		+13.0%		+4.1%	
Hotel Portfolio	1,569	1,626	91.7%	92.5%	1,804	1,603	1,654	1,483
<i>year-on-year growth</i>			-0.8ppt		+12.5%		+11.5%	

Hong Kong Hotel Markets	Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	2018	2017	2018	2017	2018	2017
High Tariff A	89.0%	86.0%	2,152	2,068	1,915	1,778
<i>year-on-year growth</i>	+3.0ppt		+4.1%		+7.7%	
High Tariff B	91.0%	90.0%	1,178	1,067	1,072	960
<i>year-on-year growth</i>	+1.0ppt		+10.4%		+11.7%	
All Hotels	91.0%	89.0%	1,375	1,288	1,251	1,146
<i>year-on-year growth</i>	+2.0ppt		+6.8%		+9.2%	

For the portfolio as a whole, RevPAR amounted to HK\$1,654 for 2018, representing a year-on-year growth of 11.5%. The growth in RevPAR was primarily driven by the 12.5% increase in average daily rates to HK\$1,804, whereas occupancy dropped by 0.8 percentage points to 91.7% during the period. The drop in occupancy for the portfolio was due to a 7.4 percentage points drop in occupancy at Eaton HK amid disruption from large scale renovation works in the common areas, some of its rooms

and F&B outlets during 2018. Given a 3.5% drop in the number of available rooms, total room revenue of the portfolio rose by 7.7% year-on-year to HK\$947.5 million for 2018 and accounted for 58.1% of the total revenue of the portfolio.

Revenue from F&B rose 4.5% year-on-year to HK\$641.9 million in 2018 and accounted for 39.4% of total revenue of the hotel portfolio in 2018.

CEO'S REVIEW

RevPAR growth of the two High Tariff A hotels, The Langham, Hong Kong and Cordis, Hong Kong was 12.4% and 10.0% respectively in 2018. Both were better than the corresponding High Tariff A hotel market, which recorded a growth of 7.7% in RevPAR in 2018. In addition, these two hotels maintained higher occupancy rates of 91.2%

and 95.0% respectively, as compared with 89.0% of the corresponding High Tariff A market. Given disruption from the renovation works, Eaton HK underperformed the corresponding High Tariff B hotel market with a 4.1% RevPAR growth in 2018, compared to a 11.7% growth for High Tariff B market.

Revenue breakdown (in HK\$ million)	The Langham, Hong Kong	Cordis, Hong Kong	Eaton HK	Total
Rooms	387.2	416.9	143.4	947.5
Food & Beverages	240.7	313.2	88.0	641.9
Others	13.0	18.0	9.4	40.4
Total revenue	640.9	748.1	240.8	1,629.8

For the hotel portfolio as a whole, the number of guests from Mainland China rose by 7.1% year-on-year in 2018 and this market accounted for 37.5% of total arrivals

by geographical breakdown. In addition, average room rate increase from Mainland China arrivals was 17.4% in comparison to 2017.

	Trust Group's hotel portfolio	Overnight arrivals to Hong Kong
Year-on-year growth in guests from Mainland China	+7.1%	+7.4%
% of overnight guests from Mainland China to total arrivals	37.5%	68.0%

Performance of the individual hotels

The Langham, Hong Kong, welcomed an increased number of arrivals from Mainland China, followed by arrivals from other Asia countries including Korea, Singapore, Thailand and Malaysia. Given the hotel's strategy which focuses on driving high spending leisure and business travellers, this helped the hotel report a 9.4% increase in average rate and a 12.4% increase in RevPAR in 2018. F&B revenue for the hotel rose by 2.4% year-on-year in 2018. The increase was driven by the growth in business from T'ang Court, which has received the prestigious Michelin three-star rating for the third consecutive year, as well as improved business at the Palm Court. However, banqueting business was relatively soft in 2018.

Cordis, Hong Kong, with its more accommodative pricing point in the high end hotel spectrum witnessed growth from arrivals across different geographic regions. In addition to the growth in arrivals from Mainland China in 2018, the hotel witnessed growth in business from other segments, such as long-haul markets including the U.S. and the U.K.. Revenue from F&B also witnessed a growth of 4.5% year-on-year in 2018 which was mostly contributed by strong Banquet business.

Eaton HK has undergone a spectacular transformation with extensive renovation in its F&B outlets, common areas, facilities and some of its rooms in 2018, becoming the first hotel in Hong Kong to focus immensely on culture, socialization and the community. The designs are amongst the most stylish and targeted to attract millennials, who are looking for a thorough experience-based stay.

As the renovation works were completed in 2018, the hotel's RevPAR started to recover in the second half of 2018. RevPAR rose by 4.1% in 2018 as compared with only 1.1% growth in RevPAR in the first half of year. Revenue from F&B at Eaton HK was up 10.6% in 2018, following the completion of the renovation works in its F&B outlets which commenced in 2017.

FINANCIAL REVIEW

Net Assets Attributable to Holders of Share Stapled Units

Net Assets Attributable to Holders of Share Stapled Units was HK\$12,958.6 million or HK\$6.14 per Share Stapled Unit as at 31 December 2018 (2017: HK\$12,411.1 million or HK\$5.94 per Share Stapled Unit) which represents a 111.7% premium to the closing Share Stapled Unit price of HK\$2.90 as at 31 December 2018.

Debt Profile

Total outstanding borrowings of the Trust Group as at 31 December 2018 were HK\$6,965 million (2017: HK\$6,800 million). Secured term loans of HK\$6,800 million (2017: HK\$6,800 million) were on a floating-rate interest basis and repayable in full in May 2020. Revolving loans of HK\$165 million (2017: Nil) were also on a floating-rate interest basis and repayable in January 2019, which may be redrawn in the revolver until maturity of the term loans.

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

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

As at 31 December 2018, total gross assets of the Trust Group were HK\$20,366.2 million (2017: HK\$19,617.9 million). Gearing ratio, calculated as total outstanding borrowings as a percentage of gross assets, was 34.2% (2017: 34.7%).

Cash Position

As at 31 December 2018, the Trust Group had a cash balance of HK\$86.9 million (2017: HK\$101.1 million) to satisfy a portion of asset enhancement of Eaton HK, as well as its working capital and operating requirements. In addition, the Trust Group had unused revolving loans amounting to HK\$235 million as of 31 December 2018.

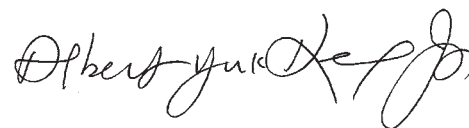
Pledge of Assets

As at 31 December 2018 investment properties of the Trust Group with a fair value of HK\$20,177 million (2017: HK\$19,373 million), together with assignments of sales proceeds, insurance proceeds, rental income, revenues and all other income generated from the properties, were pledged to secure a HK\$7,200 million term and revolving loan facilities granted to the Trust Group.

Commitments

As at 31 December 2018, the Trust Group had authorised capital expenditures for investment properties which were not provided for in these consolidated financial statements amounting to HK\$49,293,000 (2017: HK\$170,582,000), of which HK\$42,195,000 (2017: HK\$123,838,000) 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

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DIRECTORS

Dr. LO Ka Shui

Chairman and Non-executive Director

Dr. LO Ka Shui, aged 72, has been the Chairman and Non-executive Director of the Trustee-Manager and the Company since 2013. He is a Member of the Remuneration Committee and of the Nomination Committee of the Company, and is also a Director of the subsidiaries of the Company. He is the Chairman and Managing Director of Great Eagle Holdings Limited, and the Chairman and Non-executive Director of the Manager of the publicly listed trust, Champion Real Estate Investment Trust. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a member of the Board of Trustees of The Hong Kong Centre for Economic Research and a Vice Chairman of The Chamber of Hong Kong Listed Companies. Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has over three decades of experience in property and hotel development and investment both in Hong Kong and overseas. Dr. Lo is the father of Mr. Lo Chun Him, Alexander, being a Non-executive Director of the Trustee-Manager and the Company.

Mr. LO Chun Him, Alexander

Non-executive Director

Mr. LO Chun Him, Alexander, aged 33, has been a Non-executive Director of the Trustee-Manager and the Company since February 2017. He is also a Director of the subsidiaries of the Company. Mr. Lo is an Executive Director of Great Eagle Holdings Limited, which is listed on the Main Board of the Stock Exchange. Prior to joining the Great Eagle Group in 2010, he had worked at Citibank's investment banking division with a focus on Hong Kong's market. Mr. Lo is also a member of the Management Committee of The Federation of Hong Kong Hotel Owners Limited. 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

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Mr. Brett Stephen BUTCHER
Chief Executive Officer and Executive Director
(Appointed on 1 April 2019)

Mr. Brett Stephen Butcher, aged 59, was appointed as the Chief Executive Officer and Executive Director of the Trustee-Manager and the Company on 1 April 2019. He is also a Director of the subsidiaries of the Company. Mr. Butcher has over 39 years' extensive hotel business experience in both hotel operations and sales and marketing in Asia, the Pacific and North America. He is the chief executive officer of the hotel asset management arm of Great Eagle Holdings Limited ("Great Eagle", being the substantial Holder of Share Stapled Units of the Trust Group) principally overseeing the management of all hotel assets of Great Eagle worldwide. Mr. Butcher holds a Bachelor's Degree in Business (Hospitality Management) from University of Queensland Lawes Campus.

Mr. IP Yuk Keung, Albert
Chief Executive Officer and Executive Director
(Resigned on 1 April 2019)

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

Power Assets Holdings Limited, TOM Group Limited and New World Development Company Limited, all of which are listed on the Main Board of the Stock Exchange of Hong Kong. During the past three years, Mr. Ip was an Independent Non-executive Director of AEON Credit Service (Asia) Company Limited, New World China Land Limited and Hopewell Highway Infrastructure Limited.

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

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

Professor CHAN Ka Keung, Ceajer **Independent Non-executive Director**

Professor CHAN Ka Keung, Ceajer, aged 62, has been an Independent Non-executive Director of the Trustee-Manager and the Company since August 2018. He is the Chairman of the Company's Remuneration Committee, a Member of the Company's Nomination Committee and a Member of the Audit Committees of the Trustee-Manager and the Company. Professor Chan is an Adjunct Professor and a Senior Advisor to the Dean at HKUST Business School. He was appointed as the Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region from July 2007 to June 2017. Prior to that, he was Dean of Business and Management in the Hong Kong University of Science and Technology (HKUST). Before joining the HKUST Business School in 1993, Professor Chan had spent nine years teaching at Ohio State University in the United States. Professor Chan is currently a Non-executive Director of Hong Kong Mortgage Corporation Limited and a member of Competition Commission of Hong Kong. He serves as an Independent Non-executive Director on the Board of Guotai Junan International Holdings Limited, a company listed on the Main Board of Hong Kong Stock Exchange and is also a Senior Advisor to Welab Holdings Limited. Professor Chan was a Non-executive Director of MTR Corporation Limited.

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

Professor LIN Syaru, Shirley **Independent Non-executive Director**

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

Mr. WONG Kwai Lam, aged 69, has been an Independent Non-executive Director of the Trustee-Manager and the Company since 2013. He is the Chairman of the Audit Committees of the Trustee-Manager and the Company, and a Member of each of the Company's Remuneration Committee and Nomination Committee. Mr. Wong is an Independent Non-executive Director, a Member of each of the Audit Committee and Designated (Finance) Committee of ARA Asset Management (Prosperity) Limited, the Manager of publicly listed Prosperity Real Estate Investment Trust on the Main Board of the Stock Exchange. He is also an Independent Non-executive Director and 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. During the past three years, Mr. Wong was an Independent Non-executive Director and the Chairman of the Remuneration and Appraisal Committee and a Member of the Audit Committee of China Merchants Bank Co., Ltd.. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., a member of the Advisory Board of Continuing and Professional Studies, The Chinese University of Hong Kong ("CUHK") and a Vice Chairman of the Board of Trustees and a Member of the Investment Sub-committee of the Board of Trustees of New Asia College, CUHK. He is a Member of the Hospital Governing Committee of the Prince of Wales Hospital and a Director of the CUHK Medical Centre Limited. He was formerly a Member of

the Advisory Committee and a Member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong, 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

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SENIOR MANAGEMENT

Mr. LI Man Wai, Alexander *Chief Financial Officer*

Mr. LI Man Wai, Alexander, aged 64, 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, Cordis Hong Kong, Eaton HK 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 39 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 45, 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 22 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 41, 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 17 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 52, 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 30 years of experience in company secretarial and compliance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

At LHIL, 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 share 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 the 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 material issues including energy and water consumption, carbon emission, and waste management.

EarthCheck certification is the mandatory key performance indicator for our hotels. In 2018, the Hotels 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 14001:2015 certification.

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

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- Energy Saving Charter
- Charter on External Lighting
- Foodwise Charter
- Wastewi\$e Certification

Cordis, Hong Kong received the Certificate of Excellence – Sustainable Product Supplier Award by Business Environment Council.

Performance Monitoring

Total electricity consumption of the Hotels was 146,484 GJ in 2018, representing a 0.9% decrease compared to 2017 (147,849 GJ) as a result of on-going energy saving initiatives and renovation at Eaton HK. Total gas/fuel consumption of the Hotels in 2018 was 46,773 GJ, an increase of 1.8% compared to 2017 (45,945 GJ) mainly due to the re-opening of the dining outlets at Eaton HK since April 2018. Total water consumption was 478,874 CuM, representing a slight 0.4% decrease compared to 2017 (480,715 CuM). Total Greenhouse Gas emission (Scope 1 and Scope 2) of the Hotels in 2018 was 23,225 tonnes CO₂-eq.

Energy and Water

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 identified energy saving opportunities through optimising the operational efficiency of plants and equipment. Efficient lighting and air conditioning systems

are always our top priority for a green hotel operation. For example, The Langham, Hong Kong replaced 150 sets of LED ceiling lights panels at their back of house office and corridor area, and Cordis, Hong Kong upgraded their dish and pot washer in the western kitchen to Granule Maxi which has steam recovery function to save energy, and also water and chemicals.



LED ceiling lights at The Langham, Hong Kong

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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In addition to achieving the EarthCheck certification, the newly renovated Eaton HK is in progress to attain the LEED Certification in Gold Rating by the US Green Building Council. The hotel is designed with various energy and resource-efficient features. For example, the Hotel installed the Capture Jet Exhaust technology which prevented heat and impurities produced by cooking appliances from spreading to the work area, drove efficiency, and reduced required airflows resulting in savings in weight, space and energy consumption.



The Hotels are responsible for reducing the water footprint by installing water-efficient equipment and raising staff awareness on water conservation. In 2018, Cordis, Hong Kong replaced the shower heads in the guest rooms with a more water efficient type, with a reduction in flow rate to 9.5 litres per minute. The Hotel's housekeeping team replaced the wipe to Magic Sponge to remove bathtub stains easier and faster. It is estimated that the water consumption for cleaning would be reduced at least 1/3 than before.



Material Use and Waste

Waste generation is unavoidable in all business operations. 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). We also engaged our stakeholders to minimise the waste sent to landfill. Cordis, Hong Kong has been responsible for managing the waste disposal from the Mong Kok complex which is located at the Level 2 of the same building. Starting from 2018, the Hotel assisted the Mong Kok Complex in diverting food waste and glass bottles from general refuse for recycling.

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In 2018, the Hotel Manager globally launched the 'phase out' plan of single use plastics in hotels. Single-use plastics has been posing significant adverse impact to our environment, particularly to our marine system. Eaton HK leads and sets the example by offering reusable metal straws in dining outlets, in-house refillable glass water bottle and wet amenities in refillable dispensers in guest rooms. Cordis, Hong Kong also replaced plastic straw to Bio-pot which is made by potato starch and plastic stirrer to stainless steel durable stirrer in all restaurants.

The Hotels also select environmentally preferred materials where is applicable and practical. For example, Eaton HK features a purifying Himalayan salt lamp, Plushbed's Luxury Bliss mattress which is 100% natural, Green-Guard Gold Certified, USDA Certified organic latex & cotton, Oeko-Tex standard 100 certification, GOTS certified organic, eco-INSTITUT certified, FSC certified and more. Bathrooms are outfitted with organic, environmentally conscious amenities from Australia-based company Grown Alchemist (100% natural ingredients, free of harmful chemicals).

The Hotels also designed and built sustainable Christmas trees made out of recycled and waste materials collected from the hotels to engage our colleagues and guests in our commitment to sustainability. All Christmas Trees were posted in the Social Media channels (Facebook, Instagram and WeChat) for public voting in December. We received over 20,000 votes and comments. The entries were also reviewed and scored based on their popularity, sustainability, creativity and innovation by the Hotel Manager.



Sustainable Christmas trees created by the Hotels

We continue to actively seek energy and water-saving initiatives to ensure an even more efficient operation of the Hotels.

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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 featured CONNECT environment event introduced in 2015. Throughout the month, the Hotels offered sustainable seafood and meatless dishes at restaurants and colleague cafeterias to promote a healthy and sustainable diet. Colleagues were also encouraged to walk more and use less transportation with the 10,000 steps challenge within the Hotels.



Yoga and Beer under the Stars event at Cordis, Hong Kong to celebrate Earth Hour



Sustainable seafood at colleague cafeteria of The Langham, Hong Kong



Sustainable seafood promotion at Alibi of Cordis, Hong Kong

Eaton HK actively partnered with various organisations to promote sustainability and social good. The Hotel partnered with sustainability platform Green is The New Black on an event that hosted sustainability industry leaders in Hong Kong as part of the 3-day Conscious Festival. We also featured the films River Blue which is a compelling documentary that highlights fashion’s water pollution problem; and A Plastic Ocean, an award-winning documentary that is creating a global movement to rethink plastic. We also partnered to organise a Denim Repair Workshop to teach traditional darning and sashiko mending stitching skills, incorporating modern patchwork on a damaged garment or worn jeans.

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Denim repair workshop at Eaton HK

Since 2013, the Hotel Manager and the Hotels introduced sustainable supply chain management in phases following the initiative of our parent company. We focused on raising the corporate social responsibility awareness of our significant suppliers by communicating with them about our Supplier Code of Conduct. The Hotel Manager also developed the Responsible Purchasing Policy which enables us to manage strategic environmental and social issues in our supply chain.

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.

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 2018, our colleagues delivered about 1,400 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.

The following sections highlight some of the major community engagement activities in 2018:

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. The children programme of Hope worldwide Hong Kong gives children from low-income families the opportunity to reach their potential and break the cycle of inter-generational poverty. This year, we jointly organised our annual summer event "The Summer Workshop" at Eaton HK. Forty children from local low-income families were invited to discover how to be a global citizen through various workshops and hotel experiences.

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Hope worldwide Hong Kong Summerly Event at Eaton HK

Cordis, Hong Kong partnered with Lions Club of Central to support the Junior Chef Cooking Competition which promoted healthy cooking, good nutrition and food waste reduction. We not only volunteered in organising the competition, but also hosted a cooking demonstration by the three winning junior chefs at The Garage Bar in Cordis, Hong Kong. Members of Hong Kong Neuro-muscular Disease Association were invited to enjoy the healthy meals prepared by these talented guest chefs.



Junior Chef Cooking Competition at Cordis, Hong Kong

The Langham, Hong Kong has been supporting Heep Hong Society which implements different service schemes to support the youth in need, including career planning, vocational skills assessment, training and work placements to increase their employment opportunities and support their developmental needs. We arranged a hotel visit for 20 Heep Hong trainees to experience the cooking and food preparation demonstration in a luxury hotel by our Executive Sous Chef – Western. The Hotel successfully hired a pastry trainee assistant after this hotel visit.



Heep Hong Society Hotel Visit at The Langham, Hong Kong

Support of the Environment

We raised 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.

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The Hotels have been partnering with Food Angel through daily donation of vegetable trimmings from our kitchens. These vegetables become the balanced diet meal boxes prepared by Food Angel for the underprivileged communities in Hong Kong. Through this meaningful initiative, we re-direct the resources from waste to value. 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. In 2018, over 200 colleagues from our hotels volunteered at Food Angel.



Volunteers from The Langham, Hong Kong at Food Angel

The Hotels also actively promoted an eco-friendly lifestyle to our future generation. The Trust Group's CEO Mr. Albert Ip was the Officiating Guest for the Magic Hands Environmental Competition 2018 Awards Ceremony organised by the World Green Organisation. The Competition aimed to raise secondary school students' awareness on the importance of environmental protection. Mr. Ip is also 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.



Magic Hands Environmental Competition 2018 Awards Ceremony

Support Local Community

Local communities have their own individual social concerns and it is our responsibility to make 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.

Since 2010, our colleagues at Cordis, Hong Kong, partnered with the Hong Kong Playground Association and Po Leung Kuk, where they volunteered for the annual elderly home cleaning activities in preparation for Chinese New Year. It is the Chinese tradition to cleanse the home before the Lunar New Year. We provided household cleaning service at nine homes in the neighbourhood.

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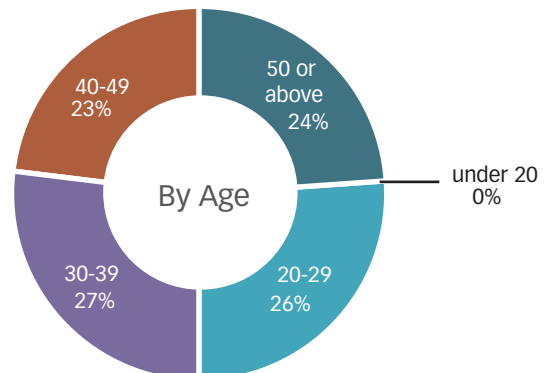
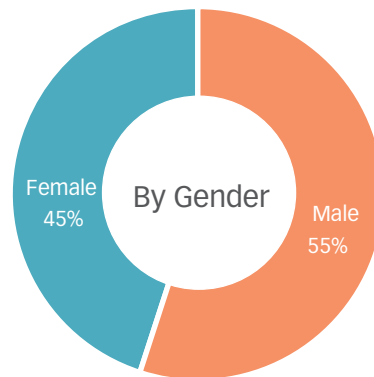
Supporting the mentoring of our next generation of local students, the Trust Group's CEO Mr. Ip, who is the Chairman – Career Development Advisory Committee and Adjunct Professor of City University of Hong Kong, delivered talks to their students on "The Art of Bank Lending & Risk Management" to provide an overview on the credit risk and risk management, and the characteristics of credit lending, and attributes of a successful lending officer.



COLLEAGUES

The Hotel Manager and the Hotels are committed in 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 continues to be recognised with the award "Manpower Developer 1st" in the Manpower Developer Scheme by the Employees Retraining Board (ERB) Hong Kong. In 2018, the Hotels also participated in the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme.

As of 31 December 2018, the number of employees of the Hotels increased approximately 6% to 1,380 (1,297). This can be attributed to the increase in staff in Eaton HK due to the renovation which was completed in 2018. The following charts show the composition of employees of the Hotels as at 31 December 2018:



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Colleague Wellness

The health, safety and wellness of our colleagues remain a top 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 in conjunction with the Key Performance Indicators (KPI) system so that our improvement teams can analyse the data, find the root of the problems, implement improvement action plans and follow up on the results.



Fire drill

The Hotels organise the Colleague Wellness 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 on their wellbeing and support them in developing a healthy lifestyle. Wellness promotion programmes included; healthy menu at staff cafeteria, natural moisturizing lip balm DIY class, health test, boxing and yoga classes, gym equipment tutorial, fun game day, beach cleanup and green outings.



Colleague Wellness Week – Natural Moisturizing Lip Balm DIY Workshop

In 2018, the health and safety related key performance indicators (KPIs) has increased, compared to the previous year due to an increase in sprain, struck and contusion cases. The Hotels proactively reinforced the colleagues' awareness on these topics during safety briefings, and also reviewed the overall training and awareness programme. There were no deaths due to work activities. The Hotels will continue to monitor the performance and enhance staff awareness in workplace health and safety.

KPI	2017	2018
Lost Time Injury Frequency Rate (LTIFR) ¹	23	35
Incident Rate ²	6.5	8.3

1. LTIFR is the number of reported lost-time accidents for every 1 million working hours.
2. Incident rate is the number of reported accidents per 100 employees.

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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 fundamental learning and development system 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, knowledge and experiences which will be useful in their current and future jobs.



In addition, the Hotels regularly reviewed and prioritised their training focus responding to the evolving business and operational needs. In 2018, The Langham, Hong Kong continued the “+1 Service Culture” campaign which was first launched in 2017. The campaign aimed at encouraging our colleagues to go extra miles in guest service in order to exceed guests’ expectations, and therefore drive guest loyalty. In 2018, the campaign was reinforced through the “Taking initiative: +1 Opportunity” workshops and the new campaign slogan “1 more step, Wow the Guest” to engage our colleagues in creating the “WOW” moment for our guests. The Langham sincere service culture was successfully established in the Hotel with an increment in the NPS by over 9% in December 2018 as compared to December 2017.



The Hotels are also keen on cultivating the future workforce to develop careers so that we can retain the right talents. Cordis, Hong Kong introduced the “Intern Day” for our internship trainees with the objectives of creating a diverse learning experience and exposure on different aspects in hotel operations. The programme was designed with 12 different themes throughout the year on topics such as riding on Big Bus Tour to understand more about Hong Kong, and experience in a world of armed conflicts and hostility at Warzone 90 Red Cross Humanitarian Education Centre to build up humanitarian perspectives.



Eco-park Visit on Intern Day

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Eaton HK is dedicated in providing an environment where team members can be their best selves. Upon the major rebranding and refurbishment of Eaton HK in 2018, our learning and development programme was designed to equip team members with skills and knowledge about the Eaton brand, service culture, health, safety and security, as well as nurturing them with art and culture awareness. For example, Eaton HK organised a monthly workshop for all colleagues with topics including up-cycling coffee ground into a body scrub using fair-trade coconut oil, watching a comedy + dance performance by local artist, drawing a beloved anime, visiting a local craft beer factory in Wong Chuk Hang etc.



Up-cycling coffee ground workshop at Eaton HK

The Hotels achieved an average of 21.8 training hours per colleague (24.9 in 2017) and 100% colleagues received training in 2018. The average training hour for Executive Committee and Head of Department was 12, and the average training hour for Manager, Supervisor and General Colleague was 22.1 in 2018. There is a minor decrease in the training hours per employee compared to the previous reporting year due to the learning programme at Eaton HK became more dynamic and still in progress.

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 explained the basic standards of behaviour expected of our colleagues in line with their official duties. The Code of Ethics

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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 during the induction training at the First60 Certification programme. Depending on the job responsibilities of each colleague, 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.

The Hotel Manager organised an annual 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 2018, Protestor and Crowd Handling was identified to be the topic for review. The Hotels reviewed their protestor and crowd handling system including the policies and procedures, training and awareness. In addition, The Langham and Cordis partnered to conduct food safety management cross audit in 2018. The audit not only reinforced the health and hygiene

standards in our food processing workplace at both hotels, but also provided the opportunity for our teams to share best practices and challenges.

Please refer to the Corporate Governance Report for further details on the governance structure of the Trust Group.

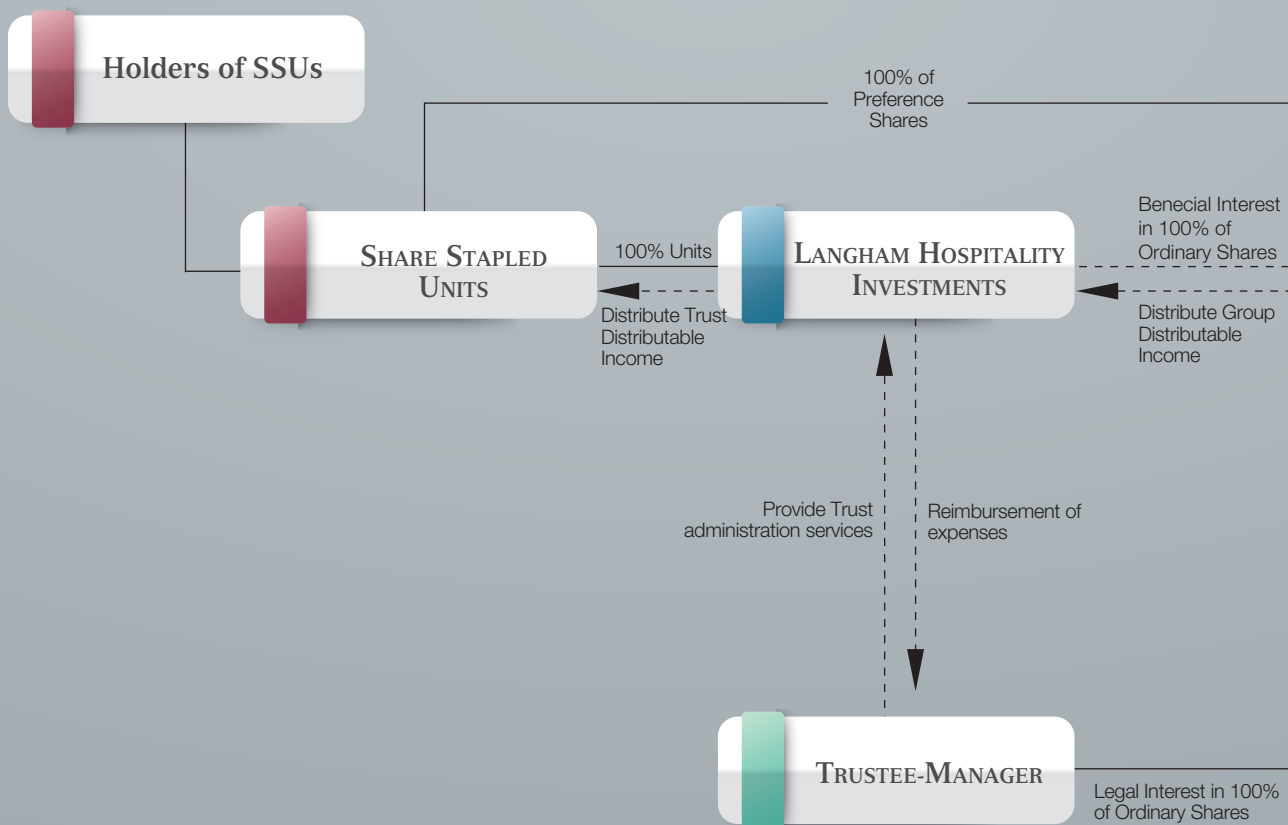


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Langham Hospitality Investments, LHIL Manager Limited and Langham Hospitality Investments Limited are committed to maintaining and developing high standards of corporate governance practices that are designed to enhance corporate image, create value 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 2018.

STRUCTURE OF THE TRUST GROUP

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



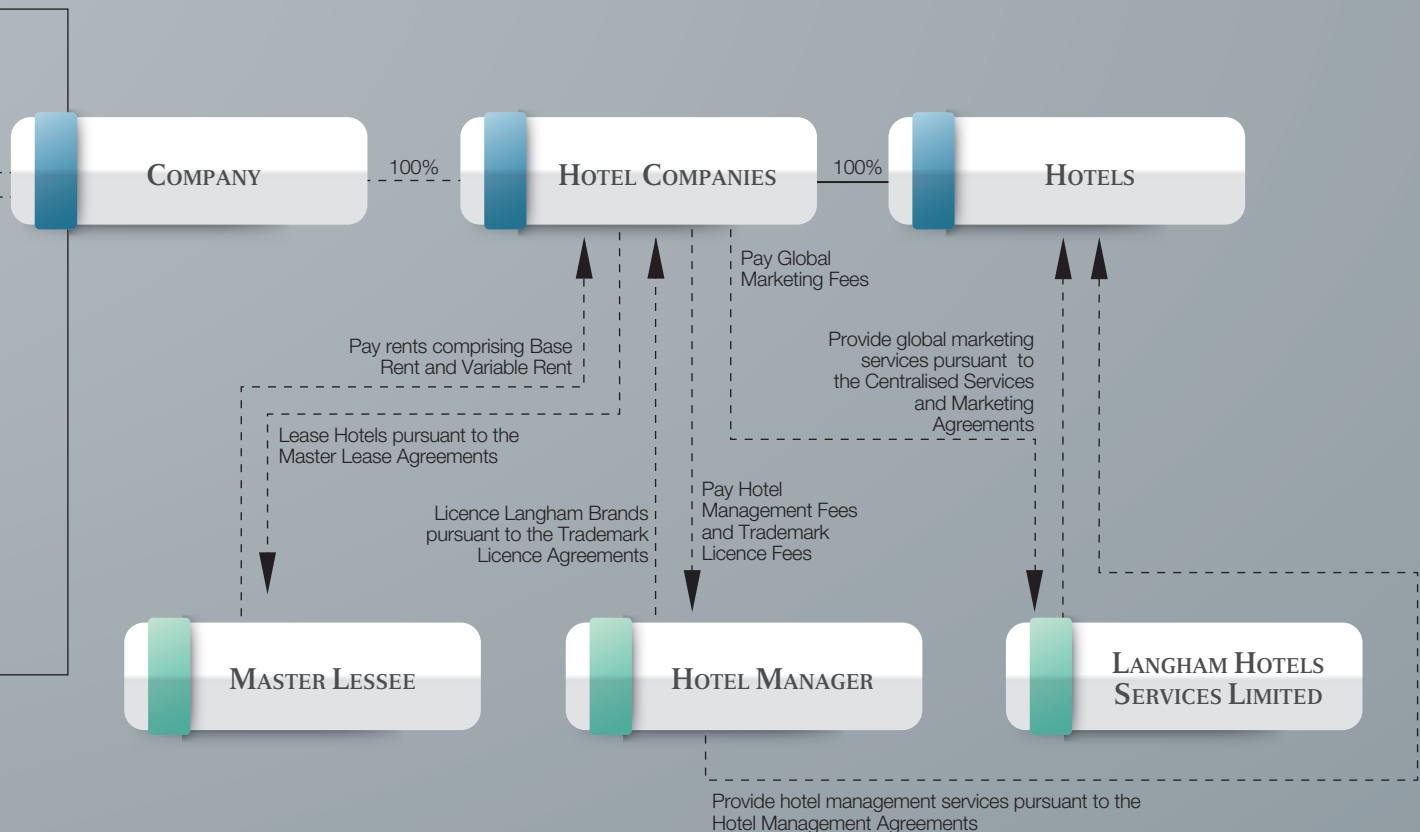
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The major activities during the year 2018 and subsequent change as at the date of this report are set out below:

- Changes in Board Composition**

During the year, Mr. So Yiu Wah, Eric ("Mr. So") resigned as an Independent Non-executive Director of the Trustee-Manager and the Company and ceased to be the Chairman of the Company's Remuneration Committee, a member of the Company's Nomination Committee and a member of the Audit Committees of each of the Trustee-Manager and the Company with effect from 31 July 2018. Professor Chan Ka Keung, Ceajer was appointed as an Independent Non-executive Director of both the Trustee-Manager and the Company on 1 August 2018 to fill the vacancy caused from the resignation of Mr. So. Formal announcements in relation thereto were published.

As announced by the Trust and the Company on 14 February 2019, Mr. Brett Stephen Butcher will be appointed as the Executive Director and Chief Executive Officer of both the Trustee-Manager and the Company in place of Mr. Ip Yuk Keung, Albert with effect from 1 April 2019.



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- **Specific Mandate relating to the issue of Share Stapled Units as payment of Manager Fees of the Trust and the Company**

Specific Mandate relating to the issue of Share Stapled Units as payment of the Manager Fees under the Hotel Management Agreements and Trademark Licence Agreements for the three financial years ending 31 December 2020 was approved by independent Holders of Share Stapled Units at the extraordinary general meeting of the Trust and the Company held on 18 April 2018. Unless otherwise requested by the Hotel Manager in writing in accordance with the provisions of the Hotel Management Agreements and Trademark Licence Agreements, the fees payable therefrom for the years ended 31 December 2020 shall be settled by way of the issue of Share Stapled Units.

- **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 18 April 2018.

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.

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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 certain retail shops at Eaton HK) 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 fee and global marketing fees when carrying on the hospitality business.

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.

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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

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.

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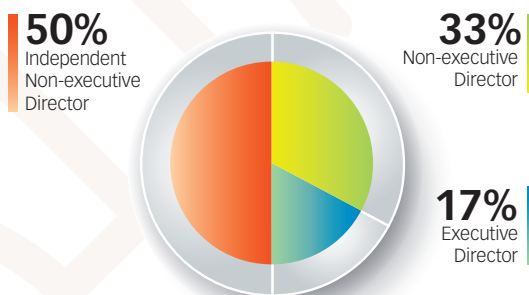
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BOARD OF DIRECTORS

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; one Executive Director being Mr. Ip Yuk Keung, Albert (Chief Executive Officer); and three Independent Non-executive Directors, namely Professor Chan Ka Keung, Ceajer (appointed on 1 August 2018), Professor Lin Syaru, Shirley and Mr. Wong Kwai Lam respectively.

On 31 July 2018, Mr. So Yiu Wah, Eric resigned as an Independent Non-executive Director of the Trustee-Manager and the Company as he wishes to devote more time to his personal commitments.

Biographical details of the Directors of the Trustee-Manager and the Company are set out in this Annual Report on pages 24 to 27.

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 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.

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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	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

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	Expertise	Responsibilities
Independent Non-executive Directors		
CHAN Ka Keung, Ceajer	Assets pricing, evaluation of trading strategies and market efficiency	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
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
WONG Kwai Lam	Commercial and investment banking	Chairing the Audit 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

As announced by the Trust and the Company on 14 February 2019, Mr. Brett Stephen Butcher will be appointed as the Executive Director and Chief Executive Officer of both the Trustee-Manager and the Company in place of Mr. Ip Yuk Keung, Albert with effect from 1 April 2019.

The Board recognize the importance and benefits of diversity in the boardroom. The Nomination Committee of the Company is responsible for reviewing Board composition, identifying candidates and making recommendations to the Company Board. Further details on the Nomination Policy and Board Diversity Policy are set out in the section headed "Nomination Committee" of this report.

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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 be 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:

- 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

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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. As announced by the Trust and the Company on 14 February 2019, Mr. Brett Stephen Butcher will be appointed as Chief Executive Officer in place of Mr. Ip Yuk Keung, Albert with effect from 1 April 2019. 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.

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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, Mr. Lo Chun Him, Alexander and Professor Lin Syaru, Shirley will retire as the Directors at the forthcoming AGM and are eligible for re-election. Professor Chan Ka Keung, Ceajer, who was appointed as an Independent Non-executive Director of the Trustee-Manager and the Company on 1 August 2018, will hold office until the 2019 AGM and is eligible for re-election. Mr. Brett Stephen Butcher, who will be appointed as the Executive Director and Chief Executive Officer of the Trustee-Manager and the Company with effect from 1 April 2019, will also hold office until the 2019 AGM and is eligible for re-election.

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 2018, the Directors received information packages on the subject areas of Outlook of Travel and Hospitality Industry, laws and development impacting the blockchain and virtual currency ecosystem, insight about global risks, cybersecurity and legal and regulatory update regarding data protection, international practices regarding board evaluation, new restrictions on capital raisings by listed companies in Hong Kong, Guidance for Boards and Directors issued by the Stock Exchange. 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 2018.

The senior management 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 2018.

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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 HKEXnews website.

Audit Committee

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:

Professor Chan Ka Keung, Ceajer
Professor Lin Syaru, Shirley

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 Committee 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.

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During the year ended 31 December 2018, the Audit Committee 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 Committee in 2018
Disclosure of financial information	<ul style="list-style-type: none"> • reviewed and approved the draft 2018 Interim Report and interim results announcement of the Trust and the Company for the period ended 30 June 2018 • reviewed and approved the draft 2017 Annual Report and final results announcement of the Trust and the Company for the year ended 31 December 2017 • 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 2018, 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 2017, 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 methods of valuation of the three investment properties of the Trust Group. (2) the valuation technique for determining the fair value of derivate financial instrument that is not quoted in active markets.
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

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Nomination Committee

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

Chairwoman:

Professor Lin Syaru, Shirley*

Members:

Professor Chan Ka Keung, Ceajer*

Dr. Lo Ka Shui#

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.

- **Board Diversity Policy**

The Nomination Committee adopted a diversity policy (the "Diversity Policy") during the year. The Company believes that increasing diversity at the Board level is an important part of achieving its strategic objectives and to attract and retain the best people. Appointments to the Board shall be on merit, in the context of the skills and experience the Board as a whole requires to be effective, and against objective criteria and with due regard for the benefits of diversity. There are many considerations that factor into the Nomination Committee's nomination process including legal requirements, best practices, and skills required to complement the Board's skill set and the number of Directors needed to discharge the duties of the Board and its Committees. But it will not set any restrictions like gender, age, cultural or educational background

when short listing candidates. The Company believes that a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background and other qualities of Directors. The Nomination Committee shall review the diversity of the Board at least annually taking into account the Group's business model and specific needs and shall monitor the implementation of the Diversity Policy and, if appropriate, make recommendations on proposed changes to the Board to complement the Company's corporate strategy.

- **Nomination Policy**

The Nomination Committee recommends candidates for nomination to the Board, which approves the final choice of candidates. The Nomination Committee was responsible to maintain the Nomination Policy of the Company and review the same regularly. The objective of the Nomination Policy is to assist the Company in fulfilling its duties and responsibilities as provided in its terms of reference. This Nomination Policy sets out, inter alia, the selection criteria and the evaluation procedures in nominating candidates to be appointed or re-appointed as Directors of the Company.

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The Nomination Committee shall consider any and all candidates recommended as nominees for Directors to the Committee by any Directors or shareholders of the Company in accordance with the Company's Articles and the Trust Deed. The Nomination Committee may also undertake its own search process for candidates and may retain the services of professional search firms or other third parties to assist in identifying and evaluating potential nominees. The Nomination Committee shall endeavour to find individuals of high integrity who possess the qualifications, qualities, skills, experience and independence (in case of

Independent Non-executive Directors) to effectively represent the best interests of all shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. The Nomination Committee may use any process it deems appropriate for the purpose of evaluating candidates including personal interviews, background checks, written submission by the candidates and third party references. As far as practicable, nominees for each election or appointment of Directors shall be evaluated using a substantially similar process. The Nomination Committee shall review the Nomination Policy from time to time.

During the year ended 31 December 2018, two Nomination Committee meetings one in the form of written resolutions were 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 2018
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 Mr. Ip Yuk Keung, Albert and Mr. Wong Kwai Lam, being the retiring Directors for re-election at the 2018 AGM reviewed and approved the nomination of Professor Chan Ka Keung, Ceajer in place of Mr. So Yiu Wah, Eric as an Independent Non-executive Director of the Trustee-Manager and the Company after considering his skills, expertise, experience and background and made recommendation to the Company Board.

The requirement to establish of 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.

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Remuneration Committee

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

Chairman:

Professor Chan Ka Keung, Ceajer*

Members:

Dr. Lo Ka Shui#

Professor 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 2018, 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 2018

Remuneration packages of Executive Director and senior management

- approved the salary review and discretionary bonus distribution for the year 2018 and other remuneration packages of the Executive Director and senior management of the Company

Remuneration of Directors

- reviewed the market trend of the remuneration package generally offered to non-executive directors and independent non-executive directors of comparable companies listed in Hong Kong. In view of the continuous inflationary pressure in 2018 and the fact that the directors' fee has not been reviewed since 2013, the Remuneration Committee recommended that the directors' fee for the year 2018 be increased by HK\$20,000 per annum

The requirement to establish of 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.

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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. 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 2018.

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 Independent Non-executive Directors without the presence of other Directors to discuss the affairs of the Trust Group.

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During the year under review, five Board meetings were held with one in the form of written resolutions. Directors attended the physical meetings either in person or by means of telephone in accordance with the Trustee-Manager's articles of association and the Company's Articles. The attendance of individual Directors at all the physical Board and Board Committee meetings and AGM held during the year ended 31 December 2018 is set out below:

Number of physical Meeting(s) Attended/Eligible to Attend in 2018

Name of Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	2018 Annual General Meeting
Non-executive Directors					
LO Ka Shui (<i>Chairman</i>)	4/4	–	1/1	1/1	1/1
LO Chun Him, Alexander	4/4	–	–	–	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					
CHAN Ka Keung, Ceajer (<i>appointed on 1 August 2018</i>)	2/2	1/1	–	–	–
LIN Syaru, Shirley	4/4	2/2	1/1	1/1	1/1
SO Yiu Wah, Eric (<i>resigned on 31 July 2018</i>)	2/2	1/1	1/1	1/1	1/1
WONG Kwai Lam	4/4	2/2	1/1	1/1	1/1
Attendance Rate	100%	100%	100%	100%	100%
Overall Attendance Rate	100%	100%	100%	100%	100%

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

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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 2018 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.

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	170,000
• Independent Non-executive Director	220,000
• Chairman	270,000
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

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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.

The Audit Committees of the Trustee-Manager and the Company shall be responsible for overseeing the implementation of the above measures. During the year 2018, 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 three Independent Non-executive Directors 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.

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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 2018.

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 2018 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 2018.

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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.

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 2018 AGM of the Trust and the Company was held on 18 April 2018 at Suite 3003, 30th 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 2017, the audited Financial Statements of the Trustee-Manager for the year ended 31 December 2017, together with their respective Reports of the Directors and the Independent Auditor.
- Declared a final distribution of HK11.1 cents per Share Stapled Unit for the year ended 31 December 2017.
- Re-elected Mr. Ip Yuk Keung, Albert as Executive Director and Mr. Wong Kwai Lam as Independent Non-executive Director.
- 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 of the Trustee-Manager and the Company 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.

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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 HKEXnews website on the same day after the general meeting.

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

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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 93 and pages 160 to 162 respectively of this Annual Report.

Auditor's Remuneration

During the year ended 31 December 2018, 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 2018	
	Trust Group HK\$'000	Trustee-Manager HK\$'000
Audit services	1,330	20
Non-audit services		
Interim review fee	368	–
Other review fees including continuing connected transactions review, etc	98	2
Total:	1,796	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\$1,330,000 and HK\$20,000 respectively and do not include the fees in respect of non-audit services

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CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there was no change to the Trust Deed and the Company's Articles, the current version of which 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 2018, 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 2018. 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 2018 are set out in the Report of the Directors.

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 2018.

DIRECTORS' AND OFFICERS' INSURANCE

During the year ended 31 December 2018, 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 Staped Units being held by the public.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, 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 35 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 2017, there is an increase of 91 headcounts as at 31 December 2018.

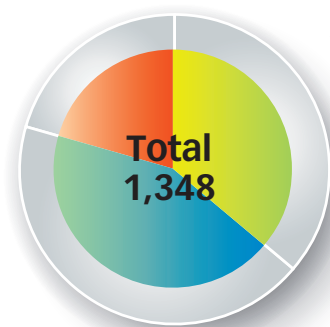
CORPORATE GOVERNANCE REPORT

The following tables 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 2018:

By Hotel

321
Eaton HK

554
Cordis,
Hong Kong

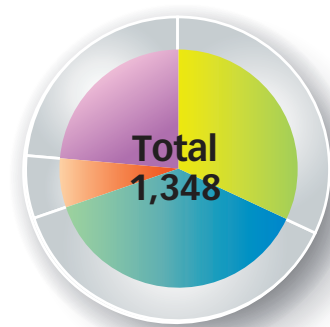


By Function

473
The Langham,
Hong Kong

326
Others

88
Sales and
marketing



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 senior management (including the Chief Executive Officer) borne by the Company for the year ended 31 December 2018 are provided in note 15 to the consolidated financial statements of the Trust and the Company.

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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 2018.

The Trustee-Manager Board also presents its audited financial statements of the Trustee-Manager for the year ended 31 December 2018.

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 HK.

The principal activities and other particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in note 37 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 23 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.

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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 unrealized 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. 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. Failure on our part to comply with the financial covenants may cause our lenders to accelerate our repayment obligations. The value of our hotel properties fluctuates from time to time, there can be no assurance that it will not decrease more than expected as a result of factors outside of our control, such as economic and political development, regulatory changes or the outbreak of any severe contagious disease or pandemic within Hong Kong or any neighboring region.

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.

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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 pertaining to Hotel Operations

A substantial portion of the Trust Group's revenue is derived from Variable Rent which provides exposure to the underlying performance of the hotels. Since hotel guests are short-term occupants of hotel rooms, they are generally not committed to contracts of medium-term or long-term rental payment. Consequently, a hotel's occupancy rate and room rate are subject to a high degree of fluctuations due to factors including seasonality, social stability, politics, natural hazards, disease and economic condition as well as the nature of hotel business.

In this respect, the Trust Group regularly assesses changes in economic environment and keeps alert to market needs and competitors' reaction. The management will closely monitor hotels performance and booking pace. Besides, the Trust Group shall continue to improve its hotel services and facilities to ensure the provision of unforgettable experience for our customers.

Risk of Cyber-Attacks

Loss of data and leakage of confidential information are the largest costs from cyber-crime that the hotels are facing. The cost of recovering from cyber attacks, including reputational damage, where the trust in a company decreases and their brand loses value, is considerable. To mitigate the risk of cyber-attacks, the vulnerabilities of the hotel's IT infrastructure are regularly scanned and patched. Risky external IP addresses are blocked. All servers and user computers are equipped with antivirus or endpoint protection. Emails are filtered for spam and malware. Password control and user access to the systems and network elements are regularly updated and reviewed. System backup and DR facilities provide additional layers of protections. All these measures increase the difficulty for a hacker. In addition, the respective business units have also acquired appropriate insurance which also help mitigating risk exposure by offsetting costs involved with recovery after a cyber-related security breach or similar event.

Risks associated with the Group's financial instruments

The major financial instruments of the Trust Group include derivative financial instruments, receivable from Master Lessee, other debtor, bank balances, trade and other creditors, construction fee payables, other payables and secured bank loans. The risk associated with the financial instruments of the Trust Group include market risk, credit risk and impairment assessment and liquidity risk. Details of the same and the policies on how to mitigate these risks are set out in note 28 to the consolidated 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 for the period ended 31 December 2017. The Distribution Waiver 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. Furthermore, pursuant to the Hotel Management Agreements and the Trademark Licence Agreements, the fees payable thereunder for the period ended 31 December 2017 would be settled by way of an issue of Share Stapled Units. From 1 January 2018 onwards, the fees shall be settled by way of cash, the issue of Share Stapled Units, or a combination of both, at the election of the Hotel Manager.

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The Distribution Waiver had expired and if the Hotel Manager elects to receive the Manager fees in the form of cash, the distribution of the Share Stapled Units will be adversely affected. We had sought the approval from the independent Holders of Share Stapled Units to grant a specific mandate relating to the issue of Share Stapled Units as payment of the Manager Fees under the Hotel Management Agreements and the Trademark Licence Agreements on 18 April 2018. Unless otherwise requested by the Hotel Manager in writing in accordance with the provisions of the Hotel Management Agreements and Trademark Licence Agreements, the fees payable therefrom for the years ended 31 December 2020 shall be settled by way of the issue of Share Stapled Units. Furthermore, Active Asset Management Strategy as mentioned above has been 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.

Distribution per Share Stapled Unit

The Trustee-Manager Board and the Company Board have recommended the payment of a final distribution of HK10.5 cents per Share Stapled Unit for the year ended 31 December 2018 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 23 May 2019. Subject to the approval of the Holders of Share Stapled Units at the forthcoming 2019 AGM, the payment of the final distribution will be made on 5 June 2019. Taken together with the interim distribution of HK9.0 cents per Share Stapled Unit paid in September 2018, the total distribution per Share Stapled Unit for the year 2018 is HK19.5 cents.

FINANCIAL SUMMARY

A summary of the results and of the assets and/or liabilities of the Trust Group is set out on page 170 of this Annual Report.

MOVEMENTS IN RESERVES

Details of the movements in the reserves of the Trust Group during the year ended 31 December 2018 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.

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INVESTMENT PROPERTIES

Movements in the investment properties of the Trust Group during the year ended 31 December 2018 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 2018 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 2018 are set out in the Schedule of Investment Properties on page 169 of this Annual Report.

ISSUED SHARE STAPLED UNITS

As at 31 December 2018, the total number of issued Share Stapled Units of the Trust and the Company was 2,109,715,939. As compared with the position as at 31 December 2017, a total of 21,292,856 new Share Stapled Units were issued during the year as follows:

Date	Particulars	No. of Share Stapled Units
31 December 2017	Total number of issued Share Stapled Units	2,088,423,083
21 February 2018	Issue of new Share Stapled Units at the price of HK\$3.373 per Share Stapled Unit as payment of the Hotel Management Fees and Licence Fee (collectively the "Hotel Manager's Fees") to the Hotel Manager of approximately HK\$35,957,000 for the second half of 2017	10,660,355
23 August 2018	Issue of new Share Stapled Units at the price of HK\$3.102 per Share Stapled Unit as payment of the Hotel Manager's Fees to Hotel Manager of approximately HK\$32,982,000 for the first half of 2018	10,632,501
31 December 2018	Total number of Issued Share Stapled Units	2,109,715,939

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 2018, none of the Trust, the Trustee-Manager, the Company nor the Company's subsidiaries had bought back, sold or redeemed any Share Stapled Units.

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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 2018 are set out as follows:

Non-executive Directors

Dr. LO Ka Shui (*Chairman*)
Mr. LO Chun Him, Alexander

Executive Director

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

Independent Non-executive Directors

Professor CHAN Ka Keung, Ceajer
(*appointed on 1 August 2018*)
Professor LIN Syaru, Shirley
Mr. WONG Kwai Lam
Mr. SO Yiu Wah, Eric
(*resigned on 31 July 2018*)

In accordance with clause 29.2(m) of the Trust Deed and Article 16.21 of the Company's Articles, Mr. Lo Chun Him, Alexander and Professor Lin Syaru, Shirley shall retire from office at the 2019 AGM and, being eligible, offer themselves for re-election.

Professor Chan Ka Keung, Ceajer was appointed as an Independent Non-executive Director of the Trustee-Manager and the Company on 1 August 2018 and as announced Mr. Brett Stephen Butcher will be appointed as the Executive Director and Chief Executive Officer of the Trustee-Manager and the Company in place of Mr. Ip Yuk Keung, Albert with effect from 1 April 2019. 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, both Professor Chan Ka Keung, Ceajer and Mr. Brett Stephen Butcher shall retire from office at the 2019 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 24 to 28 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 2018, 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.

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

As at 31 December 2018, the interests and short positions of the Directors of the Trustee-Manager and the Company in the Share Stapled Units, underlying Share Stapled Units and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and the Model Code, or which were recorded in the register required under Section 352 of the SFO are as follows:

Long Positions in Share Stapled Units and Underlying Share Stapled Units

Name of Director	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	1,329,764,439 ⁽¹⁾		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	44,100,000	1,381,937,939	65.50
Ip Yuk Keung, Albert	Beneficial Owner and Jointly with Spouse	Joint Interests	2,015,000	2,015,000	0.10

Notes:

(1) These 1,329,764,439 Share Stapled Units comprise the following:

(i) 1,327,704,439 Share Stapled Units respectively held by LHIL Assets Holdings Limited as to 1,257,541,939 Share Stapled Units (59.61%), Fine Noble Limited as to 58,596,500 Share Stapled Units (2.78%), Great Eagle Nichemusic Limited as to 5,965,000 Share Stapled Units (0.28%) and The Great Eagle Company, Limited as to 5,601,000 Share Stapled Units (0.27%), 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 (0.10%) 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 2,109,715,939 Share Stapled Units of the Trust and the Company in issue as at 31 December 2018.

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LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF ASSOCIATED CORPORATIONS

Great Eagle

As at 31 December 2018, Great Eagle owned 62.93% 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 2018 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	50,513,303		
	Interests of Controlled Corporations	Corporate Interests	78,788,292 ⁽¹⁾		
	Discretionary Beneficiary of a Discretionary Trust	Discretionary Trust Interests	232,829,848		
	Founder of a Discretionary Trust	Trust Interests	60,788,762		
	Beneficial Owner	Share Options	1,358,000	424,278,205	60.73
Lo Chun Him, Alexander	Beneficial Owner	Personal Interests	5,000		
	Beneficial Owner	Share Options	590,000	595,000	0.09
Ip Yuk Keung, Albert	Beneficial Owner	Personal Interests	30,000		
	Beneficial Owner	Share Options	64,000	94,000	0.01

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 698,647,038 shares of Great Eagle in issue as at 31 December 2018.

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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 2018, Great Eagle owned 66.03% 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 2018 are disclosed as follows:

Name of Director	Capacity	Nature of Interests	Number of Units/ Underlying Units Held		Percentage of Issued Units ⁽²⁾
				Total	
Lo Ka Shui	Interests of Controlled Corporations	Corporate Interests	3,863,395,394 ⁽¹⁾		
	Settlor and a Member of the Advisory Committee and Management Committee of a Charitable Trust	Trust Interests	19,115,000	3,882,510,394	66,40

Notes:

(1) These 3,863,395,394 units comprise the following:

- (i) 3,860,119,122 units (66.02%) and 697,272 underlying units (0.01%) were indirectly held by Great Eagle of which Dr. Lo Ka Shui is a substantial shareholder, the Chairman and Managing Director. His interests in Great Eagle are disclosed above on page 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 5,847,092,804 units of Champion REIT in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors of the Trustee-Manager and the Company were taken to be interested or deemed to have any other interests or short positions in Share Stapled Units, underlying Share Stapled Units or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code, or which were recorded in the register required under Section 352 of the SFO.

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 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 HK.
- (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.

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 and Mr. 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 Executive Director and Chief Executive Officer of the Trustee-Manager and the Company 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 the Executive Director and Chief Executive Officer 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.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the connected transactions and continuing connected transactions are set out in this report and note 35 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 exempt connected transaction under Rule 14A.98 of the Listing Rules.

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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. Details of the interests and shareholdings of Dr. Lo and Mr. 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

Continuing Connected Transactions subject to Waivers granted by the Stock Exchange

As disclosed in the initial public offering prospectus dated 16 May 2013, agreements in relation to the continuing connected transactions as 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, if applicable, 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".

Aggregate Transaction Amount for the year ended 31 December 2018 (HK\$'000)

1. Master Lease Agreements ^(a)	
– Base Rent	225,000
– Variable Rent ^(b)	481,208
2. Hotel Management Agreements ^{(a)(b)(c)}	
– Base fee	24,447
– Incentive fee	31,387
3. Centralized Services and Marketing Agreements ^{(a)(b)}	
– Reimbursement of Cost ^(d)	7,417
– Global Marketing fee	18,951
– Reservation fees ^(d)	3,194
4. Trademark Licence Agreements ^{(a)(b)(c)}	16,298
5. Deed of Mutual Covenant and Management Agreement ^(a)	2,248

Notes:

- (a) Obtained waiver from the requirements of making announcement and/or obtaining independent Holders of Share Stapled Units' approval.
- (b) Obtained waiver from the requirement to set a monetary cap.
- (c) Obtained approval from independent Holders of Share Stapled Units to settle the fees payable for the three financial years ending 31 December 2020 in the form of Share Stapled Units subject to the election of the Hotel Manager.
- (d) Reimbursement of Costs and Reservation fees are operating expenses of the Hotels to be paid by the Master Lessee.

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 HK) to the Master Lessee for a term of 14 years from and including 30 May 2013 (date of listing) and shall, subject to the compliance with the relevant requirements of the Listing Rules by the Company, be renewable by mutual agreement of the parties. The Master Lessee assumes all responsibilities as “owner” under the Hotel Management Agreements and bears all operating expenses in respect of the Hotels (other than payment of the Hotel Management Fees, the License 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. Thereafter, the Variable Rent payable will be calculated on a basis to be determined by an independent property valuer, to be appointed by the Company. In the event that the independent property valuer determines that the Variable Rent payable under the Master Lease Agreements for such periods shall be calculated on the basis of less than 70% of the Hotels’ aggregate

Gross Operating Profit before deduction of the Global Marketing Fees payable, the Company shall re-comply with the reporting announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of Master Lease Agreements.

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

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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 Fee payable under the relevant Trademark Licence Agreement).

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

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.

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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 Fee payable to the Hotel Manager by each Hotel Company under the Trademark Licence Agreements shall be 1% of the total revenue of the relevant Hotel.

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

- 5. Property Management Services Agreement**
– a Deed of Mutual Covenant and Management Agreement (“DMC”) dated 27 June 2005 entered into between The Great Eagle Properties Management Company, Limited (“GEPM”) and Cordis Hong Kong Limited (“CHK”), 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 DMC as 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 DMC.

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.

On 14 February 2017, the Boards approved the renewal of the annual caps of the service fees under the DMC to be contributed by CHK for the years 2017, 2018 and 2019 as below:

Financial Year	Annual Cap
2017	HK\$4,100,000
2018	HK\$4,300,000
2019	HK\$4,900,000

The aggregate value of the services provided by GEPM for the year ended 31 December 2018 was HK\$2.25 million.

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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).

From 1 January 2018 onwards, the fees shall be settled by way of cash, the issue of Share Stapled Units, or a combination or both, at the election of the Hotel Manager. The Hotel Manager is a wholly-owned subsidiary of Great Eagle and Great Eagle is the controlling Holders of Share Stapled Units of the Trust and the Company. The Hotel Manager is therefore a connected person of the Company under the Listing Rules. Pursuant to Rule 13.36(1) of the Listing Rules, in respect of the issue of the Share Stapled Units to the Hotel Manager for payment of the Manager Fees for 2018 onwards, approval from the independent Holders of Share Stapled Units shall be required.

An ordinary resolution to grant a specific mandate relating to the issue of Share Stapled Units as payment of the Manager Fees under the Hotel Management Agreements and the Trademark Licence Agreements for the three financial years ending 31 December 2020 has been approved by independent Holders of Share Stapled Units. For details of the special mandate, please refer to the circular to the Holders of Share Stapled Units dated 9 March 2018. Unless otherwise requested by the Hotel Manager in writing pursuant to the Hotel Management Agreements and Trademark Licence Agreements, the fees payable therefrom shall be settled by way of the issue of Share Stapled Units.

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.

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

From 1 January 2018 onwards, the fees shall be settled by way of cash, the issue of Share Stapled Units, or a combination of both, at the election of the Hotel Manager, subject to the approval of the independent Holders of Share Stapled Units for the issue of the Share Stapled Units. As disclosed in the announcement of Langham dated 15 December 2017, the Hotel Manager has elected the payment of the Manager Fees wholly by way of Share Stapled Units for the year ending 31 December 2018.

Pursuant to Rule 13.36(1) of the Listing Rules, in respect of the issue of the Share Stapled Units to the Hotel Manager for payment of the Manager Fees from 2018 onwards, approval from the independent Holders of Share Stapled Units shall be required.

Other Continuing Connected Transactions

The following are continuing connected transactions of the Trust Group which were subject to reporting, announcement and, if appropriate, apart from the above continuing connected transactions entered prior to the listing of the Trust Group, during the year 2018, 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 94%-owned subsidiary of Great Eagle while GEDPM and Keysen are wholly-owned subsidiaries of Great Eagle.

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.
- *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.

REPORT OF THE DIRECTORS

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 years 2017, 2018 and 2019 are HK\$12 million, HK\$8.4 million and HK\$5.3 million respectively as disclosed in the announcement published by the Trustee-Manager and the Company on 14 February 2017.

During the year ended 31 December 2018, the aggregated transaction amounts incurred under the Framework Agreement was HK\$3.34 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 2018. 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 2018 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 Stapled 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 Stapled Units as a whole.

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INTERESTS OF SUBSTANTIAL HOLDERS' OF SHARE STAPLED UNITS

As at 31 December 2018, the interests and short positions of persons (other than a Director or the chief executive of the Trustee-Manager and the Company) in the Share Stapled Units or underlying Share Staple Units of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required under Section 336 of Part XV of the SFO as having an interest in 5% or more of the issued Share Stapled Units of the Trust and the Company are as follows:

Name	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	1,327,704,439 ⁽¹⁾	1,327,704,439	62.93
LHIL Assets Holdings Limited	Beneficiary	Corporate Interests	1,257,541,939	1,257,541,939	59.61
HSBC International Trustee Limited	Trustee	Trust Interests	1,329,235,439 ⁽²⁾	1,329,235,439	63.01

Notes:

- (1) These 1,327,704,439 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;
 - (iii) 5,965,000 Share Stapled Units held by Great Eagle Nichemusic Limited; and
 - (iv) 5,601,000 Share Stapled Units held by The Great Eagle Company, Limited.
- (2) The disclosure was based on the latest Disclosure of Interest Form (with the date of relevant event as 19 October 2018) received from HSBC International Trustee Limited ("HITL"). HITL in its capacity as a trustee of a discretionary trust held 33.33% interests in Great Eagle as at 31 December 2018.
- (3) This percentage has been compiled based on 2,109,715,939 Share Stapled Units of the Trust and the Company in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, 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 XV of the SFO, or which were recorded in the register required under Section 336 of the SFO.

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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 2018, the combined value of the Group's contracts with its five largest suppliers, which were not of a capital nature, was about 73% of the total value of supplies purchased. Among these five largest suppliers, four of them as tabled below are wholly-owned subsidiaries of Great Eagle, a substantial Unitholders which indirectly owned 62.93% interest in the Trust and the Company as at 31 December 2018. The values of the contracts with the fifth largest supplier 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 Fee	54.8%
2. Langham Hotels Services Limited	Global Marketing Fee	14.4%
3. The Great Eagle Properties Management Company, Limited	Property Management Services Fee	1.7%
4. Deloitte Touche Tohmatsu	Audit services and non-audit services	1.4%
5. The Great Eagle Company, Limited	Administrative support services Fee	0.7%

Total rental income under the adoption of HKFRS 15 of the Trust Group for the year ended 31 December 2018 amounted to HK\$615,500,000, 99.9% 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 was received from lease of retail shops at Eaton HK. 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.

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 10 May 2019.

REPORT OF THE DIRECTORS

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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 2018, 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 Environmental, Social and Governance covering the environmental policies and performance of and relationships with the key stakeholders of our Group is set out on pages 29 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 2019

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LHIL MANAGER LIMITED

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

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

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

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

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 94 to 159 (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 Group and the consolidated financial statements of the Group 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 2018, 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 and other explanatory information.

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 2018, and of the Trust Group's 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

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

Key audit matter

Valuation of investment properties

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 judgments associated with determining the fair value. As at 31 December 2018, the Trust Group and the Group's investment properties, comprising of The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK, amounted to HK\$20,177 million and represented 99% of the Trust Group's and Group's total assets. Change in fair value of investment properties of HK\$594 million was recognised in the consolidated statement of profit or loss and other comprehensive income for the year then ended.

As disclosed in note 18 to the consolidated financial statements, these investment properties are stated at fair value based on a valuation carried out by an independent professional property valuer. In determining the fair value of investment properties, the independent professional property valuer used an income approach by using discounted cash flow analysis for the hotel properties based on an analysis of historical data and on assumptions about future market conditions affecting supply, demand, income, expenses and the potential for risk. A market approach method was also considered by comparison on a per unit room basis to actual sales transactions and offering of comparable properties. The valuation is dependent on certain key inputs that involve management and independent professional property valuer's judgment. The key inputs used in valuing the investment properties by the independent property valuer include market selling price per room, discount rate as adopted in the valuation report and average daily rates per room per night. A table showing the Groups' (as defined in note 2) sensitivity to the fair value measurement is also disclosed in this note.

How our audit addressed the key audit matter

Our procedures in relation to valuation of investment properties included:

- 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 judgmental areas on key inputs and data used in the valuation;
- Assessing the reasonableness of source data used in the valuation by benchmarking the assumptions to relevant market information on sales prices and rentals achieved in other similar 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 properties;
- Assessing the integrity of information provided by management to the independent professional property valuer by comparing details of rentals 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.

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

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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Other Information

The LHIL Manager Limited (the "Trustee-Manager") and the directors of the Company (the "Directors") 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.

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

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

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

The Trustee-Manager and the Directors 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 Trustee-Manager and 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 Trustee-Manager and the Directors are responsible for assessing the Trust Group's 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 Trustee-Manager and 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.

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

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

As part of an audit in accordance with HKSA, 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee-Manager and the Directors.
- Conclude on the appropriateness of the Trustee-Manager and 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.

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

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wong Kuen.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

14 February 2019

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (restated)
Revenue	6	615,500	607,573
Property related expenses		(28,498)	(26,865)
Net property income		587,002	580,708
Other income	8	210	2,337
Increase in fair value of investment properties	18	594,217	808,384
Fair value change on derivative financial instruments		(10,190)	(3,571)
Trust and other expenses		(12,017)	(11,081)
Finance costs	9	(188,821)	(153,409)
Profit before tax		970,401	1,223,368
Income tax expense	10	(74,761)	(77,309)
Profit and total comprehensive income for the year attributable to holders of Share Stapled Units	13	895,640	1,146,059
Earnings per Share Stapled Unit			
Basic and diluted	16	HK 43 cents	HK 55 cents

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

At 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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	NOTES	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	17	18	28
Investment properties	18	20,177,000	19,373,000
Derivative financial instruments	19	26,923	28,300
		20,203,941	19,401,328
Current assets			
Debtors, deposits and prepayments	20	75,351	115,491
Tax recoverable		32	–
Bank balances	21	86,881	101,076
		162,264	216,567
Current liabilities			
Creditors, deposits and accruals	22	60,642	97,362
Secured bank loans due within one year	23	165,000	–
Tax payable		36,086	23,600
		261,728	120,962
Net current (liabilities) assets		(99,464)	95,605
Total assets less current liabilities		20,104,477	19,496,933
Non-current liabilities			
Secured bank loans due after one year	23	6,774,597	6,756,597
Deferred tax liabilities	24	362,375	329,192
Derivative financial instrument	19	8,889	76
		7,145,861	7,085,865
NET ASSETS		12,958,616	12,411,068
Capital and reserves			
Issued capital/units	25	2,110	2,089
Reserves		12,956,506	12,408,979
TOTAL EQUITY		12,958,616	12,411,068

The consolidated financial statements on pages 94 to 159 and the statement of financial position of the Company on page 142 were approved and authorised for issue by the Board of Directors on 14 February 2019 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 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

	Share capital/units HK\$'000	Share premium HK\$'000 (note a)	Other reserve HK\$'000 (note b)	Share-based payment reserve HK\$'000	Property revaluation reserve HK\$'000 (note c)	Retained profits HK\$'000	Total HK\$'000
At 1 January 2017	2,067	8,476,267	(11,562,543)	214	12,598,157	2,162,381	11,676,543
Profit and total comprehensive income for the year	-	-	-	-	-	1,146,059	1,146,059
Distribution paid	-	(483,032)	-	-	-	-	(483,032)
Recognition of equity-settled share based payments	-	-	-	193	-	-	193
Issue of Share Stapled Units (see notes 25 and 31)	22	71,283	-	-	-	-	71,305
At 31 December 2017	2,089	8,064,518	(11,562,543)	407	12,598,157	3,308,440	12,411,068
Profit and total comprehensive income for the year	-	-	-	-	-	895,640	895,640
Distribution paid	-	(417,323)	-	-	-	-	(417,323)
Recognition of equity-settled share based payments	-	-	-	292	-	-	292
Issue of Share Stapled Units (see notes 25 and 31)	21	68,918	-	-	-	-	68,939
At 31 December 2018	2,110	7,716,113	(11,562,543)	699	12,598,157	4,204,080	12,958,616

Notes:

- (a) Under the Cayman Islands Companies Law, the share premium of the Company is available for distribution.
- (b) Pursuant to a group reorganisation in May 2013, certain businesses were transferred to the Groups (as defined in note 2). Other reserve represents the difference between the considerations of the transfers and the share capital of the businesses as of the date of the transfer.
- (c) Property revaluation reserve represents the revaluation gain arising from transfer from property, plant and equipment to investment properties which amounted to the difference between the fair value of the investment properties and the carrying amount of the property, plant and equipment at the date of transfer.

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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	2018 HK\$'000	2017 HK\$'000
Operating activities		
Profit before tax	970,401	1,223,368
Adjustments for:		
Hotel management fees and licence fee payable in form of Share Stapled Units	72,132	68,977
Fair value change on derivative financial instruments	10,190	3,571
Increase in fair value of investment properties	(594,217)	(808,384)
Interest expense	169,975	134,321
Interest income	(182)	(1,838)
Depreciation on property, plant and equipment	10	10
Amortisation on loan front-end fee	18,000	18,000
Recognition of share-based payments	292	193
Operating cash flows before movements in working capital	646,601	638,218
Decrease in debtors, deposits and prepayments	40,140	5,568
(Decrease) increase in creditors, deposits and accruals	(8,078)	4,234
Cash generated from operations	678,663	648,020
Interest paid	(169,000)	(130,344)
Hong Kong Profits Tax paid	(29,124)	(54,503)
Net cash from operating activities	480,539	463,173

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

	2018 HK\$'000	2017 HK\$'000
Investing activities		
Additions of investment properties	(242,593)	(119,495)
Interest received	182	1,974
Additions of property, plant and equipment	–	(17)
Net cash used in investing activities	(242,411)	(117,538)
Financing activities		
Distribution paid	(417,323)	(483,032)
Additions of revolving loans	165,000	–
Net cash used in financing activities	(252,323)	(483,032)
Net decrease in cash and cash equivalents	(14,195)	(137,397)
Cash and cash equivalents at the beginning of the year	101,076	238,473
Cash and cash equivalents at the end of the year, represented by bank balances	86,881	101,076

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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1. GENERAL

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

2. BASIS OF PRESENTATION AND PREPARATION

In accordance with the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The Trust's consolidated financial statements for the year ended 31 December 2018 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 2018 comprise the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

The unitholders of the Trust have beneficial interest in the ordinary shares of the Company and the sole activity of the Trust during the year ended 31 December 2018 was investment in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust Group are identical to the consolidated financial statements of the Group with the differences being disclosures of capital. The Trustee-Manager and the Directors believe therefore that it is clearer to present the consolidated financial statements of the Trust Group and the Group together. The consolidated financial statements of the Trust Group and the consolidated financial statements of the Group are presented together to the extent they are identical and are hereinafter referred as "the Trust and the Company's consolidated financial statements".

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

2. BASIS OF PRESENTATION AND PREPARATION (CONTINUED)

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

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

The Trust and the Company's consolidated financial statements have been prepared on a going concern basis because the Trustee-Manager and the Directors are of the opinion that the Groups will have adequate sources of funding to meet in full its financial obligations, after taking into account the continuous cash flows generated from operating activities, and the availability of undrawn revolving loan facilities amounting to HK\$235,000,000.

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

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

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

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

Except as described below, the application of the new and amendments to HKFRSs and the interpretation 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.

HKFRS 15 "Revenue from Contracts with Customers"

The Groups have applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

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

Information about the Groups' performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

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

HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of the effect of application of HKFRS 15

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

The effect of applying HKFRS 15 retrospectively on the results for the current and prior years by line items presented in the consolidated statement of profit or loss and other comprehensive income is summarised below:

	2018 HK\$'000	2017 HK\$'000
Decrease in revenue	(91,083)	(86,572)
Decrease in service fees	91,083	86,572
Change in profit and total comprehensive income for the year attributable to holders of Share Stapled Units	–	–

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

There has been no impact on earnings per Share Stapled Units and consolidated statement of financial position as a result of the retrospective application of HKFRS 15.

HKFRS 9 "Financial Instruments" and the related amendments

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

The Groups have applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information.

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued) HKFRS 9 “Financial Instruments” and the related amendments (continued)

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

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

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Groups currently present upfront prepaid lease payments as investing cash flows in relation to leasehold lands classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Groups.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Groups have non-cancellable operating lease commitments of HK\$960,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Groups will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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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 instruments 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue from contracts with customers

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (continued)

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

Principal versus agent

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

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

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

Property, plant and equipment

Property, plant and equipment including furniture and fixtures 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.

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.

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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (continued)

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.

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.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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.

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions 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 their estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. 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.

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.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the service. All short-term employee benefits are recognised as an expenses unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised in respect for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and interests 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 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Groups intend to settle its current tax assets and liabilities on a net basis.

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 in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for receivable from Master Lessee arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Interest income is presented as other income.

(A) Upon application of HKFRS 9 in accordance with transitions in note 3

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(A) Upon application of HKFRS 9 in accordance with transitions in note 3 (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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

Impairment of financial assets

The Groups recognise a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including receivable from Master Lessee, other debtor and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

(i) Significant increase in credit risk

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(A) Upon application of HKFRS 9 in accordance with transitions in note 3 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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

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

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

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

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(A) Upon application of HKFRS 9 in accordance with transitions in note 3 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(A) Upon application of HKFRS 9 in accordance with transitions in note 3 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

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

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

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

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

Derecognition of financial assets

The Groups derecognise a financial asset only when the contractual rights to the cash flows from the asset expire. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(A) Upon application of HKFRS 9 in accordance with transitions in note 3 (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at amortised cost

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated 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/non-substantial modification of financial liabilities

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.

The Groups account for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Groups) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Groups consider that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(B) Before application of HKFRS 9 on 1 January 2018

Financial assets

Classification and subsequent measurement of financial assets

Financial assets of the Groups are classified as 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.

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 receivable from Master Lessee, other debtor 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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

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 issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for receivables could include the Groups' past experience of collecting payments, an increase in the number of delayed payments in the past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(B) Before application of HKFRS 9 on 1 January 2018 (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised 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 receivable from Master Lessee, 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 receivable from Master Lessee 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 the 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 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(B) Before application of HKFRS 9 on 1 January 2018 (continued)

Derecognition

The Groups derecognise a financial asset only when the contractual rights to the cash flows from the asset expire. 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.

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 Trustee-Manager and 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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the Trustee-Manager and 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 Trustee-Manager and 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. One of the business objectives of the Groups is to enhance the value of hotel portfolios, therefore, in determining the Groups' deferred taxation on investment properties, the Trustee-Manager and 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.

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

Key sources of estimation uncertainty

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

Investment properties

Investment properties are stated at fair value of HK\$20,177,000,000 (2017: HK\$19,373,000,000) based on the valuation performed by an independent professional valuer.

In determining the fair value of investment properties situated in Hong Kong, the valuer used an income approach, which discounted cash flow analysis for the hotel properties based on an analysis of historical data and on assumptions about future market conditions affecting supply, demand, income, expenses and the potential for risk. A market approach method was also considered by comparison on a per unit room basis to actual sales transactions and offering of comparable properties.

In relying on the valuation report, the Trustee-Manager and the Directors have exercised their judgments and are satisfied that the methods of valuation are reflective of the current market conditions.

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.

Derivative financial instruments

In addition, as described in note 28, the fair value of derivative financial instruments that is not quoted in active market is provided by a counterparty financial institution and determined by using discounted cash flow method. Valuation technique commonly used by market practitioners is applied. Derivative financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

In relying on the valuation provided by a counterparty financial institution, Trustee-Manager and the Directors have exercised their judgment and are satisfied that the method of valuation is reflective of the current market conditions.

Note 28 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of derivative financial instruments.

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6. REVENUE

	2018 HK\$'000	2017 HK\$'000 (restated)
Rental income from Master Lessee		
Base rent	225,000	225,000
Variable rent	390,125	381,687
	615,125	606,687
Rental income from retail shops in Eaton HK (formerly known as Eaton, Hong Kong)	375	886
	615,500	607,573

Service fees income of HK\$91,083,000 (2017: HK\$86,572,000) has been netted with the same amount of the corresponding service fees expense (including hotel management fees, licence fee and global marketing fee). Details are set out in note 7.

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 Company, for the purpose of resource allocation and performance assessment are more specifically focused on the operating results from leasing of the three hotels, namely The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK (the "Hotels").

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

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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.

2018

	The Langham, Hong Kong HK\$'000	Cordis, Hong Kong HK\$'000	Eaton HK HK\$'000	Segment total HK\$'000	Reconciliation HK\$'000 (note)	Consolidated HK\$'000
Segment revenue	279,594	338,145	88,844	706,583	(91,083)	615,500
Segment results	232,413	280,921	73,668	587,002	–	587,002
Other income						210
Increase in fair value of investment properties						594,217
Fair value change on derivative financial instruments						(10,190)
Trust and other expenses						(12,017)
Finance costs						(188,821)
Profit before tax						970,401
Income tax expense						(74,761)
Profit for the year attributable to holders of Share Stapled Units						895,640

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7. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

2017

	The Langham, Hong Kong HK\$'000	Cordis, Hong Kong HK\$'000	Eaton HK HK\$'000	Segment total HK\$'000	Reconciliation HK\$'000 (note)	Consolidated HK\$'000 (restated)
Segment revenue	264,785	313,796	115,564	694,145	(86,572)	607,573
Segment results	221,390	260,953	98,365	580,708	–	580,708
Other income						2,337
Increase in fair value of investment properties						808,384
Fair value change on derivative financial instruments						(3,571)
Trust and other expenses						(11,081)
Finance costs						(153,409)
Profit before tax						1,223,368
Income tax expense						(77,309)
Profit for the year attributable to holders of Share Stapled Units						1,146,059

Note: Reconciliation represents netting of service fees income of HK\$91,083,000 (2017: HK\$86,572,000) with the same amount of the corresponding service fees expense (including hotel management fees, licence fee and global marketing fee) that has been adjusted from segment revenue.

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7. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

For the purpose of performance assessment, other than the fair value of investment properties, no other segment assets are reviewed by the CODM. At the end of the reporting period, the fair values of The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK were HK\$7,550,000,000, HK\$8,515,000,000 and HK\$4,112,000,000, respectively (2017: HK\$7,380,000,000, HK\$8,205,000,000 and HK\$3,788,000,000, respectively).

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

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\$615,125,000 (2017: HK\$606,687,000), contributing over 10% of the total revenue of the Groups for the year ended 31 December 2018.

8. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Interest income on bank deposits	182	1,838
Sundry income	28	499
	210	2,337

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9. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on bank loans	158,615	103,607
Net interest on interest rate swaps	11,360	30,714
Loan front-end fee amortisation	18,000	18,000
Other borrowing costs	846	1,088
	188,821	153,409

10. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Current tax:		
Hong Kong Profits Tax:		
Current year	42,002	45,341
(Over)underprovision in prior years	(424)	5
	41,578	45,346
Deferred tax (note 24):		
Current year	32,879	32,042
Under(over)provision in prior years	304	(79)
	33,183	31,963
	74,761	77,309

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

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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:

	2018 HK\$'000	2017 HK\$'000
Profit before tax	970,401	1,223,368
Tax at Hong Kong Profits Tax rate of 16.5%	160,116	201,856
Tax effect of expenses not deductible for tax purposes	13,177	9,526
Tax effect of income not taxable for tax purposes	(98,412)	(133,999)
Overprovision in prior years	(120)	(74)
Tax charge for the year	74,761	77,309

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:

	2018 HK\$'000	2017 HK\$'000
Profit for the year attributable to holders of Share Stapled Units	895,640	1,146,059
Adjustments:		
Add:		
Depreciation	10	10
Deferred tax	33,183	31,963
Non-cash finance costs	18,000	18,000
Hotel management fees and licence fee payable in form of Share Stapled Units (see notes 31 and 35(b))	72,132	68,977
Decrease in fair value of derivative financial instruments	10,190	3,571
Less:		
Increase in fair value of investment properties	(594,217)	(808,384)
Reserve for furniture, fixtures and equipment	(24,447)	(22,996)
Total distributable income	410,491	437,200

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12. DISTRIBUTION STATEMENT

	NOTE	2018 HK\$'000	2017 HK\$'000
Interim distribution period (note a)			
Total distributable income in respect of the six months ended 30 June		188,985	209,576
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for interim distribution period		188,985	209,576
Interim distribution (note c)		188,985	209,576
Final distribution period (note a)			
Total distributable income in respect of the financial year ended 31 December	11	410,491	437,200
Less: distributable income paid for interim distribution period (note d)		(189,875)	(209,958)
Distributable income available for final distribution period		220,616	227,242
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for final distribution period		220,616	227,242
Final distribution (note c)		220,616	227,242
Distribution per Share Stapled Unit			
Interim distribution per Share Stapled Unit in respect of the six months ended 30 June (note d)		HK9.0 cents	HK10.3 cents
Final distribution per Share Stapled Unit in respect of the six months ended 31 December (note d)		HK10.5 cents	HK11.1 cents

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12. DISTRIBUTION STATEMENT (CONTINUED)

Notes:

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

The final distribution in 2018 is based on total distributable income for the year ended 31 December 2018.

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

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

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

The final distribution after 31 December 2018 has not been recognised as a liability as at 31 December 2018.

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

- (d) **Interim distribution**

Interim distribution per Share Stapled Unit of HK9.0 cents in 2018 is calculated based on interim distribution of HK\$188,985,000 for the period and 2,099,083,438 Share Stapled Units as at 30 June 2018. In consideration of 10,632,501 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 30 June 2018 on 23 August 2018 (see note 25(b)), the number of Share Stapled Units entitled for the interim distribution in 2018 has been adjusted to be 2,109,715,939. Total distribution of HK\$189,875,000 in respect of 2018 interim distribution period was paid on 28 September 2018.

Interim distribution per Share Stapled Unit of HK10.3 cents in 2017 is calculated based on interim distribution of HK\$209,576,000 for the period and 2,028,796,339 Share Stapled Units after taking into account of 50,000,000 Share Stapled Units waived by LHIL Assets Holdings Limited as at 30 June 2017, pursuant to the distribution entitlement waiver deed. In addition, in consideration of 9,626,744 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 30 June 2017 on 24 August 2017 (see note 25(b)), the number of Share Stapled Units entitled for interim distribution in 2017 had been adjusted to be 2,038,423,083. Total distribution of HK\$209,958,000 in respect of 2017 interim distribution period was paid on 29 September 2017. Without such waiver, interim distribution per Share Stapled Unit would be HK10.1 cents in 2017.

Final distribution

Final distribution per Share Stapled Unit of HK10.5 cents in 2018 is calculated based on distributable income available for final distribution period of HK\$220,616,000 and 2,109,715,939 Share Stapled Units as at 31 December 2018. Final distribution will be paid on or before 5 June 2019.

Final distribution per Share Stapled Unit of HK11.1 cents in 2017 is calculated based on distributable income available for final distribution period of HK\$227,242,000 and 2,038,423,083 Share Stapled Units after taking into account of 50,000,000 Share Stapled Units waived by LHIL Assets Holdings Limited as at 31 December 2017, pursuant to the distribution entitlement waiver deed. In addition, in consideration of the issue of 10,660,355 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 31 December 2017 on 21 February 2018 (see note 25(b)), the number of Share Stapled Units entitled for final distribution in 2017 had been adjusted to be 2,049,083,438. Total distribution of HK\$227,448,000 in respect of 2017 final distribution period was paid on 16 May 2018. Without such waiver, final distribution per Share Stapled Unit would be HK10.9 cents in 2017.

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

	2018 HK\$'000	2017 HK\$'000
Profit and total comprehensive income for the year has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments)	5,815	5,492
Share-based payment expenses (including directors' emoluments) (note a)	292	193
	6,107	5,685
Depreciation	10	10
Auditor's remuneration	1,330	1,260
Operating lease payments on rented premises	2,363	2,298
Net exchange loss (gain) (included in trust and other expenses)	2	(2)

Note:

- (a) The Groups recognised total expenses of HK\$292,000 (2017: HK\$193,000) for the year ended 31 December 2018 in relation to share options granted by the ultimate holding company under its share option scheme.

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2017: seven) directors and the chief executive were as follows:

	2018					2017	
	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses HK\$'000 (note b)	Share-based payment expenses HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000	Total HK\$'000
Executive Director and Chief Executive							
Mr. IP Yuk Keung, Albert (note c)	50	1,742	377	221	–	2,390	2,172
Non-executive Directors							
Dr. LO Ka Shui	315	–	–	–	–	315	295
Ms. LO Bo Lun, Katherine (note d)	–	–	–	–	–	–	20
Mr. LO Chun Him, Alexander (note d)	170	–	–	–	–	170	132
Independent Non-executive Directors							
Professor LIN Syaru, Shirley	325	–	–	–	–	325	305
Mr. SO Yiu Wah, Eric (note e)	197	–	–	–	–	197	320
Mr. WONG Kwai Lam	365	–	–	–	–	365	345
Professor CHAN Ka Keung, Ceajer (note e)	143	–	–	–	–	143	–
	1,565	1,742	377	221	–	3,905	3,589

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14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

- (a) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Groups. The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.
- (b) 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.
- (c) 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 2017 are HK\$50,000, HK\$1,666,000, HK\$320,000, HK\$131,000, and HK\$5,000, respectively.
- (d) Ms. Lo Bo Lun, Katherine resigned as non-executive director on 14 February 2017 and Mr. Lo Chun Him, Alexander was appointed as non-executive director on 14 February 2017.
- (e) Mr. So Yiu Wah, Eric resigned as independent non-executive director on 31 July 2018 and Professor Chan Ka Keung, Ceajer was appointed as independent non-executive director on 1 August 2018.
- (f) There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

15. EMPLOYEES' EMOLUMENTS

Of the five (2017: five) individuals with the highest emoluments in the Groups, one (2017: one) was the 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 (2017: four) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other benefits	1,725	1,632
Discretionary bonuses	332	329
Share-based payment expenses	71	62
Retirement benefits scheme contributions	74	73
	2,202	2,096

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15. EMPLOYEES' EMOLUMENTS (CONTINUED)

	2018 Number of employees	2017 Number of employees
Bands: Nil – HK\$1,000,000	4	4

Discretionary bonus is determined with reference to the Groups' operating results and individual performance.

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:

	2018 HK\$'000	2017 HK\$'000
Earnings		
Profit for the year for the purposes of basic and diluted earnings per Share Stapled Unit	895,640	1,146,059
	2018 '000	2017 '000
Number of Share Stapled Units		
Weighted average number of Share Stapled Units for the purpose of basic and diluted earnings per Share Stapled Unit	2,104,813	2,083,005

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17. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures HK\$'000
COST	
At 1 January 2017	38
Addition	17
At 31 December 2017 and 31 December 2018	55
DEPRECIATION	
At 1 January 2017	17
Depreciation	10
At 31 December 2017	27
Depreciation	10
At 31 December 2018	37
CARRYING VALUES	
At 31 December 2018	18
At 31 December 2017	28

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 10% – 20% per annum

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18. INVESTMENT PROPERTIES

	2018 HK\$'000	2017 HK\$'000
FAIR VALUE		
At the beginning of the year	19,373,000	18,432,000
Additions	209,783	132,616
Increase in fair value recognised in profit or loss	594,217	808,384
At the end of the year	20,177,000	19,373,000

The fair value of the Groups' investment properties of HK\$20,177,000,000 as at 31 December 2018 (2017: HK\$19,373,000,000) has been arrived at on a basis of valuation carried out by Vigers Appraisal and Consulting Limited, an independent professional property valuer not connected with the Groups.

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. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Management reports the valuation report and findings to the Trustee-Manager and the Directors half yearly to explain the cause of fluctuations in the fair value of the assets.

The independent property valuer adopted an income approach by using discounted cash flow analysis and a market approach method by comparison to arrive at the valuation of investment properties. For income approach, the discounted cash flow analysis for the hotel properties are established based on analysis of historical data and on assumptions about future market conditions affecting supply, demand, income, expenses and the potential for risk. These assumptions determine the earning capability of the hotel properties upon which the pattern of income and expenditures are projected to establish a fair maintainable operating profit on a pre-tax yearly basis by a reasonably efficient operator over a 10-year investment horizon; and the anticipated net operating income stream receivable thereafter is capitalised at appropriate terminal capitalisation rates and adjusted to present value by appropriate discount rate to reflect the capital values beyond the years. For market approach, the comparison method of valuation whereby comparisons on a per room basis on actual sales transactions and offering of comparable properties during the year have been made, subject to appropriate adjustments made for variable factors, including location and grading. There has been no change to the valuation techniques 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 input used in valuing the investment properties by the independent property valuer under the aforesaid market approach was market selling price per room, which is ranged from HK\$8,645,000 per room to HK\$15,120,000 per room (2017: HK\$8,280,000 per room to HK\$14,839,000 per room). An increase in the market selling price per room used would result in an increase in fair value measurement of the investment properties, and vice versa.

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18. INVESTMENT PROPERTIES (CONTINUED)

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 8.00% (2017: 7.75%) and average daily rates, which ranged from HK\$1,198 to HK\$2,354 (2017: HK\$1,063 to HK\$2,214) per room. An increase in the average daily rate used would result in a slight increase in fair value measurement of the investment properties, and vice versa, holding all other variables constant. The following table details the Groups' sensitivity to a 50 basis points (2017: 50 basis points) increase/decrease in discount rate holding all other variables constant.

	2018		2017	
	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	(300,000)	320,000	(290,000)	310,000
Cordis, Hong Kong	(350,000)	350,000	(330,000)	340,000
Eaton HK	(340,000)	170,000	(80,000)	80,000
	(990,000)	840,000	(700,000)	730,000

Details of the Groups' investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	Level 1	Level 2	Level 3	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Langham, Hong Kong	–	–	7,550,000	7,550,000
Cordis, Hong Kong	–	–	8,515,000	8,515,000
Eaton HK	–	–	4,112,000	4,112,000
	–	–	20,177,000	20,177,000

	Level 1	Level 2	Level 3	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Langham, Hong Kong	–	–	7,380,000	7,380,000
Cordis, Hong Kong	–	–	8,205,000	8,205,000
Eaton HK	–	–	3,788,000	3,788,000
	–	–	19,373,000	19,373,000

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.

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19. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK\$'000	2017 HK\$'000
Non-current asset Interest rate swaps	26,923	28,300
Non-current liability Interest rate swap	8,889	76

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

Major terms of the interest rate swaps are as follows:

Total notional amount	Maturity	Floating interest rate	Fixed interest rate	Interest period
2018 HK\$4,000,000,000	November 2020 – June 2022	Hong Kong Interbank Offered Rate ("HIBOR")	1.035% – 2.545%	Monthly
2017 HK\$3,500,000,000	November 2020 – April 2021	HIBOR	1.035% – 1.80%	Monthly

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20. DEBTORS, DEPOSITS AND PREPAYMENTS

	2018 HK\$'000	2017 HK\$'000
Receivable from Master Lessee	63,797	106,168
Deferred rent receivable	122	–
Other debtor	117	152
Deposits and prepayments	11,315	9,171
	75,351	115,491

Receivable from Master Lessee is payable on presentation of invoices.

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

	2018 HK\$'000	2017 HK\$'000
0 – 3 months	63,797	106,168

Receivable from Master Lessee represents an amount due from a fellow subsidiary of HK\$63,797,000 (2017: HK\$106,168,000) which is unsecured, interest-free and payable on presentation of invoices.

Deposits and prepayments mainly consist of deposits paid to contractors for hotels renovation. Included in deposits and prepayments is an amount due from a fellow subsidiary of HK\$331,000 (2017: nil) which is unsecured and interest-free.

Other debtor represents an amount due from a fellow subsidiary of HK\$117,000 (2017: HK\$152,000) which is unsecured, interest-free and payable on presentation of invoices.

21. BANK BALANCES

Bank balances comprised short-term bank deposits carrying interest at prevailing annual deposit rates which range from 0.52% to 2.01% (2017: 0.12% to 1.79%) per annum.

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22. CREDITORS, DEPOSITS AND ACCRUALS

	2018 HK\$'000	2017 HK\$'000
Trade creditors	41,109	37,800
Deposits received	654	–
Other creditors	–	6,083
Construction fee payables	9,004	44,259
Accruals and other payables	9,875	9,220
	60,642	97,362

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

	2018 HK\$'000	2017 HK\$'000
0 – 3 months	25,536	23,590
3 – 6 months	15,573	14,210
	41,109	37,800

Trade creditors are amounts due to fellow subsidiaries of HK\$41,109,000 (2017: HK\$37,800,000) which are unsecured, interest-free and payable on presentation of invoices.

Included in other construction fee payables are amounts due to fellow subsidiaries of HK\$245,000 (2017: nil) which are unsecured, interest-free and payable on presentation of invoices.

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

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23. SECURED BANK LOANS

	2018 HK\$'000	2017 HK\$'000
Secured term loans	6,800,000	6,800,000
Secured revolving loans	165,000	–
Loan front-end fee	(25,403)	(43,403)
	6,939,597	6,756,597
Less: Amount due within one year shown under current liabilities	(165,000)	–
Amount due after one year	6,774,597	6,756,597

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

	2018 HK\$'000	2017 HK\$'000
Within one year	165,000	–
More than one year but not exceeding two years	6,774,597	–
More than two years but not exceeding three years	–	6,756,597
	6,939,597	6,756,597

Secured bank loans of HK\$6,800,000,000 (2017: HK\$6,800,000,000) are variable-rate borrowings, bearing interest at HIBOR plus 0.98% (2017: HIBOR plus 0.98%) per annum and are repayable in one lump sum on maturity date which will fall due in 2020. Secured revolving loans of HK\$165,000,000 (2017: nil) are variable-rate borrowings, bearing interest at HIBOR plus 0.98% per annum and are repayable in 2019. All bank loans are secured by the Groups' investment properties.

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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 2017	297,229	–	297,229
Charge to profit or loss	32,042	–	32,042
Overprovision in prior years	(79)	–	(79)
At 31 December 2017	329,192	–	329,192
Charge (credit) to profit or loss	38,932	(6,053)	32,879
Underprovision in prior years	304	–	304
At 31 December 2018	368,428	(6,053)	362,375

At the end of the reporting period, the Groups have unutilised tax losses of HK\$36,684,000 (2017: nil) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$36,684,000 (2017: nil) of such losses.

25. ISSUED CAPITAL/UNITS

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

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25. ISSUED CAPITAL/UNITS (CONTINUED)

Units issued/share capital issued and fully paid:

Share Stapled Units

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

	Number of shares	Nominal value HK\$
Ordinary shares of HK\$0.0005 each (note a)		
At 1 January 2017	2,067,226,456	1,033,614
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	11,569,883	5,785
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	9,626,744	4,813
At 31 December 2017	2,088,423,083	1,044,212
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,660,355	5,330
Issue of ordinary shares as payment of hotel management fees and licence fee (note b)	10,632,501	5,316
At 31 December 2018	2,109,715,939	1,054,858
Preference shares of HK\$0.0005 each (note c)		
At 1 January 2017	2,067,226,456	1,033,614
Issue of preference shares as payment of hotel management fees and licence fee (note b)	11,569,883	5,785
Issue of preference shares as payment of hotel management fees and licence fee (note b)	9,626,744	4,813
At 31 December 2017	2,088,423,083	1,044,212
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,660,355	5,330
Issue of preference shares as payment of hotel management fees and licence fee (note b)	10,632,501	5,316
At 31 December 2018	2,109,715,939	1,054,858

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25. ISSUED CAPITAL/UNITS (CONTINUED)

	2018 HK\$'000	2017 HK\$'000
Issued capital/unit as shown in the consolidated financial statements	2,110	2,089

Notes:

- (a) All of the issued ordinary shares of the Company are held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust.
- (b) Details of Share Stapled Units issued for both years as payment of hotel management fees and licence fee are as follows (see notes 31 and 35(b)):

Issue date	Relevant period	Issue price		Number of shares
		HK\$	HK\$'000	
1 March 2017	1 July 2016 to 31 December 2016	3.309	38,285	11,569,883
24 August 2017	1 January 2017 to 30 June 2017	3.430	33,020	9,626,744
21 February 2018	1 July 2017 to 31 December 2017	3.373	35,957	10,660,355
23 August 2018	1 January 2018 to 30 June 2018	3.102	32,982	10,632,501

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

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26. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK\$'000	2017 HK\$'000
Non-current assets		
Investments in subsidiaries	872,173	701,378
Amounts due from subsidiaries	7,491,010	7,896,388
	8,363,183	8,597,766
Current assets		
Prepayments	117	297
Bank balances	1,868	1,095
	1,985	1,392
Current liability		
Accruals and other payable	1,052	801
Net current assets	933	591
Non-current liability		
Amount due to a subsidiary	44	1,678
NET ASSETS	8,364,072	8,596,679
Capital and reserves		
Issued capital	2,110	2,089
Reserves	8,361,962	8,594,590
TOTAL EQUITY	8,364,072	8,596,679

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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 2017	8,476,267	421,389	8,897,656
Distribution paid	(483,032)	–	(483,032)
Issue of Share Stapled Units (see notes 25 and 31)	71,283	–	71,283
Profit and total comprehensive income for the year	–	108,683	108,683
At 31 December 2017	8,064,518	530,072	8,594,590
Distribution paid	(417,323)	–	(417,323)
Issue of Share Stapled Units (see notes 25 and 31)	68,918	–	68,918
Profit and total comprehensive income for the year	–	115,777	115,777
At 31 December 2018	7,716,113	645,849	8,361,962

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 loans 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 Trust and the Company consists of equity attributable to holders of Share Stapled Units, comprising issued share capital/units, reserves and retained profits.

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

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28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
<i>Derivative financial instruments</i>		
Interest rate swaps	26,923	28,300
<i>Financial assets at amortised cost</i>		
Receivable from Master Lessee	63,797	–
Other debtor	117	–
Bank balances	86,881	–
	150,795	–
<i>Loans and receivables</i>		
Receivable from Master Lessee	–	106,168
Other debtor	–	152
Bank balances	–	101,076
	–	207,396
	177,718	235,696
Financial liabilities		
<i>Derivative financial instrument</i>		
Interest rate swap	8,889	76
<i>Financial liabilities at amortised cost</i>		
Trade creditors	41,109	37,800
Other creditors	–	6,083
Construction fee payables	9,004	44,259
Other payables	6,607	5,630
Secured bank loans	6,939,597	6,756,597
	6,996,317	6,850,369
	7,005,206	6,850,445

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28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies

The Groups' major financial instruments include derivative financial instruments, receivable from Master Lessee, other debtor, bank balances, trade and other creditors, other payables, construction fee payables and secured bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with the Groups' financial instruments include market risk (currency risk and interest rate risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Groups have foreign currency bank balances, which expose the Groups to foreign currency risk.

The carrying amounts of the Groups' foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2018 HK\$'000	2017 HK\$'000
Renminbi	2	2
United States dollar	16	16

The Groups manage the foreign currency risk by closely monitoring the movement of the foreign currency rate.

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28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

(ii) Interest rate risk

The Groups are exposed to cash flow interest rate risk in relation to pay-fixed/receive-floating interest rate swaps, bank deposits and 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 fluctuation of HIBOR arising from the Groups' pay-fixed/receive-floating interest rate swaps 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 both derivatives and non-derivative instruments 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 (2017: 50 basis points) increase or decrease in pay-fixed/receive-floating interest rate swaps and secure bank loans is used which represents management's assessment of the effect from possible change in interest rates.

If the interest rates had been 50 basis points (2017: 50 basis points) higher or lower and all other variables were held constant, the Groups' profit for the year would decrease/increase by HK\$10,378,000 (2017: HK\$4,652,000). This is mainly attributable to the Groups' exposure to interest rates on its floating rate secured bank loans and the changes in fair value of pay-fixed/receive-floating interest rate swaps.

Credit risk and impairment assessment

At 31 December 2018, 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.

The Groups measure the loss allowance on liquid funds equal to 12m ECL. The credit risk on liquid funds is limited because counterparties are banks with external credit rating of at least A1 assigned by international credit-rating agencies.

With respect to credit risk arising from the Groups' receivable from Master Lessee, the Groups' exposure to credit risk arising from default of the counterparty is limited as the counterparty has good history of repayment and the Groups do not expect to incur a significant loss arising from receivable from Master Lessee. In addition, the Groups perform impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model). In this regard, the Trustee-Manager and the Directors consider that the Groups' credit risk is significantly reduced.

The Groups have concentration of credit risk as receivable from Master Lessee was due from a debtor.

Other than concentration of credit risk on receivable from Master Lessee and liquid funds, which are deposited with several banks with external credit rating of at least A1 assigned by international credit-rating agencies, the Groups do not have any other significant concentration of credit risk.

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28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued) Credit risk and impairment assessment (continued)

The credit risk on derivative financial instruments is limited because the counterparties are banks with external credit rating of at least A1 assigned by an international credit-rating agency.

Based on the ECL assessment, the credit exposures for all the financial assets, which are subject to ECL assessment, are considered as low risk because the counterparties have a low risk of default and does not have material past-due amounts. During the year ended 31 December 2018, no loss allowance provision for the amounts was recognised.

Liquidity risk

In management of the liquidity risk, the Groups monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Groups' operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank loans 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 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 2018 HK\$'000
Non-derivative financial liabilities							
Trade creditors	N/A	41,109	-	-	-	41,109	41,109
Construction fee payables	N/A	3,686	5,318	-	-	9,004	9,004
Other payables	N/A	6,607	-	-	-	6,607	6,607
Secured bank loans - variable rate	2.28	203,760	116,280	6,863,541	-	7,183,581	6,939,597
		255,162	121,598	6,863,541	-	7,240,301	6,996,317

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28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk (continued)

Liquidity risk analysis (continued)

	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 2017 HK\$'000
Non-derivative financial liabilities							
Trade creditors	N/A	37,800	-	-	-	37,800	37,800
Other creditors	N/A	6,083	-	-	-	6,083	6,083
Construction fee payables	N/A	-	37,227	7,032	-	44,259	44,259
Other payables	N/A	5,630	-	-	-	5,630	5,630
Secured bank loans – variable rate	1.52	25,840	77,520	103,360	6,842,361	7,049,081	6,756,597
		75,353	114,747	110,392	6,842,361	7,142,853	6,850,369

In addition, the following table details the Groups' liquidity analysis for its derivative financial instruments based on its contractual maturity. For derivative financial instrument settled on a net basis, undiscounted 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.

	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December HK\$'000
2018						
Derivatives net settlement						
Interest rate swaps	5,330	3,400	9,959	(982)	17,707	18,034
2017						
Derivatives net settlement						
Interest rate swaps	(3,105)	(4,081)	13,375	24,095	30,284	28,224

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28. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values

The fair values of the financial asset and the financial liability representing derivative financial instruments are 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. The Trustee-Manager and 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 measurements of financial instruments

One of the Groups' financial assets and one of the financial liabilities are measured at fair value at the end of the reporting period. The following table provides an analysis of financial instruments that are 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.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2018				
<i>Derivative financial instruments</i>				
Asset				
Interest rate swaps	–	26,923	–	26,923
Liability				
Interest rate swap	–	8,889	–	8,889
As at 31 December 2017				
<i>Derivative financial instruments</i>				
Asset				
Interest rate swaps	–	28,300	–	28,300
Liability				
Interest rate swap	–	76	–	76

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

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28. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value measurements of financial instruments (continued)

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

Financial asset (liability)	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2018 HK\$'000	2017 HK\$'000		
Interest rate swaps classified as non- current asset	26,923	28,300	Level 2	Discounted cash flow. Future cash flows are estimated based on interest rates (from observable interest rates at the end of the reporting period) and contracted rates discounted at a rate that reflects the credit risk of the counterparties.
Interest rate swap classified as non- current liability	(8,889)	(76)	Level 2	Discounted cash flow. Future cash flows are estimated based on interest rates (from observable interest rates at the end of the reporting period) and contracted rates discounted at a rate that reflects the credit risk of the counterparties.

(e) Financial asset and financial liability subject to enforceable master netting arrangements

The Groups have entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements ("ISDA Agreements") signed with a bank. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Groups currently have no legally enforceable right to set off the recognised amounts.

As at 31 December 2018, the gross amount of financial asset and financial liability that are subject to enforceable master netting arrangements are HK\$26,923,000 (2017: HK\$28,300,000) and HK\$8,889,000 (2017: HK\$76,000) respectively. No deposit was placed with the counterparty.

29. PLEDGE OF ASSETS

At 31 December 2018 and 2017, all of the Groups' investment properties have been pledged to secure banking facilities granted to the Groups.

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

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

	Interest payable HK\$'000	Secured bank loans HK\$'000	Derivative financial instruments HK\$'000	Distribution payable HK\$'000	Total HK\$'000
At 1 January 2017	1,653	6,738,597	(31,795)	–	6,708,455
Cash flows	(130,344)	–	–	(483,032)	(613,376)
Interest expense	134,321	–	–	–	134,321
Other changes					
Front-end fees amortisation	–	18,000	–	–	18,000
Fair value adjustments	–	–	3,571	–	3,571
Distribution declared	–	–	–	483,032	483,032
At 31 December 2017	5,630	6,756,597	(28,224)	–	6,734,003
Cash flows	(169,000)	165,000	–	(417,323)	(421,323)
Interest expense	169,975	–	–	–	169,975
Other changes					
Front-end fees amortisation	–	18,000	–	–	18,000
Fair value adjustments	–	–	10,190	–	10,190
Distribution declared	–	–	–	417,323	417,323
At 31 December 2018	6,605	6,939,597	(18,034)	–	6,928,168

31. MAJOR NON-CASH TRANSACTIONS

The Groups incurred hotel management fees and licence fee payable to Langham Hotels International Limited for the year ended 31 December 2018 of HK\$72,132,000 (2017: HK\$68,977,000) (see note 35(b)), of which HK\$32,982,000 (2017: HK\$33,020,000) was settled by Share Stapled Units. The remaining balance of HK\$39,150,000 (2017: HK\$35,957,000) will also be settled by Share Stapled Units subsequent to the end of the reporting period.

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

32. COMMITMENTS

At 31 December 2018, the Groups had authorised capital expenditures for investment properties which were not provided for in these consolidated financial statements amounting to HK\$49,293,000 (2017: HK\$170,582,000) of which HK\$42,195,000 (2017: HK\$123,838,000) were contracted for.

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

33. OPERATING LEASE COMMITMENTS

The Groups as lessor

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

	2018 HK\$'000	2017 HK\$'000
With Master Lessee		
Within one year	225,000	225,000
In the second to fifth year	–	225,000
	225,000	450,000
With other tenant		
Within one year	550	–
In the second to fifth year	794	–
	1,344	–

Lease in respect of the retail shop in Eaton HK is negotiated for a term three years at fixed monthly rentals. For the master lease agreements (see note 35(a)), the leases are negotiated for a term of 14 years from the Listing Date. From commencement date to 31 December 2019 (the "First Period"), leases in respect of the Hotels are negotiated at fixed annual base rent and variable rent based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fees. From 1 January 2020 to 31 December 2023 (the "Second Period") and 1 January 2024 to expiry date of lease term (the "Third Period"), the leases will be negotiated with reference to market rental to be determined by independent property valuer. The above future minimum lease payments only include base rent of the First Period as the variable rent of the First Period cannot be determined as of the date of approval of the consolidated financial statements. In addition, for the Second and Third Period, the rentals will be determined by the independent property valuer prior to the commencement of the respective periods, which may be subject to unitholders' approval of the Trust and the Company and cannot be determined as of the date of approval of the consolidated financial statements.

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

For the year ended 31 December 2018

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33. OPERATING LEASE COMMITMENTS (CONTINUED)

The Groups 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:

	2018 HK\$'000	2017 HK\$'000
With Moon Yik Company, Limited, a fellow subsidiary		
Within one year	682	682
In the second to fifth year	20	702
	702	1,384
With other landlords		
Within one year	258	516
In the second to fifth year	–	258
	258	774

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

34. RETIREMENT BENEFITS SCHEME

The Groups operate 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\$1,500 effective from 1 June 2014.

Total contributions to retirement fund schemes for the year ended 31 December 2018 charged to the consolidated statement of profit or loss and other comprehensive income amounted to HK\$74,000 (2017: HK\$78,000).

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

35. CONNECTED AND RELATED PARTY DISCLOSURES

Other than as disclosed in notes 12, 20, 22, 31 and 33, 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, the ultimate holding company, and Dr. Lo Ka Shui, Director of the Company, is a substantial shareholder, the chairman and managing director of Great Eagle Holdings Limited. The transactions were carried out in the normal course of the Groups' business on terms mutually agreed between the parties. The following significant transactions are connected transactions and the following related parties are connected parties of the Groups as defined in the chapter 14A of the Listing Rules.

	Notes	2018 HK\$'000	2017 HK\$'000
Rental income and related service fees income			
Master Lessee	(a)	706,208	693,259
Hotel management fees and licence fee			
Langham Hotels International Limited	(b)	72,132	68,977
Global marketing fee			
Langham Hotels Services Limited	(c)	18,951	17,595
Property management services fee			
The Great Eagle Properties Management Company, Limited	(d)	2,248	3,290
Rental expenses			
Clever Gain Investment Limited	(e)	–	15
Moon Yik Company, Limited	(f)	682	682
Lease agency fee			
The Great Eagle Estate Agents Limited	(g)	57	31
Administrative support service fee			
The Great Eagle Company, Limited	(h)	960	960
Procurement services fee			
Champion Global Services Limited	(i)	650	797
Project management services fee			
The Great Eagle Development and Project Management Limited	(j)	2,688	5,419
Design and construction contracting services fee			
Toptech Company Limited	(k)	4	4
Staff laundry services fee			
Master Lessee	(l)	2	2
Hotel accommodation expenses			
Master Lessee	(m)	127	78

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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35. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes:

- (a) For the purpose of connected and related party disclosures, rental income and related service fees income that charged to Master Lessee in accordance with the master lease agreement has been presented before netting with service fees (including hotel management fees, licence fee and global marketing fee) of HK\$91,083,000 (2017: HK\$86,572,000). Annual base rent of HK\$225 million was proportionately charged over the period for the year ended 31 December 2018. Variable rent payable was recorded based on 70% of the Hotels' aggregate gross operating profit before deduction of global marketing fee of HK\$687,440,000 (2017: HK\$668,941,000) earned by Master Lessee.

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

	2018 HK\$'000	2017 HK\$'000
Hotels' aggregate gross operating profit before deduction of global marketing fee	687,440	668,941
70% thereon, variable rent (before netting with service fees)	481,208	468,259
Base rent	225,000	225,000
Add:		
Rental income from retail shops in Eaton HK	375	886
Groups' segment revenue	706,583	694,145
Less:		
Service fees		
– Hotel management fees (i.e. base fee and incentive fee)	(55,834)	(53,647)
– Licence fee	(16,298)	(15,330)
– Global marketing fee	(18,951)	(17,595)
Property taxes, rates and insurance	(27,409)	(25,365)
Other deductions	(1,089)	(1,500)
Groups' segment profit	587,002	580,708

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

35. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes: (continued)

- (b) Langham Hotels International Limited is entitled, in accordance with hotel management agreements, to (i) a base fee of 1.5% of the total revenue of the relevant hotels; (ii) licence fee of 1% of the total revenue of the relevant hotels (payable under the trademark licence agreements); and (iii) an incentive fee of 5% of the adjusted gross operating profit (i.e. Hotels' gross operating profit less the base fee and the licence fee) of the relevant hotels. The hotel management fees and licence fee would be settled by Share Stapled Units (see notes 25 and 31).

	2018 HK\$'000	2017 HK\$'000
(A) Total revenue of relevant hotels	1,629,798	1,533,044
(B) Adjusted Hotels' aggregate gross operating profit	627,744	613,020
(i) Base fee (A x 1.5%)	24,447	22,996
(ii) Licence fee (A x 1%)	16,298	15,330
(iii) Incentive fee (B x 5%)	31,387	30,651
Total fees	72,132	68,977

- (c) Global marketing fee was payable on a fixed percentage of 2% of the total room revenue of the relevant hotels (i.e. HK\$947,528,000 (2017: HK\$879,767,000)) 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) The rental was charged by Clever Gain Investment Limited for venue of annual general meeting at Yat Tung Heen.
- (f) 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.
- (g) Lease agency fee was charged at the rate of 4% of the monthly rental income receivable from Eaton HK's retail shops plus an amount equivalent to a month's rental income arising from the leasing of the relevant retail shops for new leases.
- (h) The fee was charged on cost sharing basis and allocated to the Groups according to time spent by relevant personnel of The Great Eagle Company, Limited on the businesses of the Groups and the related share of administrative costs.
- (i) Procurement services fee at a rate of 5% of (a) the respective budgeted sums of furniture, fixtures and equipment categories for hotel renovation and operating supplies and equipment categories for hotel renovation and (b) the actual amount of the purchase orders for furniture, fixtures and equipment and operating supplies and equipment categories for hotel maintenance and miscellaneous categories.

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

For the year ended 31 December 2018

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35. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

Notes: (continued)

- (j) Project management services fee at a rate of 3% of the actual amount of the construction cost for renovation of the Hotels as certified by project quantity surveyor or other consultants.
- (k) 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.
- (l) Staff laundry services fee was payable to Master Lessee for staff laundry services.
- (m) The hotel accommodation expenses were paid to Master Lessee for the hotel accommodation of the designers of Eaton HK renovation.
- (n) 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\$2,927,000 (2017: HK\$7,310,000) was waived by LHIL Assets Holdings Limited and its fellow subsidiaries.

The remuneration of Directors and chief executive during the year was as follows:

	2018 HK\$'000	2017 HK\$'000
Short-term benefits	3,905	3,584
Post-employment benefits	–	5
	3,905	3,589

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

36. EVENT AFTER THE END OF THE REPORTING PERIOD

On 31 January 2019, the Groups repaid revolving loans of HK\$165,000,000 and further borrowed another revolving loans of HK\$165,000,000 payable in one month.

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

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

37. PARTICULARS OF THE SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 and 2017 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	
			2018	2017
– 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		Principal activities	Percentage of issued equity share capital held by the Company	
	Number of shares	Issued and paid up share capital HK\$		2018	2017
– 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	
			2018	2017
– 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 2018

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37. PARTICULARS OF THE SUBSIDIARIES (CONTINUED)

Indirect subsidiaries	Number of shares	Share capital issued	Principal activities	Percentage of issued equity share capital held by the Company	
		Issued and paid up share capital HK\$		2018	2017
– 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 2018 and 2017 or at any time during the year.

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED

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Deloitte.

德勤

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 163 to 168, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income and statement of changes in equity 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 2018, and of its financial performance 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.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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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.

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 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 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 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 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.

INDEPENDENT AUDITOR'S REPORT OF LHIL MANAGER LIMITED

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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

- 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.

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 2019

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

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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	NOTES	2018 HK\$	2017 HK\$
Revenue		–	–
Administrative expenses		(23,955)	(22,355)
Less: Amount borne by a fellow subsidiary		23,955	22,355
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 2018

	NOTE	2018 HK\$	2017 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 163 to 168 were approved and authorised for issue by the Board of Directors on 14 February 2019 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 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

Share capital
HK\$

At 1 January 2017, 31 December 2017 and 31 December 2018

1

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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1. GENERAL

LHIL Manager Limited (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 dollar, which is also the functional currency of the Company.

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

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

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

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

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

The application of new and amendments to HKFRSs and the interpretation 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 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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 and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

The Directors anticipate that the application of new and amendments to HKFRSs and the interpretation will have no material impact on the financial statements in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2018

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and 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

	2018 HK\$	2017 HK\$
Profit or loss before tax has been arrived at after charging:		
Auditor's remuneration	20,000	20,000
Directors' remuneration	–	–

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 1 January 2017, 31 December 2017 and 2018	1	1

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED

For the year ended 31 December 2018

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

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. 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

	2018 HK\$	2017 HK\$
Financial asset		
<i>Financial asset at amortised cost</i>		
Cash on hand	1	–
<i>Loan and receivable</i>		
Cash on hand	–	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

LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018 169

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 HK 380 Nathan Road, Yau Ma Tei, Kowloon, Hong Kong	Hotel/Commercial	339,000

FIVE YEARS' FINANCIAL SUMMARY

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LANGHAM HOSPITALITY INVESTMENTS ANNUAL REPORT 2018

	For the year ended 31 December				2018 HK\$'000
	2014 HK\$'000 (restated)	2015 HK\$'000 (restated)	2016 HK\$'000 (restated)	2017 HK\$'000 (restated)	
RESULTS					
Revenue	657,059	597,811	619,351	607,573	615,500
Profit before tax	644,088	1,518,840	492,869	1,223,368	970,401
Income taxes	(87,025)	(76,649)	(83,260)	(77,309)	(74,761)
Profit for the year attributable to Holders of shares of the Company/Share Stapled Units	557,063	1,442,191	409,609	1,146,059	895,640
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES					
Total assets	17,704,580	18,803,035	18,823,545	19,617,895	20,366,205
Total liabilities	(7,022,074)	(7,121,038)	(7,147,002)	(7,206,827)	(7,407,589)
Net assets	10,682,506	11,681,997	11,676,543	12,411,068	12,958,616

Note:

The Groups have applied HKFRS 15 "Revenue from Contracts with Customers" with a full retrospective approach where certain comparative information has been restated. Service fees expense (including hotel management fees, licence fee and global marketing fee) of HK\$94,679,000, HK\$84,383,000, HK\$87,028,000 and HK\$86,572,000, in 2014, 2015, 2016 and 2017, respectively, has been netted with the service fees income correspondingly.

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
"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
"Corporate Governance Code"	Appendix 14 "Corporate Governance Code and Corporate Governance Report" of the Listing Rules
"Distribution Entitlement Waiver Deed"	The deed dated 10 May 2013 entered into among LHIL Assets Holdings Limited, Great Eagle and the Trustee-Manager in relation to the waiver by LHIL Assets Holdings Limited of its entitlement to receive distributions payable by the Trustee- Manager
"Great Eagle"	Great Eagle Holdings Limited (Stock Code: 41), the holding company of the Trust Group holding 62.93% issued Share Stapled Units as at 31 December 2018
"Great Eagle Group"	Great Eagle and its subsidiaries
"Great Eagle ROFR Deed"	The Deed of Right of First Refusal dated 10 May 2013 entered into between Great Eagle and the Company
"Group"	The Company and its subsidiaries
"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
"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

GLOSSARY OF TERMS

Terms	Definition
"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 HK
"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 HKEXnews website 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)

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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

