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# LANGHAM

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## HOSPITALITY INVESTMENTS

### **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)*

and

### **Langham Hospitality Investments Limited**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 1270)

## **2014 INTERIM RESULTS ANNOUNCEMENT**

The boards of directors (the “**Boards**”) of LHIL Manager Limited (the “**Trustee-Manager**”, as the trustee-manager of Langham Hospitality Investments (the “**Trust**”) and Langham Hospitality Investments Limited (the “**Company**”) are pleased to announce the unaudited consolidated results of the Trust and of the Company together with the Company’s subsidiaries (the “**Trust Group**”) for the six-month period ended 30 June 2014 as follows:

### **FINANCIAL HIGHLIGHTS**

<b>(in HK\$ million, unless otherwise specified)</b>	<b>1H 2014</b>	<b>1H 2013</b> (30 May to 30 June)
Total Rental Income	368.3	55.8
Net Property Income	305.3	46.2
Profit attributable to Holders of Share Stapled Units	192.3	(6.6)
Distributable Income	272.6	39.1
Distribution per Share Stapled Unit (Before distribution waiver)	HK13.5 cents	HK2.0 cents
Distribution per Share Stapled Unit (After distribution waiver)	HK14.6 cents	HK2.1 cents
	<b>As at 30 Jun 2014</b>	<b>As at 31 Dec 2013</b>
Gross Value of Hotel Portfolio	16,719	16,696
Net Asset Value per Share Stapled Unit	HK\$5.24	HK\$5.33
Gearing Ratio	38.8%	38.7%

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The hospitality industry in Hong Kong faced more stable macroeconomic conditions during the first half of 2014 as compared with last year when there were greater volatilities in the capital market at that time. As such, there was growth in revenue per available room (“**RevPAR**”) at High Tariff hotels in Hong Kong during the first half of this year as compared with their flat to declining performance in the same period last year. All three hotels of the Trust Group continued to deliver year-on-year RevPAR growth during the first half of 2014, which led to steady distribution income to our Holders of Share Stapled Units.

During the first half period, RevPAR growth of the two High Tariff A hotels (considered as 5-star rated hotels), The Langham, Hong Kong, and Langham Place Hotel, Hong Kong averaged 5.9%, which is slightly better than their respective High Tariff A hotel market, which grew 5.8% year-on-year over the first half period. A 4.2% RevPAR growth for Eaton, Hong Kong was behind its respective High Tariff B hotel market (considered as 4-star rated hotel), which grew 6.6% year-on-year over the same period. However, it should be noted that Eaton, Hong Kong had generated a 10.2% increase in room revenue in the first half, as the hotel had more available rooms after the renovation was completed in the second half of last year.

For the first half period ended 30 June 2014, net profit of the Trust Group reached HK\$192.3 million, which included an increase in fair value of investment properties amounting to HK\$3.9 million.

Excluding the fair value change on investment properties, net profit would have been HK\$188.4 million. Distributable income, which was adjusted for non-cash items including fair value change of investment properties, reached HK\$272.6 million. Distribution per Share Stapled Unit before distribution waived by the Great Eagle Group is HK13.5 cents and HK14.6 cents after the impact of distribution waiver being reflected.

The Trust Group’s hotel property portfolio was valued at HK\$16,719 million as at 30 June 2014 and the Trust Group has HK\$6,800 million of bank loan in place. Net Asset Value of the Trust Group amounted to HK\$10,554 million or HK\$5.24 per Share Stapled Unit, down from HK\$5.33 per Share Stapled Unit as at the end of December 2013. The decline in Net Asset Value per Share Stapled Unit was due to an increase in number of Share Stapled Units issued for the payment of hotel management and licence fees. As at 30 June 2014, the Trust Group’s gearing ratio was at a comfortable level of 38.8% with an adequate interest coverage ratio of around 5 times. The Trust Group had no financing requirements until May 2016.

In order to further optimize operational performance and profitability, all three hotels have put in place a series of asset enhancement programs that will be funded by equity raised at the time of the initial public offering. In fact, the first phase of the renovation program at The Langham, Hong Kong, which comprised of about 100 rooms, had begun mid-June 2014 with completion expected to be in September 2014. Rooms renovated will be made available during the traditional peak season in the fourth quarter, with higher room rates to be expected.

Major renovations at Langham Place Hotel, Hong Kong and Eaton, Hong Kong have been scheduled to commence in 2015. These renovation projects are expected to lift the performance of these hotels in the near term. In order to foster organic growth, it is one of our strategies to deploy asset enhancement expenditures, so as to constantly enhance the operating performance of the portfolio, thereby resulting in progressive distributions to Holders of Share Stapled Units, and also serving to enhance the underlying value of these hotels.

Apart from the aforementioned asset enhancement initiatives, we will consider acquisitions as a possible strategic means to achieve growth for the Trust Group. While the current yield provided by the Company sets a high hurdle to consummate acquisition opportunities, our management is constantly evaluating new investment opportunities in order to identify suitable acquisitions for the Company.

Lastly, the Boards would like to thank Ms. Katherine Benson for her contribution to the Trust Group. Ms. Benson had returned to the parent group as the vice president in charge of Great Eagle's hotel portfolio in the U.S.A. At the same time, the Boards would like to welcome Mr. Ip Yuk Keung, Albert as the Chief Executive Officer of the Trust Group. Mr. Ip's extensive knowledge in debt and equity markets as well as his experience in the real estate and hotel markets will benefit the Trust Group going forward.

## **OPERATIONAL REVIEW**

As the hotels of the Trust Group are leased to GE (LHIL) Lessee Limited (the "Lessee"), an indirect wholly-owned subsidiary of Great Eagle, the Trust Group receives rent in the form of a pre-determined fixed base rent (pro-rata at HK\$225 million per annum) and a variable rent, which is calculated at 70% of the hotels' aggregate gross operating profit before deduction of the global marketing fees. The base rent serves to provide a level of downside protection to Holders of Share Stapled Units, whilst allowing participation in the upside performance of the hotels through the sharing of the hotels' profit under the variable rent component. In addition to the fixed base and variable rental income from the Lessee, the Trust Group also receives rental income directly from the retail shops located at Eaton, Hong Kong that are leased to independent third parties.

For the six months ended 30 June 2014, total rental income of the Trust Group was HK\$368.3 million, of which base rental income was HK\$111.6 million, variable rental income was HK\$254.2 million and rental income from the retail shops at Eaton, Hong Kong was HK\$2.5 million. It should be noted that variable rental income, which is pegged to the performance of the hotels, translated to 69% of total rental income received by the Trust Group over the reporting period.

	(in HK\$ million)	
	1H 2014	1H 2013 (30 May to 30 June)
Variable rental income (70% of the hotels' aggregate gross operating profit before deduction of global marketing fees)	254.2	35.7
Base rental income (prorated based on HK\$225 million per annum)	111.6	19.7
Rental income from the retail shops at Eaton, Hong Kong	2.5	0.4
<b>Total Rental Income to the Trust Group</b>	<b>368.3</b>	<b>55.8</b>

As the Trust Group primarily owns the hotels and leases them out for rental income, the operating expenses incurred by the Trust Group are predominantly service fees and hotel properties related expenses. Service fees comprised of hotel management fee, licence fee and global marketing fee. Hotel management fee accounted for the largest share of service fees at HK\$46.6 million. It should be noted that when calculating the distributable income, global marketing fee is paid in cash, while hotel management fee and licence fee are paid in the form of Share Stapled Units until the end of 2017. Thereafter, Langham Hotels International Limited (the “**Hotel Manager**”) can elect to be paid in the form of Share Stapled Units, cash or a combination of both.

	(in HK\$ million)	
	1H 2014	1H 2013 (30 May to 30 June)
Hotel management fee (comprised of a base fee at 1.5% of the total hotel revenue and an incentive fee at 5% of the adjusted gross operating profit of the hotels)	28.9	4.2
Licence fee (1% of the total revenue of the hotels)	8.2	1.3
Global marketing fee (2% of the total room revenue of the hotels)	9.5	1.4
<b>Total service fees</b>	<b>46.6</b>	<b>6.9</b>

Hotel properties related expenses are comprised of building management fee, insurance and property taxes and rates. Property taxes and rates represented the bulk of hotel properties related expenses and had increased in the second quarter of 2014, as compared with the first quarter of 2014.

The increase in property taxes and rates payable was in line with the increase in the reassessed rateable values of the hotel properties starting on 1 April 2014. Building management fee, insurance and other hotel property related expenses borne by the Trust Group amounted to HK\$16.4 million over the first six months of 2014.

	<b>(in HK\$ million)</b>	
	<b>1H 2014</b>	<b>1H 2013</b> (30 May to 30 June)
Total rental income	368.3	55.8
Hotel property related expenses	(16.4)	(2.7)
Service fees	<u>(46.6)</u>	<u>(6.9)</u>
<b>Net property income</b>	<b><u>305.3</u></b>	<b><u>46.2</u></b>

Finance cost is the largest single cost item to the Trust Group which was HK\$64.8 million for the first six months of 2014. The finance cost incurred for the period was comprised of i) amortization of the upfront fees, which is a fixed amount and is a non-cash item, and ii) interest expense payable for the period. Interest expense was calculated based on a spread of 120 basis points over HIBOR. For the first six months of 2014, it was based on one month HIBOR, which remained low throughout the reporting period.

In 2013, as the asset enhancement works were still in design stages, the Trust Group converted the majority of its idle cash into higher interest bearing Renminbi deposits. As a result, the majority of the HK\$9.8 million interest income earned was derived from the Trust Group's deposits in Renminbi during the first six months of 2014. The deposit rates for Renminbi averaged more than 3% p.a. during the first half period, which is 2 percentage points higher than the deposit rates of Hong Kong dollar deposits. While an unforeseen 2.4% depreciation in Renminbi during the first six months of 2014 had resulted in an exchange loss of HK\$13.8 million for 2014's interim results, the negative impact of the exchange loss was partially neutralized by accumulated interest income earned on the Trust Group's Renminbi deposits. It is important to note that such unrealized exchange loss for the period is a non-cash item and does not have an impact on distributable income.

Since June 2014, Renminbi had gradually appreciated against Hong Kong dollar, whilst certain asset enhancement works had also commenced. Going into the fourth quarter of 2014, it is anticipated that a portion of Renminbi deposits will be gradually converted to Hong Kong dollars to fund the payments of the asset enhancement programs.

Included in 2014's interim results was an increase in fair value of investment properties amounting to HK\$3.9 million, which is a non-cash item, and will be deducted from the calculation of the distributable income. Income tax expense incurred by the Trust Group during the first six months of 2014 was HK\$42.8 million, and profit attributable to Holders of Share Stapled Units reached HK\$192.3 million.

	(in HK\$ million)	
	1H 2014	1H 2013 (30 May to 30 June)
Net property income	305.3	46.2
Other income (interest income)	9.8	0.2
Net exchange loss	(13.8)	-
Increase in fair value of investment properties	3.9	-
Finance costs	(64.8)	(11.4)
Trust and other expense	(5.3)	(35.9)
<b>Profit before tax</b>	<b>235.1</b>	<b>(0.9)</b>
Income tax expense	(42.8)	(5.7)
<b>Profit attributable to Holders of Share Stapled Units</b>	<b>192.3</b>	<b>(6.6)</b>

In order to derive the Trust Group's distributable income, non-cash items are added back to profit. These items include hotel management and licence fees paid in Share Stapled Units, amortisation of debt upfront fee, exchange losses relating to Renminbi deposits and deferred taxation. However, there are two deduction adjustments relating to i) cash contribution to the furniture, fixtures and equipment reserve, which is based on 1.5% of total revenue of the hotels and ii) increase in fair value of investment properties. Overall, distributable income of the Trust Group amounted to HK\$272.6 million.

	(in HK\$ million)	
	1H 2014	1H 2013 (30 May to 30 June)
Profit attributable to Holders of Share Stapled Units	192.3	(6.6)
Adjustments:		
Add:		
Hotel management fee (base and incentive fees paid in Share Stapled Units)	28.9	4.2
Licence fee	8.2	1.3
Amortization of debt upfront fee, a non-cash cost	17.0	3.0
Listing expenses	-	34.7
Deferred tax	28.5	4.4
Non-cash net exchange loss	13.8	-
Less:		
Change in fair value of investment properties	(3.9)	-
Cash contribution to furniture, fixtures and equipment reserve	(12.2)	(1.9)
<b>Distributable income</b>	<b>272.6</b>	<b>39.1</b>

It should be noted that the sponsor of the Trust Group, the Great Eagle Group, has agreed to waive its entitlement to receive distributions payable in respect of its 150 million Share Stapled Units (representing approximately 7.5% of the issued Share Stapled Units of the Trust Group as at 30 June 2014) for the financial year 2014. The number of distribution waiver units will decrease to 100 million Share Stapled Units for the financial years 2015 and 2016, 50 million Share Stapled Units for the financial year 2017 and all of the sponsor's holdings of Share Stapled Units will be entitled to receive distribution payable from 2018 onward.

The purpose of the distribution waiver is to minimize the dilution impact on the yield of the Trust Group, as additional Share Stapled Units were issued at the time of the initial public offering, with the majority of the surplus additional funds raised being set aside for asset enhancement works of the three hotels.

For the first six months ended 30 June 2014, distribution per Share Stapled Unit was HK13.5 cents before the impact of distribution waiver, whereas distribution per Share Stapled Unit after distribution waiver was HK14.6 cents.

As at 30 June 2014, net debt was approximately HK\$6,093 million, which was comprised with debt of HK\$6,800 million that was offset by cash of HK\$707 million.

The debt, which was drawn to finance the acquisition of the hotel properties, will mature on 29 May 2016. At 30 June 2014, the gearing ratio of the Trust Group was 38.8% and debt service coverage was approximately 5 times. Of the cash balance of HK\$707 million, a large portion was raised from the initial public offering being used to fund planned asset enhancement works for the three hotels.

### ***Hotel Performance***

While the financial performance for the first half of 2013 is compiled from 30 May 2013 (the “**Listing Date**”) to the end of June 2013, it should be noted that the following discussion on operational performance of the hotels is based on a six-month period from January to June of 2013. The comparisons were based on a six-month period for minimizing distortions arising from seasonality and thus providing a more meaningful comparative operational performance analysis of the hotels.

	Average Daily Rooms Available		Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	1H 2014	1H 2013	1H 2014	1H 2013	1H 2014	1H 2013	1H 2014	1H 2013
	The Langham, Hong Kong	485	495	88.0%	85.4%	2,291	2,254	2,017
<i>year-on-year growth</i>			<i>+2.7ppt</i>		<i>+1.7%</i>		<i>+4.9%</i>	
Langham Place Hotel, Hong Kong	650	652	92.5%	87.7%	1,871	1,846	1,731	1,619
<i>year-on-year growth</i>			<i>+4.8ppt</i>		<i>+1.4%</i>		<i>+7.0%</i>	
Eaton, Hong Kong	465	440	95.7%	93.3%	1,178	1,159	1,127	1,082
<i>year-on-year growth</i>			<i>+2.4ppt</i>		<i>+1.7%</i>		<i>+4.2%</i>	
Hotels average	533	529	92.1%	88.5%	1,784	1,768	1,643	1,565
<i>year-on-year growth</i>			<i>+3.6ppt</i>		<i>+0.9%</i>		<i>+5.0%</i>	

	Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	1H 2014	1H 2013	1H 2014	1H 2013	1H 2014	1H 2013
Hong Kong Hotel Markets						
High Tariff A	86.0%	84.0%	2,446	2,368	2,104	1,989
<i>year-on-year growth</i>	<i>+2.0ppt</i>		<i>+ 3.3%</i>		<i>+5.8%</i>	
High Tariff B	91.0%	88.0%	1,204	1,168	1,096	1,028
<i>year-on-year growth</i>	<i>+3.0ppt</i>		<i>+3.1%</i>		<i>+6.6%</i>	

The hotel portfolio achieved a RevPAR of HK\$1,643 during the first six months of 2014, which translated to a year-on-year growth of 5.0%. The growth in RevPAR was supported by an occupancy growth of 3.6 percentage points to 92.1% and a 0.9% increase in average daily rates to HK\$1,784. Room revenue accounted for 58% of total revenue of the three hotels over the first six months of 2014.

RevPAR growth of the two High Tariff A hotels, The Langham, Hong Kong, and Langham Place Hotel, Hong Kong averaged 5.9%, which is better than their respective High Tariff A hotel market. In addition, the two hotels maintained a higher average occupancy of over 90% compared to 86% in the market. However, due to a larger number of available rooms in the first half of 2014 versus the prior period, Eaton, Hong Kong underperformed its respective High Tariff B hotel market in terms of RevPAR growth. However, Eaton, Hong Kong managed to achieve a 95.7% occupancy versus 91% in the market for its hotel segment.

Revenue from Food & Beverage (“**F&B**”) increased 3.6% year-on-year as compared with the first six months of last year. If there wasn’t a small decline in F&B revenue witnessed at The Langham, Hong Kong, the growth in F&B revenue would have been higher. F&B revenue accounted for 39% of total revenue of the three hotels during the first six months of 2014.

Adjusted gross operating profit of the portfolio grew less than the RevPAR growth of the hotels during the first six months of 2014, which was primarily attributable to the slower than expected growth in profit at the F&B division.

(in HK\$ million) Revenue breakdown	<b>The Langham, Hong Kong</b>	<b>Langham Place Hotel, Hong Kong</b>	<b>Eaton, Hong Kong</b>	<b>Total</b>
Room	177.1	203.7	94.9	475.7
F&B	104.4	142.2	75.2	321.8
Others	<u>7.1</u>	<u>9.9</u>	<u>1.6</u>	<u>18.6</u>
Total revenue	<u>288.6</u>	<u>355.8</u>	<u>171.7</u>	<u>816.1</u>

As we analyzed the revenue breakdown during the first six months of 2014, there were signs showing the demand for rooms from the long haul and corporate segment was still weak during the reporting period. In terms of geographical origins, arrivals from our traditional core markets, such as Australia, the Americas and Europe, representing the three single largest arrival markets for our hotel portfolio after Mainland China, posted flat to a small decline on a year-on-year basis in the first half of 2014. However, the rate of the year-on-year decline in arrivals was slower than what we had witnessed over the same period last year.

The Hotel Manager upheld its conscious decision to increase the share of leisure travellers from Mainland China, which was still growing during the first six months of 2014, so as to offset the weakness in our traditional core markets. Arrivals from Mainland China grew 17.8% year-on-year as compared with 13.7% growth from Mainland China for the broader overnight visitors registered by the Hong Kong Tourism Board. Since we shifted to absorb more arrivals from Mainland China, this market accounted for 29.9% of our total arrivals by geographical breakdown.

	<b>Trust Group's hotel portfolio</b>	<b>Overnight arrivals to Hong Kong</b>
Year-on-year growth in visitors from Mainland China	+17.8%	+ 13.7%
% of overnight arrivals from Mainland China to total arrivals	29.9%	65.7%

### *Performance of the individual hotels*

At **The Langham, Hong Kong**, the hotel accommodated increased number of individual tourist arrivals from Mainland China, which rose 16.0% year-on-year, and offset reduced demand from other markets. As to arrivals from the other major contributing countries, arrivals from the Americas, Australia and majority of other European countries declined, whilst arrivals from the United Kingdom were more or less flat. Nonetheless, all the shortfalls were more than offset by the hotel's ability to attract leisure individual travelers from Mainland China. For the first six months of 2014, its occupancy increased by 2.7 percentage points to 88% (1H 2013: 85.4%) while average room rate increased 1.7% year-on-year to HK\$2,291 (1H 2013: HK\$2,254).

At The Langham, Hong Kong, revenue from F&B saw a decline of 2.1% year-on-year in the first six months of 2014. The decline was due to reduced wedding banquets business, when compared to the same period last year, where the banqueting business surged before the Chinese calendar year, as 2012 being the Year of Dragon is a popular year for weddings. The restaurant on the first floor was repositioned to cater for a wider audience, which also contributed to slower business flow during the first six months of 2014.

For **Langham Place Hotel, Hong Kong**, among its top arrival markets, there was actually a small single digit increase in arrivals from the Americas and the United Kingdom. However, the hotel witnessed a decline in arrivals from Australia. In addition to a 10.5% year-on-year growth in arrivals from the Mainland China market, the hotel also accommodated more arrivals from other Asian markets, such as Singapore, Korea, Indonesia and India. The move to accommodate more leisure travelers from other Asian countries helped boost occupancy during the first six months of 2014. For the first six months of 2014, occupancy increased by 4.8 percentage points to 92.5% (1H 2013: 87.7%) while average room rate increased 1.4% year-on-year to HK\$1,871 (1H 2013: HK\$1,846).

For Langham Place Hotel, Hong Kong, revenue from F&B saw a 8.7% year-on-year growth for the first six months of 2014. The hotel hosted more corporate events in the first six months of this year compared with the same period last year. The increase in corporate events helped to offset the impact from fewer wedding banqueting, whilst business also picked up at the refurbished Michelin-starred Chinese restaurant Ming Court.

**Eaton, Hong Kong**, as compared with The Langham, Hong Kong and Langham Place Hotel, Hong Kong, witnessed the highest increase in arrivals from the Mainland China market, which grew 26.4% year-on-year in the first half of 2014. In addition to an increase in the number of renovated rooms, the pricing and positioning of the hotel towards budget travelers, also helped brought in more arrivals from other markets. For the first six months of 2014, the hotel achieved average occupancy of 95.7% on an average of 465 rooms (1H 2013: 93.3% on an average of 440 rooms) and an average room rate of HK\$1,178 (1H 2013: HK\$1,159). Slower average room rate growth was witnessed to help achieve a higher occupancy rate despite more available rooms in the first half of 2014.

Revenue from F&B rose 2.6% year-on-year in the first six months of 2014. Majority of restaurants showed better pickup with increased number of guests, whilst catering was supported by a mix of meetings, conference and weddings business.

## **OUTLOOK**

With the recent release of positive employment data of the U.S., the long-awaited pick-up in economic growth in the U.S. might finally be on its way. Although economic and financial conditions in Europe remained fragile, the economy in the U.K. is recovering upon the rally of the property market. For Mainland China, provided that there will be further policy support in the second half of the year, Mainland China will likely achieve its annual Gross Domestic Product growth target of 7.5%. From an all-embracing aspect, we expect a continued gradual recovery of the global economy sustaining on track, alongside with the return of corporate and long haul visitors to Hong Kong that give hoteliers the steadfast confidence of growing room rates in this high-occupancy market.

RevPAR for the portfolio has been increasing year-on-year during the first six weeks for the second half of 2014. As of to-date, the hotels are still witnessing encouraging booking pace. These clues have left us to believe RevPAR growth will remain likely for the rest of the year. As forward booking window is still short, the performance of the hotels will still largely depend on global economic conditions in the future.

As the asset enhancement program at The Langham, Hong Kong includes guest room renovation, the renovation work on the rooms will only be carried out during the low seasons and will be performed in a manner that minimizes disruptions to the hotel's income. However, it will still hold back revenue and earnings growth of The Langham, Hong Kong in 2014. While the renovation work at Langham Place Hotel, Hong Kong in the second half of 2014 is primarily for the lobby and bar, it is not expected to have an impact on the hotel's earnings in 2014.

In 2015, guest room renovation will continue at The Langham, Hong Kong during the low seasons, and major renovations at Langham Place Hotel, Hong Kong and Eaton, Hong Kong will commence in 2015. These initiatives will help the hotels command better room rates and enhance competitive position which lays the foundation for earnings growth in the coming year.

In the long term, we are optimistic about the outlook of Hong Kong's hospitality industry. Hong Kong is not only the leading destination city for Mainland China's outbound travelers, but is also one of the top ten most visited cities in the world. With middle class growing in many emerging markets, the purchasing power to consume leisure travel shall rise. Therefore, Hong Kong will continue to be one of the most preferred cities to be visited by leisure visitors from the new emerging markets. These visitors shall be our new sources of arrivals. Furthermore, when the major infrastructure projects such as the Hong Kong-Zhuhai-Macau bridge and extension of Mainland China's high-speed rail network to Hong Kong are completed, as well as further expansion of existing projects such as the cruise terminal at Kai Tak Hong Kong are in place, Hong Kong is set to increase its sources of visitor origination.

## **FINANCIAL REVIEW**

### ***Distributions***

Total distributable income of the Trust Group for the 2014 interim distribution period was HK\$272,603,000, which was 100% of total distributable income in respect of the period ended 30 June 2014. The first distribution for the 2013 final distribution period of HK\$350,126,000 was paid to Holders of Share Stapled Units on 29 May 2014, which was based on the distributable income for the period from the Listing Date to 31 December 2013.

It is the intention of the Board to distribute 100% of total distributable income in respect of the period from the Listing Date to 31 December 2013 and each financial year ending 31 December 2014 and 2015 and not less than 90% of total distributable income in respect of each financial year thereafter.

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

The Distribution per Share Stapled Unit for current period was HK14.6 cents (after the adjustment for the waiver of distribution entitlement given by LHIL Assets Holdings Limited of 150,000,000 Share Stapled Units). This represents an annualized distribution yield of 8.23% based on the closing Share Stapled Unit price of HK\$3.55 as at 30 June 2014.

### ***Net Assets Attributable to Holders of Share Stapled Units***

Net Assets Attributable to Holders of Share Stapled Units was HK\$10,554 million or HK\$5.24 per Share Stapled Unit as at 30 June 2014 which represents a 47.6% premium to the closing Share Stapled Unit price of HK\$3.55 as at 30 June 2014.

### ***Debt Profile***

Total outstanding borrowings of the Trust Group as at 30 June 2014 were HK\$6,800 million. The secured term loan is on a floating-rate interest basis and repayable in full on 29 May 2016. The Trust Group will closely monitor interest rate movements and may, depending on market conditions, consider fixing the interest rate on part or all of the bank debt.

As at 30 June 2014, total gross assets of the Trust Group were HK\$17,527 million. The gearing ratio, calculated as total outstanding borrowings as a percentage of gross assets, was 38.8%.

### ***Cash Position***

As at 30 June 2014, the Trust Group had a cash balance of HK\$707 million which was adequate for the upcoming asset enhancement purpose of the 3 hotels as well as the ongoing working capital and operating requirements.

### ***Pledge of Assets***

At the end of the reporting period, investment properties of the Trust Group with a fair value of HK\$16,719 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\$6,800 million syndicated bank facility granted to the Trust Group.

### ***Commitments***

At 30 June 2014, the Trust Group has authorized capital expenditure for investment properties which is not provided for in these condensed consolidated financial statements amounting to HK\$72,130,000 of which HK\$68,391,000 was contracted for.

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

## **INTERIM DISTRIBUTION**

The Company Board and the Trustee-Manager Board have resolved to declare an interim distribution of HK14.6 cents per Share Stapled Unit for the six-month period ended 30 June 2014, payable on 7 October 2014 to Holders of Share Stapled Units whose names appear on the register of registered Holders of Share Stapled Units (the “**Share Stapled Units Register**”) on 18 September 2014, except for the number of distribution waiver units waived by LHIL Assets Holdings Limited pursuant to the Distribution Entitlement Waiver Deed.

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

## **CLOSURE OF REGISTERS**

The Share Stapled Units Register, the register of holders of units, the principal and Hong Kong branch registers of members, and the register of beneficial interests as established and maintained by the Trustee-Manager and the Company in accordance with the provisions of the Trust Deed will all be closed from Monday, 15 September 2014 to Thursday, 18 September 2014, both days inclusive, during which period no transfer of Share Stapled Units will be registered.

In order to qualify for the 2014 interim distribution, all properly completed transfer forms accompanied by the relevant Share Stapled Units certificates must be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 12 September 2014.

## **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. When compared to the figure as at 31 December 2013, total number of employees of the Hotels decreased by around 1.5%.

The following tables show the breakdown of employees of the Hotel Manager and its subsidiaries who were engaged in the operation and management of the Hotels as at 30 June 2014:

<b>Hotel</b>	<b>Number of Employees</b>
The Langham, Hong Kong	466
Langham Place Hotel, Hong Kong	575
Eaton, Hong Kong	336
<b>Total</b>	<b>1,377</b>

<b>Function</b>	<b>Number of Employees</b>
Rooms	516
Food and beverage	560
Sales and marketing	69
Others	232
<b>Total</b>	<b>1,377</b>

The Hotel Manager and the Hotels are committed to providing suitable career and training opportunities for their colleagues, and the average number of training hours per colleague in the Hotels was approximately 16.6 hours as at 30 June 2014.

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 four 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 its staff. All staff members are signed up with the Mandatory Provident Fund Scheme in accordance with the applicable laws and regulations.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Both the Trust and the Company are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Pursuant to the Trust Deed, the Trustee-Manager shall be responsible for compliance by the Trust with the applicable Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and other relevant rules and regulations; the Company shall be responsible for compliance by the Company with the applicable Listing Rules and other relevant rules and regulations; and 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 co-ordinate disclosure to the Stock Exchange.

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 by reviewing the overall corporate governance arrangements, approving governance policies, monitoring compliance with the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and reviewing corporate governance disclosures.

During the six-month period ended 30 June 2014, the Trust (via the Trustee-Manager) and the Company had complied with all the applicable code provisions and, where appropriate, adopted some of the recommended best practices as set out in the CG Code. The requirement to establish a Nomination Committee is not relevant to the Trustee-Manager because the Trust Deed requires that the Directors of the Trustee-Manager shall at all times comprise the same individuals who serve as Directors of the Company. The requirement to establish a Remuneration Committee is also not relevant to the Trustee-Manager as its Directors are not entitled to any remuneration payable by the Trust or the Trustee-Manager, and the Trustee-Manager does not have any employee.

## COMPLIANCE WITH MODEL CODE

The Trustee-Manager and the Company have adopted the Code of Conduct regarding Securities Transactions by Directors and Relevant Employees (the “**Code of Conduct for Securities Transactions**”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules and the same is updated from time to time in accordance with the Listing Rules requirements.

Having made specific enquiry, all Directors and relevant employees of the Trustee-Manager and the Company confirmed that they had fully complied with the Code of Conduct for Securities Transactions for the six-month period ended 30 June 2014.

## **BUY-BACK, SALE OR REDEMPTION OF SHARE STAPLED UNITS**

Except for the buy-back or redemption of the Preference Shares in the event of the exercise of the Exchange Right (as defined in the Trust Deed) or the termination of the Trust, the Trustee-Manager is prohibited under the Trust Deed from buying back or redeeming 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 and only with the agreement of the Company and in circumstances where the Company buys back or redeems the Ordinary Shares and the Preference Shares included in any Share Stapled Units to be bought back or redeemed.

Under the Trust Deed, the Holders of Share Stapled Units have no right to demand for buy-back or redemption of their Share Stapled Units.

During the six-month period ended 30 June 2014, none of the Trust, the Trustee-Manager, the Company nor the Company's subsidiaries had bought back, sold or redeemed any Share Stapled Units.

## **ISSUED SHARE STAPLED UNITS**

On 5 March 2014, 10,983,756 new Share Stapled Units were issued at HK\$3.79 per Share Stapled Unit as payment of the Hotel Management Fees and Licence Fees (collectively the "**Hotel Manager's Fees**") of approximately HK\$41,628,000 for the period from 1 July 2013 to 31 December 2013 pursuant to the Hotel Management Agreements and Trademark Licence Agreements in respect of The Langham, Hong Kong, Langham Place Hotel, Hong Kong and Eaton, Hong Kong (collectively the "**Hotel Agreements**"). The Hotel Manager has nominated its fellow subsidiary, LHIL Assets Holdings Limited, to take up all the Share Stapled Units purportedly to be issued directly to the Hotel Manager by way of physical scrip pursuant to the Hotel Agreements.

The payment of the Hotel Manager's Fees by way of Share Stapled Units is in accordance with the terms of the Trust Deed and does not require specific prior approval of the Holders of Share Stapled Units pursuant to a waiver granted by the Stock Exchange. Principal provisions regarding the Hotel Manager's Fees and the waiver conditions have been set out in details in the prospectus dated 16 May 2013 in connection with the initial public offering of the Share Stapled Units of the Trust Group. The basis of determination of the 10,983,756 Share Stapled Units as payment of the Hotel Manager's Fees is consistent with the relevant provisions of the Hotel Agreements and the total number of Share Stapled Units issued as payment of the Hotel Manager's Fees for the period from 1 July 2013 to 31 December 2013 represents approximately 0.55% of the total number of Share Stapled Units in issue as at 30 June 2014.

Except for the above, no new Share Stapled Units were issued during the six-month period ended 30 June 2014. As at 30 June 2014, total number of issued Share Stapled Units of the Trust and the Company was 2,012,373,688.

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **REVIEW OF INTERIM RESULTS**

The unaudited consolidated financial statements of the Trust Group and unaudited financial statements of the Trustee-Manager for the six-month period ended 30 June 2014 were prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have also been reviewed by the Audit Committees of the Trustee-Manager and the Company. Such financial information has been reviewed by Deloitte Touche Tohmatsu, the independent auditor of the Trustee-Manager and the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

## **ISSUANCE OF INTERIM REPORT**

The 2014 Interim Report will be despatched to the Holders of Share Stapled Units and published on the corporate website at [www.LanghamHospitality.com](http://www.LanghamHospitality.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) on or about 10 September 2014.

## **BOARD OF DIRECTORS**

As of the date of this announcement, the Non-executive Directors are Dr. LO Ka Shui (Chairman) and Ms. LO Bo Lun, Katherine; the Executive Director is Mr. IP Yuk Keung, Albert (Chief Executive Officer); and the Independent Non-executive Directors are Dr. LIN Syaru, Shirley, Mr. SO Yiu Wah, Eric and Mr. WONG Kwai Lam.

By Order of the Boards  
**LHIL Manager Limited**  
and  
**Langham Hospitality Investments Limited**  
**LO Ka Shui**  
*Chairman*

Hong Kong, 7 August 2014

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE TRUST AND OF THE COMPANY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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	<u>NOTES</u>	Six Months Ended 30 June	
		<u>2014</u>	<u>2013</u>
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
<b>Continuing operation</b>			
Revenue	4	368,287	55,823
Property related expenses		(16,363)	(2,725)
Service fees		(46,578)	(6,875)
		<u>305,346</u>	<u>46,223</u>
Other income		9,768	201
Increase in fair value of investment properties		3,949	-
Trust and other expenses		(19,095)	(35,882)
Finance costs	6	(64,841)	(11,405)
Profit (loss) before tax		235,127	(863)
Income tax expense	7	(42,779)	(5,741)
<b>Profit (loss) for the period attributable to holders of Share Stapled Units</b>		192,348	(6,604)
<b>Discontinued operation</b>			
Profit for the period from discontinued operation	10	-	172,888
<b>Profit for the period</b>	11	<u>192,348</u>	<u>166,284</u>
<b>Basic and diluted earnings (loss) per Share Stapled Unit</b>			
<b>From continuing and discontinued operations</b>	12	<u>HK\$0.0955</u>	<u>HK\$0.1280</u>
<b>From continuing operation</b>		<u>HK\$0.0955</u>	<u>HK\$(0.0051)</u>

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME OF THE TRUST AND OF THE COMPANY  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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	Six Months Ended 30 June	
	<u>2014</u>	<u>2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>192,348</u>	<u>166,284</u>
<b>Other comprehensive income (expense):</b>		
<b>Item that will not be reclassified to profit or loss:</b>		
Surplus on revaluation of owner occupied buildings upon change of use to investment properties	-	12,598,157
<b>Item that may be reclassified subsequently to profit or loss:</b>		
Reclassified upon disposal of available-for-sale investments	<u>-</u>	<u>(23,555)</u>
<b>Other comprehensive income for the period</b>	<u>-</u>	<u>12,574,602</u>
<b>Total comprehensive income for the period</b>	<u><u>192,348</u></u>	<u><u>12,740,886</u></u>

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST  
AND OF THE COMPANY  
AT 30 JUNE 2014**

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	<u>NOTES</u>	At 30 June <u>2014</u> HK\$'000 (unaudited)	At 31 December <u>2013</u> HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		8	9
Investment properties		16,719,000	16,696,000
		<u>16,719,008</u>	<u>16,696,009</u>
<b>Current assets</b>			
Debtors, deposits and prepayments	13	100,668	132,591
Tax recoverable		-	2,217
Bank balances and cash		707,019	751,932
		<u>807,687</u>	<u>886,740</u>
<b>Current liabilities</b>			
Creditors, deposits and accruals	14	71,984	69,450
Tax payable		12,010	35
		<u>83,994</u>	<u>69,485</u>
<b>Net current assets</b>		<u>723,693</u>	<u>817,255</u>
<b>Total assets less current liabilities</b>		<u>17,442,701</u>	<u>17,513,264</u>
<b>Non-current liabilities</b>			
Secured bank loans due after one year		6,735,016	6,718,016
Deferred tax liabilities		153,589	125,002
		<u>6,888,605</u>	<u>6,843,018</u>
<b>NET ASSETS</b>		<u>10,554,096</u>	<u>10,670,246</u>
<b>Capital and reserves</b>			
Issued capital		2,012	2,001
Reserves		10,552,084	10,668,245
<b>TOTAL EQUITY</b>		<u>10,554,096</u>	<u>10,670,246</u>

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**NOTES TO THE TRUST AND THE COMPANY'S CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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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 Cayman Islands with limited liability. The share stapled units ("Share Stapled Units") structure comprises: (a) a unit in the Trust; (b) a beneficial interest in a specifically identified ordinary share in the Company is linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically identified preference share in the Company which is "stapled" to the unit. The Share Stapled Units are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 May 2013 (the "Listing Date") (the "Listing").

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

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

2. BASIS OF PRESENTATION AND PREPARATION

In accordance with Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The Trust's condensed consolidated financial statements for the six months ended 30 June 2014 comprise the condensed consolidated financial statements of the Trust, the Company and its subsidiaries (collectively referred to as the "Trust Group"). The Company's condensed consolidated financial statements for the six months ended 30 June 2014 comprise the condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

The Trust controls the Company and the sole activity of the Trust during the six months ended 30 June 2014 was investment in the Company. Therefore, the consolidated results and financial position that would be presented in the condensed consolidated financial statements of the Trust are identical to the condensed consolidated financial statements of the Company with the only differences being disclosures of capital of the Company. The Trustee-Manager and the Directors of the Company believe therefore that it is clearer to present the condensed consolidated financial statements of the Trust and the Company together. The condensed consolidated financial statements of the Trust and the condensed consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as "the Trust and the Company's condensed consolidated financial statements".

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

## 2. BASIS OF PRESENTATION AND PREPARATION - continued

In preparation for the Listing, a group reorganisation (the "Reorganisation") as summarised below was implemented by Great Eagle Holdings Limited and the Groups in May 2013.

- (i) GE (LHIL) Holdings Limited, a wholly-owned subsidiary of Great Eagle Holdings Limited, transferred the one issued share in the Company (re-designated as one ordinary share) held by it to the Trustee-Manager (in its capacity as trustee-manager of the Trust). In consideration for such transfer, the Trustee-Manager and the Company jointly issued one Share Stapled Unit to LHIL Assets Holdings Limited, a wholly-owned subsidiary of Great Eagle Holdings Limited, at the direction of GE (LHIL) Holdings Limited;
- (ii) Certain assets and liabilities relating to the hotel operations and employees were transferred to certain wholly-owned subsidiaries of Great Eagle Holdings Limited (see note 10);
- (iii) LHIL (LHK) Limited, LHIL (LPHK) Limited and LHIL (EHK) Limited (the "Purchaser Companies"), wholly-owned subsidiaries of the Company entered into the sale and purchase agreements with, among others, the Orwell Enterprises Limited, Bondcity Investments Limited and Hamni Properties Limited (the "Vendor Companies"), wholly-owned subsidiaries of Great Eagle Holdings Limited, pursuant to which the Purchaser Companies conditionally agreed to:
  - (a) acquire the entire issued share capital of Baxter Investment Limited, Braveforce Investments Limited, Glendive Investment Limited and Rowan Enterprises Limited (the "Hotel Holding Companies"), of which their wholly-owned subsidiaries together own the hotels, namely The Langham, Hong Kong, Langham Place Hotel, Hong Kong and Eaton, Hong Kong (the "Hotels") ("Shares of the Hotel Holding Companies"); and
  - (b) accept an assignment of the shareholders' loans due by the Hotel Holding Companies to the Vendor Companies ("Loans due to the Vendor Companies").

The aggregate considerations for the above acquisitions amounted to HK\$16,034,944,000, which comprised the consideration for Shares of the Hotel Holding Companies of HK\$11,562,551,000 and the consideration for Loans due to the Vendor Companies of HK\$4,472,393,000. Out of the aggregate considerations of HK\$16,034,944,000, an amount of HK\$10,295,814,000 was paid in cash and the remaining amount of HK\$5,739,130,000 was settled through the issue of 1,147,825,999 Share Stapled Units to the Vendor Companies.

The Trustee-Manager and the Company jointly issued Share Stapled Units to LHIL Assets Holdings Limited and the investors in the global offering of Share Stapled Units.

## 2. BASIS OF PRESENTATION AND PREPARATION - continued

The Reorganisation was merely a reorganisation of the intermediate owners of the Hotels with no change in the management and the ultimate owners of the Hotels. Therefore, the Trust and Company's condensed consolidated financial statements have been prepared by applying the principle of merger accounting which is consistent with the principle as stated in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Trust and Company's condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2013 have been prepared as if the Trust, the Company, Hotel Holding Companies and their subsidiaries are regarded as a single reporting entity in existence as at that date or through those periods.

The Trust and the Company's condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Trust and the Company's annual financial statements for the year ended 31 December 2013.

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

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

4. REVENUE

	Six Months Ended 30 June	
	<u>2014</u>	<u>2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Continuing operation</b>		
Rental income from GE (LHIL) Lessee Limited ("Master Lessee")		
Base rent	111,576	19,726
Variable rent	254,190	35,675
	<u>365,766</u>	<u>55,401</u>
Rental income from retail shops in Eaton, Hong Kong	2,521	422
	<u>368,287</u>	<u>55,823</u>

5. SEGMENT INFORMATION

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

After the execution of the master lease agreements, the Groups' business changed from hotel operations to property investment operation. Therefore, hotel operations were discontinued on the Listing Date (see note 10). The segment information reported below does not include any amounts from the discontinued operation, which would be described in more details in note 10. The Groups' results from continuing operation are derived from property investment operation, which relates to the operating results from leasing of the three Hotels and represents three operating segments under HKFRS 8.

5. 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 period under review.

Six months ended 30 June 2014

	<u>The Langham, Hong Kong HK\$'000 (unaudited)</u>	<u>Langham Place Hotel, Hong Kong HK\$'000 (unaudited)</u>	<u>Eaton, Hong Kong HK\$'000 (unaudited)</u>	<u>Consolidated HK\$'000 (unaudited)</u>
<b>Continuing operation</b>				
Segment revenue	131,794	161,889	74,604	368,287
Segment results	110,374	132,027	62,945	305,346
Other income				9,768
Increase in fair value of investment properties				3,949
Trust and other expenses				(19,095)
Finance costs				(64,841)
Profit before tax				235,127
Income tax expense				(42,779)
Profit for the period attributable to holders of Share Stapled Units				192,348

5. SEGMENT INFORMATION - continued

**Segment revenue and results - continued**

Listing Date to 30 June 2013

	<u>The Langham, Hong Kong</u> HK\$'000 (unaudited)	<u>Langham Place Hotel, Hong Kong</u> HK\$'000 (unaudited)	<u>Eaton, Hong Kong</u> HK\$'000 (unaudited)	<u>Consolidated</u> HK\$'000 (unaudited)
<b>Continuing operation</b>				
Segment revenue	<u>21,275</u>	<u>23,923</u>	<u>10,625</u>	<u>55,823</u>
Segment results	<u>17,836</u>	<u>19,354</u>	<u>9,033</u>	<u>46,223</u>
Other income				201
Trust and other expenses				(35,882)
Finance costs				<u>(11,405)</u>
Loss before tax				(863)
Income tax expense				<u>(5,741)</u>
Loss for the period attributable to holders of Share Stapled Units				<u>(6,604)</u>

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

**Segment assets and liabilities**

**Continuing operation**

For the purpose of performance assessment, the fair values of investment properties are reviewed by the CODM. At the end of the reporting period, the fair values of The Langham, Hong Kong, Langham Place Hotel, Hong Kong and Eaton, Hong Kong were HK\$6,080,000,000, HK\$7,040,000,000 and HK\$3,599,000,000 (31 December 2013: HK\$6,080,000,000, HK\$7,030,000,000, HK\$3,586,000,000), respectively.

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

6. FINANCE COSTS

	Six Months Ended 30 June	
	<u>2014</u>	<u>2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Continuing operation</b>		
Interest on bank borrowings wholly repayable within five years	47,551	8,389
Loan front-end fee amortisation	17,000	3,016
Other borrowing costs	290	-
	<u>64,841</u>	<u>11,405</u>

7. INCOME TAX EXPENSE

	Six Months Ended 30 June	
	<u>2014</u>	<u>2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Continuing operation</b>		
Current tax:		
Hong Kong Profits Tax:		
Current period	14,192	1,370
Deferred tax:		
Current period	<u>28,587</u>	<u>4,371</u>
	<u>42,779</u>	<u>5,741</u>

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

8. TOTAL DISTRIBUTABLE INCOME

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

8. TOTAL DISTRIBUTABLE INCOME - continued

	Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	Listing Date To 30 June <u>2013</u> HK\$'000 (unaudited)
Profit (loss) for the period attributable to holders of Share Stapled Units	192,348	(6,604)
Adjustments:		
Add:		
Listing expenses charged to profit or loss	-	34,695
Depreciation	1	-
Deferred tax	28,587	4,371
Non-cash finance costs	17,000	3,016
Hotel management fees and licence fee payable in form of Share Stapled Units	37,064	5,462
Non-cash net exchange loss	13,794	-
Less:		
Increase in fair value of investment properties	(3,949)	-
Reserve for furniture, fixtures and equipment	<u>(12,242)</u>	<u>(1,885)</u>
Total distributable income	<u><u>272,603</u></u>	<u><u>39,055</u></u>

9. DISTRIBUTION STATEMENT

	Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	Listing Date To 30 June <u>2013</u> HK\$'000 (unaudited)
<u>Distribution paid for final distribution period from the Listing Date to 31 December 2013 (note a)</u>		
Total distributable income in respect of the period from the Listing Date to 31 December 2013	348,753	-
Percentage of distributable income for distribution (note b)	<u>100%</u>	<u>-</u>
Distributable income for final distribution period	<u>348,753</u>	<u>-</u>
Final distribution (note c)	<u>348,753</u>	<u>-</u>
<b>Distribution per Share Stapled Unit</b>		
Final distribution per Share Stapled Unit to be paid		
- Before taking into account the effect of the Distribution Waiver (note d)	<u>HK\$0.174</u>	<u>-</u>
- After taking into account the effect of the Distribution Waiver (note e)	<u>HK\$0.188</u>	<u>-</u>

9. DISTRIBUTION STATEMENT - continued

	<u>Note</u>	Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	Listing Date To 30 June <u>2013</u> HK\$'000 (unaudited)
<u>Distribution declared for interim distribution period for the six months ended 30 June 2014 (note a)</u>			
Total distributable income in respect of the six months ended 30 June 2014	8	272,603	-
Percentage of distributable income for distribution (note b)		<u>100%</u>	<u>-</u>
Distributable income for interim distribution period		<u>272,603</u>	<u>-</u>
Interim distribution (note c)		<u>272,603</u>	<u>-</u>
<b>Distribution per Share Stapled Unit</b>			
Interim distribution per Share Stapled Unit to be paid			
- Before taking into account the effect of the Distribution Waiver (note d)		<u>HK\$0.135</u>	<u>-</u>
- After taking into account the effect of the Distribution Waiver (note e)		<u>HK\$0.146</u>	<u>-</u>

Notes:

- (a) The first final distribution to holders of Share Stapled Units was based on total distributable income for the period from the Listing Date to 31 December 2013 and accordingly, holders of Share Stapled Units would not receive distributions for the period before the Listing Date.

The interim distribution is based on total distributable income for the six months ended 30 June 2014.

- (b) The Trust Deed and the articles of association of the Company state that it is the current intention of the Directors to declare and distribute (i) 100% of the total distributable income in respect of the period from the Listing Date to 31 December 2013 and each financial year ending 31 December 2014 and 2015, and (ii) not less than 90% of the total distributable income in respect of each financial year thereafter.

- (c) The final distribution after 31 December 2013 has not been recognised as a liability as at 31 December 2013.

The interim distribution after the end of the reporting period has not been recognised as a liability as at 30 June 2014.

9. DISTRIBUTION STATEMENT - continued

Notes: - continued

- (d) The final distribution per Share Stapled Unit of HK\$0.174 for the final distribution period in 2013 is calculated based on the final distribution to be paid of HK\$348,753,000 for the period and 2,001,389,932 Share Stapled Units as at 31 December 2013.

The interim distribution per Share Stapled Unit of HK\$0.135 for the interim distribution period in 2014 is calculated based on the interim distribution to be paid of HK\$272,603,000 for the period and 2,012,373,688 Share Stapled Units as at 30 June 2014.

- (e) Pursuant to a distribution entitlement waiver deed, LHIL Assets Holdings Limited, immediate holding company of the Company after the Listing, 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 below (the "Distribution Waiver"):

	Number of Share Stapled <u>Units</u> '000
Listing Date to 31 December 2013	150,000
Year ending 31 December 2014	150,000
Year ending 31 December 2015	100,000
Year ending 31 December 2016	100,000
Year ending 31 December 2017	<u>50,000</u>

The final distribution per Share Stapled Unit of HK\$0.188 for the final distribution period in 2013 is calculated based on 1,851,389,932 Share Stapled Units after taking into account of the 150,000,000 units held by LHIL Assets Holdings Limited. After the issue of 10,983,756 Share Stapled Units as payment of hotel management fees and licence fee for the six months ended 31 December 2013 on 5 March 2014, the number of Share Stapled Units entitled for the final distribution should be 1,862,373,688. The final distribution of HK\$350,126,000 was paid to holders of Share Stapled Units on 29 May 2014.

The interim distribution per Share Stapled Unit of HK\$0.146 for the interim distribution period in 2014 is calculated based on 1,862,373,688 Share Stapled Units after taking into account of the 150,000,000 units held by LHIL Assets Holdings Limited. The interim distribution will be paid to holders of Share Stapled Units on or before 7 October 2014.

10. DISCONTINUED OPERATION

Upon completion of the Listing, the Hotels were leased to Master Lessee pursuant to the master lease agreements. The Hotels were reclassified from property, plant and equipment to investment properties. The hotel operations were discontinued on the Listing Date.

The profit and cash flows from the discontinued operation for the current and prior interim periods are set out as follows:

Profit for the period from discontinued operation

	Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	1 January 2013 To Listing <u>Date</u> HK\$'000 (unaudited)
Revenue	-	657,356
Operating expenses	-	(394,926)
Operating profit before depreciation and amortisation	-	262,430
Depreciation and amortisation	-	(62,106)
Operating profit	-	200,324
Other income	-	4,477
Gain on disposal of available-for-sale investments	-	23,853
Administrative expenses	-	(136)
Finance costs	-	(22,201)
Profit before tax	-	206,317
Income tax expense	-	(33,429)
Profit for the period from discontinued operation	-	172,888

11. PROFIT FOR THE PERIOD

	Continuing operation Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	Continuing operation Listing Date To 30 June <u>2013</u> HK\$'000 (unaudited)	Discontinued operation 1 January 2013 To Listing Date HK\$'000 (unaudited)	Total Six Months Ended 30 June <u>2013</u> HK\$'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):				
Staff costs (including directors' emoluments)	2,718	430	179,921	180,351
Depreciation	1	-	62,106	62,106
Listing expenses	-	34,695	-	34,695
Interest income	(9,768)	(201)	(4,289)	(4,490)
Net unrealised exchange loss (included in trust and other expenses)	<u>13,794</u>	<u>-</u>	<u>-</u>	<u>-</u>

12. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE STAPLED UNIT

**From continuing and discontinued operations**

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

	Six Months Ended 30 June <u>2014</u> HK\$'000 (unaudited)	Six Months Ended 30 June <u>2013</u> HK\$'000 (unaudited)
<b>Earnings</b>		
Profit for the period for the purpose of basic and diluted earnings per Share Stapled Unit	<u>192,348</u>	<u>166,284</u>
	Six Months Ended 30 June <u>2014</u> '000	Six Months Ended 30 June <u>2013</u> '000
<b>Number of Share Stapled Units</b>		
Weighted average number of Share Stapled Units for the purpose of basic and diluted earnings per Share Stapled Unit	<u>2,013,771</u>	<u>1,298,606</u>

12. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE STAPLED UNIT - continued

**From continuing and discontinued operations** - continued

For the six months ended 30 June 2013, the weighted average number of Share Stapled Units for the purposes of basic and diluted earnings per Share Stapled Unit has been taken into account the Share Stapled Units issued pursuant to the Reorganisation as disclosed in note 2 as if it had been effective on 1 January 2012.

**From continuing operation**

The calculation of basic and diluted earnings (loss) per Share Stapled Unit from continuing operation attributable to holders of Share Stapled Units is based on the following data:

	Six Months Ended 30 June	
	<u>2014</u>	<u>2013</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<b>Earnings (loss)</b>		
Profit (loss) for the period attributable to holders of Share Stapled Units for the purpose of basic and diluted earnings (loss) per Share Stapled Unit	<u>192,348</u>	<u>(6,604)</u>

The denominator used is the same as that detailed above for both basic and diluted earnings per Share Stapled Unit.

**From discontinued operation**

For the six months ended 30 June 2013, basic and diluted earnings per Share Stapled Unit from discontinued operation attributable to holders of Share Stapled Units is HK\$0.1331, based on the profit for the period from discontinued operation of HK\$172,888,000 and the denominators detailed above for both basic and diluted earnings per Share Stapled Unit.

13. DEBTORS, DEPOSITS AND PREPAYMENTS

	At 30 June <u>2014</u> HK\$'000 (unaudited)	At 31 December <u>2013</u> HK\$'000 (audited)
Trade debtors	75,065	128,527
Interest receivable	450	451
Deposits and prepayments	<u>25,153</u>	<u>3,613</u>
	<u>100,668</u>	<u>132,591</u>

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

13. DEBTORS, DEPOSITS AND PREPAYMENTS - continued

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

	At 30 June <u>2014</u> HK\$'000 (unaudited)	At 31 December <u>2013</u> HK\$'000 (audited)
0 - 3 months	<u>75,065</u>	<u>128,527</u>

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

Included in trade debtors is an amount due from a fellow subsidiary of HK\$75,065,000 (31 December 2013: HK\$128,527,000) which is unsecured, interest-free and payable on presentation of invoices. Included in deposits and prepayments is an amount due from a fellow subsidiary of HK\$1,351,000 (31 December 2013: HK\$1,336,000) which is unsecured, interest-free and payable within 30 days after the expiration of respective lease agreement.

14. CREDITORS, DEPOSITS AND ACCRUALS

	At 30 June <u>2014</u> HK\$'000 (unaudited)	At 31 December <u>2013</u> HK\$'000 (audited)
Trade creditors	40,421	45,737
Deposits received	1,392	1,334
Other creditors	17,874	2,710
Accruals and other payables	<u>12,297</u>	<u>19,669</u>
	<u>71,984</u>	<u>69,450</u>

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

	At 30 June <u>2014</u> HK\$'000 (unaudited)	At 31 December <u>2013</u> HK\$'000 (audited)
0 - 3 months	20,668	28,532
3 - 6 months	<u>19,753</u>	<u>17,205</u>
	<u>40,421</u>	<u>45,737</u>

14. CREDITORS, DEPOSITS AND ACCRUALS - continued

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

Included in trade creditors is amounts due to fellow subsidiaries of HK\$40,421,000 (31 December 2013: HK\$45,737,000) which is unsecured, interest-free and payable on presentation of invoices. Included in other creditors is an amount due to a fellow subsidiary of HK\$75,000 (31 December 2013: HK\$15,000) which is unsecured, interest-free and payable on presentation of invoices. At 31 December 2013, included in accruals and other payables is an amount due to a fellow subsidiary of HK\$3,609,000 which is unsecured, interest-free and payable on presentation of invoices.

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE  
INCOME OF LHIL MANAGER LIMITED  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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	<u>NOTE</u>	01.01.2014 to 30.06.2014 HK\$ (unaudited)	25.01.2013 to 30.06.2013 HK\$ (unaudited)
Revenue		-	-
Administrative expenses		(10,357)	(3,030)
Less: Amount borne by a fellow subsidiary		<u>10,357</u>	<u>3,030</u>
<b>Profit or loss before tax</b>		-	-
Income tax	4	<u>-</u>	<u>-</u>
<b>Profit or loss and other comprehensive income/expense for the period</b>		<u><u>-</u></u>	<u><u>-</u></u>

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**CONDENSED STATEMENT OF FINANCIAL POSITION OF LHIL MANAGER LIMITED**  
**AT 30 JUNE 2014**

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	At 30 June <u>2014</u> HK\$ (unaudited)	At 31 December <u>2013</u> HK\$ (audited)
<b>Current asset</b>		
Cash on hand	<u>1</u>	<u>1</u>
<b>NET ASSET</b>	<u><u>1</u></u>	<u><u>1</u></u>
<b>Capital</b>		
Share capital	<u>1</u>	<u>1</u>
<b>TOTAL EQUITY</b>	<u><u>1</u></u>	<u><u>1</u></u>

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## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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### **1. GENERAL**

The Company is a limited liability company incorporated in Hong Kong. The Company's parent company is LHIL Management Limited, a limited liability company incorporated in the British Virgin Islands. The Directors consider the Company's ultimate holding company to be Great Eagle Holdings Limited, a limited liability company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited.

The 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 during the period, thus the distribution statement is not presented.

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

The financial statements for the current period cover the six months period ended 30 June 2014. The corresponding comparative amounts shown for the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in equity, condensed statement of cash flows and related notes cover the period from 25 January 2013 to 30 June 2013 and therefore may not be comparable with amounts shown for the current period.

### **2. BASIS OF PREPARATION**

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Company's first financial statements for the period from 25 January 2013 (date of incorporation) to 31 December 2013.

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

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

### 4. INCOME TAX

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