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LANGHAM

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)

2018 ANNUAL 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 consolidated results of the Trust and of the Company together with the Company’s subsidiaries (the “Trust Group”) for the year ended 31 December 2018 as follows:

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.

FINANCIAL HIGHLIGHTS (continued)

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%

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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.

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 renovation 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.

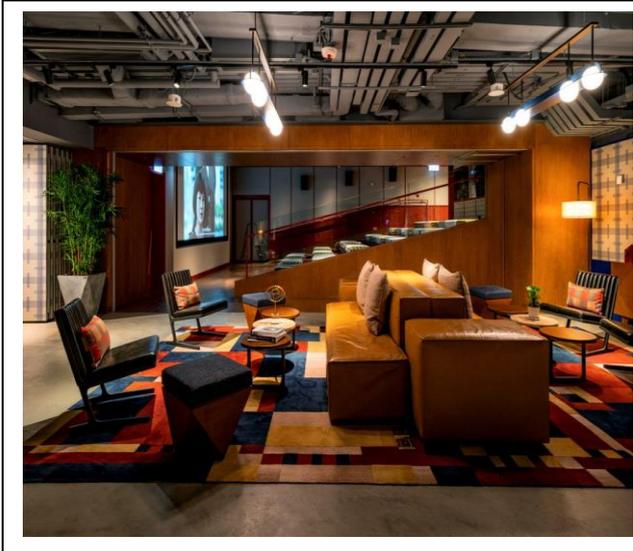
Finance costs of the Trust Group rose by 23.1% year-on-year to HK\$188.8 million in 2018 primarily due to higher interest rate. Although there was a booking of HK\$594.2 million due to the increase in fair value of investment properties (hotel portfolio), the increase was less than the HK\$808.4 million 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 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.

Eaton HK



Top left: Hotel's communal space, with the theatre behind

Top right: Terrible Baby

Bottom left: Flower Years opens up into the outdoor Astor Plaza

Bottom right: The impressive three-floor atrium used to house the hotel's ballrooms on the bottom floor

OPERATIONAL 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 expense 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.

(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 on the interest rate swaps of HK\$11.4 million, total finance costs came to HK\$188.8 million, representing a year-on-year increase of 23.1%.

(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%

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.

Hotel Performance

	Average Daily Room				Average Room Rate		RevPAR	
	Available		Occupancy		(in HK\$)		(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		RevPAR	
	(in HK\$)		(in HK\$)		(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.

RevPAR growth of the two High Tariff A hotels, The Langham, Hong Kong and Cordis, Hong Kong were 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 have 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.

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.

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.

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 Annual General Meeting (“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.

ANNUAL GENERAL MEETING AND ANNUAL REPORT

The 2019 AGM of the Trust and the Company will be held on Friday, 10 May 2019, for the purpose of, among other things, approving the payment of a final distribution of HK10.5 cents per Share Stapled Units. The notice of 2019 AGM together with the 2018 Annual Report and all other relevant documents will be despatched to Holders of Share Stapled Units and published on the corporate website at www.LanghamHospitality.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk in April 2019.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Pursuant to the Trust Deed, each of the Trustee-Manager and the Company must co-operate with each other to ensure that each party complies with the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and other relevant rules and regulations.

For the year ended 31 December 2018, 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 Corporate Governance Code. The requirement to establish a Nomination Committee is not relevant to the Trustee-Manager because the Trust Deed requires that the Directors of the Trustee-Manager shall at all times comprise the same individuals who serve as Directors of the Company. The requirement to establish a Remuneration Committee is also not relevant to the Trustee-Manager as its Directors are not entitled to any remuneration payable by the Trust or the Trustee-Manager, and the Trustee-Manager does not have any employees.

COMPLIANCE WITH THE MODEL CODE

The Trust Group has adopted its own 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 have confirmed that they have fully complied with the Code of Conduct for Securities Transactions for the year ended 31 December 2018.

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.

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	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 Fees (collectively the "Hotel Manager's Fees") to the Hotel Manager of approximately HK\$35,958,000 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	Number of issued Share Stapled Units	2,109,715,939

PUBLIC FLOAT

As at the date of this announcement, 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.

AUDIT COMMITTEES

The final results of the Trust Group for the year ended 31 December 2018 have been reviewed by the Audit Committees of the Trustee-Manager and the Company and the final results of the Trustee-Manager for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Trustee-Manager.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Trust and the Company's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Trust Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Trust and the Company's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

The figures in respect of the Trustee-Manager's statement of financial position, statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Trustee-Manager's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Trustee-Manager's audited financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

BOARD OF DIRECTORS

As at the date of this announcement, the Non-executive Directors are Dr. LO Ka Shui (*Chairman*) and Mr. LO Chun Him, Alexander; the Executive Director is Mr. IP Yuk Keung, Albert (*Chief Executive Officer*); and the Independent Non-executive Directors are Professor Chan Ka Keung, Ceajer, Professor LIN Syaru, Shirley and Mr. WONG Kwai Lam.

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

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**

	<u>NOTES</u>	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000 (restated)
Revenue	5	615,500	607,573
Property related expenses		<u>(28,498)</u>	<u>(26,865)</u>
Net property income		587,002	580,708
Other income	7	210	2,337
Increase in fair value of investment properties		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	8	<u>(188,821)</u>	<u>(153,409)</u>
Profit before tax		970,401	1,223,368
Income tax expense	9	<u>(74,761)</u>	<u>(77,309)</u>
Profit and total comprehensive income for the year attributable to holders of Share Stapled Units	12	<u><u>895,640</u></u>	<u><u>1,146,059</u></u>
Earnings per Share Stapled Unit			
Basic and diluted	13	<u><u>HK 43 cents</u></u>	<u><u>HK 55 cents</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND OF THE COMPANY
AT 31 DECEMBER 2018

	<u>NOTES</u>	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
Non-current assets			
Property, plant and equipment		18	28
Investment properties		20,177,000	19,373,000
Derivative financial instruments		26,923	28,300
		<u>20,203,941</u>	<u>19,401,328</u>
Current assets			
Debtors, deposits and prepayments	14	75,351	115,491
Tax recoverable		32	-
Bank balances		86,881	101,076
		<u>162,264</u>	<u>216,567</u>
Current liabilities			
Creditors, deposits and accruals	15	60,642	97,362
Secured bank loans due within one year		165,000	-
Tax payable		36,086	23,600
		<u>261,728</u>	<u>120,962</u>
Net current (liabilities) assets		<u>(99,464)</u>	<u>95,605</u>
Total assets less current liabilities		<u>20,104,477</u>	<u>19,496,933</u>
Non-current liabilities			
Secured bank loans due after one year		6,774,597	6,756,597
Deferred tax liabilities		362,375	329,192
Derivative financial instrument		8,889	76
		<u>7,145,861</u>	<u>7,085,865</u>
NET ASSETS		<u>12,958,616</u>	<u>12,411,068</u>
Capital and reserves			
Issued capital/units		2,110	2,089
Reserves		12,956,506	12,408,979
TOTAL EQUITY		<u>12,958,616</u>	<u>12,411,068</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE TRUST AND OF THE COMPANY
FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

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

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 of the Company are of the opinion that the Groups will have adequate sources of funding to meet in full its financial obligations, after taking into account the continuous cash flows generated from operating activities, and the availability of undrawn revolving loan facilities amounting to HK\$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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - 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 Group's 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:

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

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.

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

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.

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 cost 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 ²
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 ³
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 1 January 2021.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for business combination 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.

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

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. 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.

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.

5. REVENUE

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

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 6.

6. 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".

6. 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, <u>Hong Kong</u> HK\$'000	Cordis, <u>Hong Kong</u> HK\$'000	<u>Eaton HK</u> HK\$'000	Segment <u>total</u> HK\$'000	<u>Reconciliation</u> HK\$'000 (note)	<u>Consolidated</u> 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

2017

	The Langham, <u>Hong Kong</u> HK\$'000	Cordis, <u>Hong Kong</u> HK\$'000	<u>Eaton HK</u> HK\$'000	Segment <u>total</u> HK\$'000	<u>Reconciliation</u> HK\$'000 (note)	<u>Consolidated</u> 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.

6. 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.

7. OTHER INCOME

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

8. FINANCE COSTS

	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
Interest on bank borrowings	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
	<u>188,821</u>	<u>153,409</u>

9. INCOME TAX EXPENSE

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

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

10. 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:

	<u>2018</u> HK\$'000	<u>2017</u> 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	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	<u>410,491</u>	<u>437,200</u>

11. DISTRIBUTION STATEMENT

	<u>NOTE</u>	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
<u>Interim distribution period (note a)</u>			
Total distributable income in respect of the six months ended 30 June		188,985	209,576
Percentage of distributable income for distribution (note b)		<u>100%</u>	<u>100%</u>
Distributable income for interim distribution period		<u>188,985</u>	<u>209,576</u>
Interim distribution (note c)		<u>188,985</u>	<u>209,576</u>
<u>Final distribution period (note a)</u>			
Total distributable income in respect of the financial year ended 31 December	10	410,491	437,200
Less: distributable income paid for interim distribution period (note d)		<u>(189,875)</u>	<u>(209,958)</u>
Distributable income available for final distribution period		220,616	227,242
Percentage of distributable income for distribution (note b)		<u>100%</u>	<u>100%</u>
Distributable income for final distribution period		<u>220,616</u>	<u>227,242</u>
Final distribution (note c)		<u>220,616</u>	<u>227,242</u>
Distribution per Share Stapled Unit			
Interim distribution per Share Stapled Unit in respect of the six months ended 30 June (note d)		<u>HK9.0 cents</u>	<u>HK10.3 cents</u>
Final distribution per Share Stapled Unit in respect of the six months ended 31 December (note d)		<u>HK10.5 cents</u>	<u>HK11.1 cents</u>

11. 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, 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, 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.

11. DISTRIBUTION STATEMENT - continued

Notes: - continued

(d) - continued

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, 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.

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

	<u>2018</u> HK\$'000	<u>2017</u> 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)	<u>292</u>	<u>193</u>
	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)	<u>2</u>	<u>(2)</u>

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.

13. 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:

	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
Earnings		
Profit for the year for the purposes of basic and diluted earnings per Share Stapled Unit	<u>895,640</u>	<u>1,146,059</u>
	<u>2018</u> '000	<u>2017</u> '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	<u>2,104,813</u>	<u>2,083,005</u>

14. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Receivable from Master Lessee is payable on presentation of invoices.

14. DEBTORS, DEPOSITS AND PREPAYMENTS - continued

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

	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
0 - 3 months	<u>63,797</u>	<u>106,168</u>

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.

15. CREDITORS, DEPOSITS AND ACCRUALS

	<u>2018</u> HK\$'000	<u>2017</u> 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	<u>9,875</u>	<u>9,220</u>
	<u>60,642</u>	<u>97,362</u>

15. CREDITORS, DEPOSITS AND ACCRUALS - continued

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

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

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.

16. EVENT AFTER THE END OF THE REPORTING PERIOD

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

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF LHIL
MANAGER LIMITED**
FOR THE YEAR ENDED 31 DECEMBER 2018

	<u>NOTES</u>	<u>2018</u> HK\$	<u>2017</u> HK\$
Revenue		-	-
Administrative expenses		(23,955)	(22,355)
Less: Amount borne by a fellow subsidiary		<u>23,955</u>	<u>22,355</u>
Profit or loss before tax	4	-	-
Income tax	5	<u>-</u>	<u>-</u>
Profit or loss and total comprehensive income/expense for the year		<u>-</u>	<u>-</u>

STATEMENT OF FINANCIAL POSITION OF LHIL MANAGER LIMITED
AT 31 DECEMBER 2018

	<u>2018</u> HK\$	<u>2017</u> HK\$
Current asset		
Cash on hand	<u>1</u>	<u>1</u>
NET ASSET	<u><u>1</u></u>	<u><u>1</u></u>
Capital		
Share capital	<u>1</u>	<u>1</u>
TOTAL EQUITY	<u><u>1</u></u>	<u><u>1</u></u>

NOTES TO THE FINANCIAL STATEMENTS OF LHIL MANAGER LIMITED FOR THE YEAR ENDED 31 DECEMBER 2018

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 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.

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.

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.

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.

4. PROFIT OR LOSS BEFORE TAX

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

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.