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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)

## **2020 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”) 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 2020 as follows:

### **FINANCIAL HIGHLIGHTS**

<b>(in HK\$ million, unless otherwise specified)</b>	<b>1H2020</b>	<b>1H2019</b>	<b>Change</b>
Revenue of hotel portfolio	259.7	810.2	-67.9%
Total Rental Income for the Trust Group	104.9	295.5	-64.5%
(Loss)/Profit attributable to Holders of Share Stapled Units excluding Fair Value change on Investment Properties and Derivative Financial Instruments	(13.2)	137.3	-109.6%
Distributable Income	0.0*	184.6	-100.0%
Distributions per Share Stapled Unit	-	HK8.7 cents	-100.0%
<b>As at</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
Gross Value of Hotel Portfolio (in HK\$ million)	15,572	17,500	20,180
Net Asset Value per Share Stapled Unit	HK\$3.68	HK\$4.68	HK\$6.04
Gearing Ratio	46.2%	40.6%	34.4%

\* Distributable income came to HK\$36,000 for the first half of 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The sustained challenges faced by Hong Kong, which has grappled with social unrest and then the COVID-19 pandemic, for almost a full year have devastated our hotels' business. The pandemic, which became widespread in Hong Kong in early 2020 and is still ongoing, has brought tourist arrivals to a virtual complete halt as travel restrictions were imposed globally. Hong Kong's overall hotel market recorded a significant decline of 70.2% in revenue per available room ("RevPAR") in the first half of 2020.

Correspondingly, our hotels have witnessed an unprecedentedly long period of extreme low occupancies coupled with depressed average room rates during the first half of 2020. In addition, a drop-off in willingness to dine indoor, coupled with government-imposed social distancing measures, have dampened our hotel's Food and Beverage ("F&B") businesses which is reliant on mostly domestic patrons.

In the first half of 2020, with a catastrophic plunge in overnight visitor arrivals of a 91.2% year-on-year, RevPAR of our hotel portfolio dropped by 85.7% resulting from a 69.8 percentage points decrease in occupancy and a 38.1% decrease in average room rate. Revenue from F&B business dropped by 50.8% over the first half period amid significantly reduced seating capacity and patrons shying away from dining out. Total revenue of the hotels, which included a HK\$14.3 million in government subsidies, dropped by 68.0% year-on-year in the first half period. The portfolio generated an adjusted gross operating loss amounting to HK\$38.6 million during the period, as compared with an operating profit of HK\$324.7 million achieved during the same period last year.

While we continue to receive fixed rental income from GE (LHIL) Lessee Limited (the "Master Lessee") amounting to HK\$111.9 million in the first half period, there was no variable rental income given the hotel portfolio had reported a loss for the period. Overall, total gross rental income, after accounting for service fees incurred, decreased by 64.5% to HK\$104.9 million in the first half of 2020, whereas the Trust Group's net property income decreased by 67.7% year-on-year to HK\$89.6 million.

During the reporting period, there was a HK\$1,941.6 million decrease in fair value of investment properties (Hotel portfolio), and a loss of HK\$82.3 million due to a decline in market value of derivative financial instruments (interest rate swaps). Net loss after tax was HK\$2,037.1 million for the first half of 2020. Net loss excluding the non-cash fair value change of investment properties and derivative financial instruments was HK\$13.2 million, representing a decline of 109.6% as compared with the same period last year. After adjusted for non-cash items, there was no significant distributable income in the first half of 2020, as compared with a distributable income of HK\$184.6 million in the same period of the prior year. Therefore, no distribution will be declared for the first half of 2020 as previously disclosed in our announcement, dated 12th of May.

After the deduction in value of our hotel portfolio, valuation of the hotel portfolio was HK\$15,572 million as at the end of June 2020, as compared with HK\$17,500 million as at the end of December 2019. With total outstanding borrowings of HK\$7,227 million as at the end of June 2020, this implied a gearing ratio of 46.2%. As at 30 June 2020, Net Asset Value (“NAV”) of the Trust Group amounted to HK\$7,899.5 million or HK\$3.68 per Share Stapled Unit as at the end of June 2020.

The hotel management team has been active in responding to the extremely difficult environment. In addition to tightening of expense control, deferring various renovation plans, applying for and receiving COVID-19 subsidies from the HKSAR Government, the management team has tried to increase its market share in the staycation market. Numerous promotional packages with innovative ideas were launched to capture demand.

Despite all these measures, the drop in business meant that the Trust Group could still be facing a large cash shortfall, especially regarding our ability to comply with certain financial covenants under the loan agreements entered into with our lenders. This is especially the case with regard to the requirements for a minimum interest coverage ratio and a maximum loan to valuation ratio (“LTV Ratio”).

As provided in the loan agreements, if these financial covenants are not met, the Trust Group must satisfy the requirements of the mitigation mechanism such as depositing additional security deposits with security agent for our lenders to restore the minimum interest coverage ratio and prepaying part of outstanding loan to restore the maximum LTV Ratio.

Based on the current financial circumstances of the Trust Group, it is anticipated that the mitigation mechanism will most likely be triggered in the third quarter of 2020. As long as the requirements of the mitigation mechanism are satisfied, the financial covenants will not be considered as breached.

Even though the Trust Group is presently in compliance with the provisions of the loan documents, the future prospects of international travel and tourism remain very weak and the potential prolonged deterioration in both the market conditions and earnings of our hotels could trigger breach of financial covenants under the loan agreements.

As announced earlier we adopted the strategy to appoint a financial advisor to explore available options to improve our financial position. HSBC was finally appointed given their expertise in this field. After analysis and discussions with the HSBC team, and taking into account the latest market conditions and considering thoroughly the costs and benefits of alternative options available, we believe that a fundraising exercise is the most appropriate strategy to ensure we have sufficient liquidity to cope with this difficult situation. Amongst various equity fundraising alternatives, the Rights Issue is considered the best option as it will improve the financial position of the Trust Group immediately and it also allows all unitholders to participate and their ownership stake in the Trust Group will not be diluted if they so wish.

Based on one Right Share Stapled Unit (“SSU”) for every two SSUs held, a right price of HK\$0.95, and the Great Eagle Group undertaking to take up the number of Rights SSUs under its assured entitlement, the gross proceeds are expected to be at least HK\$648 million, and up to HK\$1,019 million if all unitholders participate in the Rights Issue. The vast majority of the net proceeds will be used for repayment of part of the outstanding loans and the balance will be funding the deposit of additional security deposit as part of the mitigation mechanism in relation to our financial covenant on interest coverage and also general working capital.

The fund raised will not only improve our immediate financial position, but also create additional headroom regarding the LTV Ratio. After the fund raising, we believe our strengthened financial position will place us in a better position to weather the COVID-19 pandemic and enable the company to benefit from future business recovery when the crisis is over.

## OPERATIONAL REVIEW

As the Hotels of the Trust Group are leased to 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.

As the hotels reported an operating loss for the six months ended 30 June 2020, there was no variable rental income received from the Master Lessee. However, the Trust Group continued to receive a fixed rental income of HK\$111.9 million for the first half of 2020 and there was a modest HK\$1.0 million in rental income from the shops, total rental income received by the Trust Group before service fees was HK\$112.9 million for the reporting period, representing a year-on-year decline of 66.8%. After netting off HK\$8.0 million in service fees incurred for the first half-period, total rental income was HK\$104.9 million, representing a year-on-year decline of 64.5%.

<u>(in HK\$ million)</u>	<u>1H 2020</u>	<u>1H 2019</u>	<u>Change</u>
Variable rental income	-	227.3	-100.0%
Fixed rental income	111.9	111.6	0.3%
Rental income from retail shops	<u>1.0</u>	<u>0.7</u>	42.9%
Total Rental income before service fees	112.9	339.6	-66.8%
Total service fees	<u>(8.0)</u>	<u>(44.1)</u>	-81.9%
<b>Total rental income to the Trust Group</b>	<b>104.9</b>	<b>295.5</b>	<b>-64.5%</b>

Total service fees comprise: i) hotel management fees, ii) licence fee and iii) global marketing fee paid to the hotel management company. Hotel management fees are comprised a base management fee, which is calculated at 1.5% of total hotel revenue, and an incentive fee on 5.0% of adjusted gross operating profit of the relevant hotels. Licence fee is calculated based on 1.0% of total revenue of the relevant hotels, and global marketing fee is calculated at 2.0% of total room revenue of the relevant hotels. It should be noted that when calculating distributable income, global marketing fee deducted because it 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 the first six months of 2020, 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 the first half of 2020, reflecting the very poor performance of the hotels, hotel management fees dropped by 84.8% to HK\$4.1 million, global marketing fee dropped 85.6% to HK\$1.3 million and licence fee dropped by 67.9% to HK\$2.6 million. Total service fees payable to the hotel management company declined by 81.9% year-on-year to HK\$8.0 million in the first half of 2020.

<b>(in HK\$ million)</b>	<b>1H 2020</b>	<b>1H 2019</b>	<b>Change</b>
Hotel management fees	4.1	27.0	-84.8%
Licence fee	2.6	8.1	-67.9%
Global marketing fee	1.3	9.0	-85.6%
<b>Total service fees</b>	<b>8.0</b>	<b>44.1</b>	<b>-81.9%</b>

Property related expenses declined by 15.9% year-on-year to HK\$15.3 million in the first half of 2020, which was primarily due to lower rateable value of the Hotels which resulted in lower government rates. Overall, net property income of the Trust Group came to HK\$89.6 million in the first half of 2020, representing a year-on-year decline of 67.7%.

<b>(in HK\$ million)</b>	<b>1H 2020</b>	<b>1H 2019</b>	<b>Change</b>
<b>Total rental income to the Trust Group</b>	104.9	295.5	-64.5%
Property related expenses	(15.3)	(18.2)	-15.9%
<b>Net property income</b>	<b>89.6</b>	<b>277.3</b>	<b>-67.7%</b>

Finance costs dropped by 7.7% year-on-year to HK\$92.6 million in the first half of 2020, of which cash interest expenses, comprised of interest on floating rate loan and net interest settlement on the interest rate swaps. As Hong Kong's interest rate dropped in the first half of 2020, interest expense on the floating rate loan dropped by 10.2% to HK\$81.2 million during the period. However, part of the savings were offset by an increase in net interest settlement incurred on the interest rate swaps in the first half of 2020. Amortisation of loan upfront fee came to HK\$5.6 million for the first half period, representing a year-on-year decrease of 37.8%.

The increase in net interest settlement incurred was due to an increase in the notional amount of interest rate swap contracts held by the Trust Group as at the end of June 2020. The Trust Group executed an additional HK\$2,700 million notional amount of interest rate swap contracts at an average swap rate of 1.08% during the first half of 2020, in anticipation of the expiry of a similar interest rate swap contracts from November 2020 to February 2021. Due to the overlapping interest rate swap contracts held by the Trust Group as at the end of June 2020, total notional amount of interest rate swap contracts reached HK\$6,700 million. These hedging arrangements will help to mitigate the impact of potential hike in interest rates on the Trust Group's distributable income in the coming years.

<u>(in HK\$ million)</u>	<u>1H 2020</u>	<u>1H 2019</u>	<u>Change</u>
<b>Breakdown of Finance costs</b>			
Interest expense	(81.6)	(90.8)	-10.1%
Amortisation of loan upfront fee	(5.6)	(9.0)	-37.8%
Interest paid on fixed interest rate swaps	<u>(5.4)</u>	<u>(0.5)</u>	980.0%
<b>Total Finance costs</b>	<b>(92.6)</b>	<b>(100.3)</b>	<b>-7.7%</b>

There was a decrease in fair value of investment properties amounting to HK\$1,941.6 million in the first half period amid the collapse in the hotel's business as impacted by the COVID-19 pandemic. In addition, a loss of HK\$82.3 million due to a decline in market value of derivative financial instruments (interest rate swaps). Net loss after tax was HK\$2,037.1 million for the first half of 2020. Net loss excluding fair value change of investment properties and derivative financial instruments was HK\$13.2 million, representing a decline of 109.6% as compared with the same period of the prior year.

<b>(in HK\$ million)</b>	<b>1H 2020</b>	<b>1H 2019</b>	<b>Change</b>
<b>Net property income</b>	89.6	277.3	-67.7%
Interest and other income	0.7	0.2	250.0%
Decrease in fair value of investment properties (Hotel portfolio)	(1,941.6)	(75.0)	2,488.8%
Decrease in fair value change on derivative financial instruments	(82.3)	(24.8)	231.9%
Finance costs	(92.6)	(100.3)	-7.7%
Trust and other expenses	<u>(6.9)</u>	<u>(5.6)</u>	23.2%
<b>(Loss)/Profit before tax</b>	<b>(2,033.1)</b>	<b>71.8</b>	<b>-2,931.6%</b>
Income tax expense	<u>(4.0)</u>	<u>(34.3)</u>	-88.3%
<b>(Loss)/Profit attributable to Holders of Share Stapled Units</b>	<b>(2,037.1)</b>	<b>37.5</b>	<b>-5,532.3%</b>
<b>(Loss)/Profit attributable to Holders of Share Stapled Units excluding Fair Value change on Investment Properties and Derivative Financial Instruments</b>	<b>(13.2)</b>	<b>137.3</b>	<b>-109.6%</b>

To derive the Trust Group's distributable income, net (loss)/profit was adjusted for non-cash items. Items deducted from net (loss)/profit are cash contribution to the furniture, fixtures and equipment reserve, which is calculated at 1.5% of total revenue of the Hotels. On the other hand, non-cash items added back to (loss)/profit included: i) hotel management and licence fees paid in Share Stapled Units, ii) amortisation of upfront loan fee, iii) deferred taxation, iv) decrease in fair value of investment properties, v) decrease in fair value change on derivative financial instruments and vi) depreciation.

For the first half of 2020, there was only a minimal distributable income of HK\$36,000 after adjusted for non-cash items and therefore, no distribution will be declared for the period.

<b>(in HK\$ million)</b>	<b>1H 2020</b>	<b>1H 2019</b>	<b>Change</b>
<b>(Loss)/Profit attributable to Holders of Share Stapled Units</b>	(2,037.1)	37.5	-5,532.3%
Add:			
Hotel management fees and Licence fee paid in Share Stapled Units	6.7	35.1	-80.9%
Amortisation of upfront loan fee, a non-cash cost	5.6	9.0	-37.8%
Deferred tax	3.8	15.4	-75.3%
Depreciation	1.0	-	100.0%
Decrease in fair value of investment properties	1,941.6	75.0	2,488.8%
Decrease in fair value on derivative financial instruments	82.3	24.8	231.9%
Less:			
Furniture, fixtures and equipment reserve	(3.9)	(12.2)	-68.0%
<b>Distributable income</b>	<b>0.0*</b>	<b>184.6</b>	<b>-100.0%</b>

\* Distributable income came to HK\$36,000 for the first half of 2020.

## Hotel Performance

	Average Daily Rooms Available		Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)	
	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019
The Langham, Hong Kong	498	498	14.4%	90.0%	1,490	2,169	214	1,952
<i>year-on-year growth</i>			<i>-75.6ppt</i>		<i>-31.3%</i>		<i>-89.0%</i>	
Cordis, Hong Kong	667	667	19.5%	94.4%	1,293	1,737	252	1,640
<i>year-on-year growth</i>			<i>-74.9ppt</i>		<i>-25.6%</i>		<i>-84.6%</i>	
Eaton HK	465	465	30.1%	86.6%	584	1,063	176	920
<i>year-on-year growth</i>			<i>-56.5ppt</i>		<i>-45.1%</i>		<i>-80.9%</i>	
Hotel Portfolio	1,630	1,630	21.0%	90.8%	1,043	1,684	219	1,530
<i>year-on-year growth</i>			<i>-69.8ppt</i>		<i>-38.1%</i>		<i>-85.7%</i>	

Hong Kong Hotel Markets	Occupancy		Average Room Rate (in HK\$)		RevPAR (in HK\$)		
	1H 2020	1H 2019	1H 2020	1H 2019	1H 2020	1H 2019	
High Tariff A		21.0%	87.0%	1,706	2,094	358	1,822
<i>year-on-year growth</i>		<i>-66.0ppt</i>		<i>-18.5%</i>		<i>-80.4%</i>	
High Tariff B		38.0%	90.0%	609	1,143	231	1,029
<i>year-on-year growth</i>		<i>-52.0ppt</i>		<i>-46.7%</i>		<i>-77.6%</i>	
All Hotels		39.0%	90.0%	914	1,329	356	1,196
<i>year-on-year growth</i>		<i>-51.0ppt</i>		<i>-31.2%</i>		<i>-70.2%</i>	

During the first half of 2020, all three hotels have applied for and successfully received part of the government subsidies applied, which were booked under “others”, which explains the increase in other revenue during the period.

<b>Revenue breakdown (in HK\$ million)</b>	<b>The Langham, Hong Kong</b>	<b>Cordis, Hong Kong</b>	<b>Eaton HK</b>	<b>Total</b>
Rooms	19.4	30.6	14.9	64.9
Food & Beverages	48.2	65.3	52.3	165.8
Others*	<u>7.6</u>	<u>11.1</u>	<u>10.3</u>	<u>29.0</u>
<b>Total revenue</b>	<b>75.2</b>	<b>107.0</b>	<b>77.5</b>	<b>259.7</b>

<b>Year-on-year decline</b>	<b>The Langham, Hong Kong</b>	<b>Cordis, Hong Kong</b>	<b>Eaton HK</b>	<b>Total</b>
Rooms	-89.0%	-84.5%	-80.8%	-85.6%
Food & Beverages	-58.7%	-58.4%	-17.8%	-50.8%
Others*	<u>31.0%</u>	<u>22.0%</u>	<u>51.5%</u>	<u>33.6%</u>
<b>Total revenue</b>	<b>-74.8%</b>	<b>-70.6%</b>	<b>-47.6%</b>	<b>-67.9%</b>

\* Included government subsidies due to COVID-19

For the first six months of 2020, there was a 82.2% year-on-year drop in the number of guests from Mainland China for the Hotel portfolio. After the drop, arrivals from the Mainland accounted for 32.0% of total arrivals by geographical breakdown.

	<b>Trust Group's Hotel portfolio</b>	<b>Overnight arrivals to Hong Kong</b>
Year-on-year growth in guests from Mainland China	-82.2%	-91.6%
% of overnight guests from Mainland China to total arrivals	32.0%	65.8%

### *Performance of the individual hotels*

**The Langham, Hong Kong**, witnessed an unprecedented decline in room revenue, as quarantine restrictions on inbound travellers took their toll on demand for hotel rooms. Amid the plunge in demand from the traditional segments during the first half of 2020, the Hotel Manager tried to tap into the local market through promotion of local staycation room packages, as well as long stay packages that were marketed to the family of quarantined travellers. Hence, the hotel managed a 14.4% in occupancy for the first half of 2020, while average room rate dropped by 31.3%. RevPAR dropped by 89.0%, as compared with a 80.4% drop in RevPAR of its respective High Tariff A hotel market.

F&B revenue for the hotel dropped by 58.7% year-on-year in the first half of 2020. The drop in banqueting business was particularly severe as most bookings have been deferred, and the all-day dining venue, The Food Gallery, was closed for three months at the beginning of the COVID-19 lockdown. The hotel has applied for the Employment Support Scheme and other government subsidies and HK\$4.6 million was booked under other revenue in the first half of 2020.

At **Cordis, Hong Kong**, the hotel had fared slightly better The Langham, Hong Kong as the hotel still had some degree of freight crew staying at the hotel during the first half of 2020, albeit intermittent. However, demand from all other segments have fallen sharply following the travel restrictions and quarantined measures. The hotel also targeted the local staycation market and managed to achieve a 19.5% occupancy in the first half of 2020, whereas average room rate dropped by 25.6% in the first half of 2020. RevPAR dropped by 84.6%, as compared with a 80.4% drop in RevPAR of its respective High Tariff A hotel market.

Revenue from F&B witnessed a decline of 58.4% year-on-year in the first half of 2020. All the restaurants have seen a substantial drop in revenue and most of the banquet bookings originally booked for the first half period have been deferred. The hotel has applied for the Employment Support Scheme and other government subsidies and HK\$5.7 million was booked under other revenue in the first half of 2020.

**Eaton HK** benefitted from a university student group staying at the hotel during February, but demand remained lackluster after this group's departure. Furthermore, price competition is even more intense for the lower tariff hotels, which are not as well placed to compete in the local staycation market. Hence, Eaton HK's average room rate dropped by 45.1% year-on-year in the first half of 2020, whereas it managed a 30.1% occupancy over the same period. Eaton HK witnessed a RevPAR decline of 80.9%, as compared with a 77.6% drop in RevPAR of its respective High Tariff B hotel market during the first half of 2020.

Revenue from F&B at the Eaton HK only dropped by 17.8% year-on-year in first half of 2020. Particularly Yat Tung Heen continued strong performance after the renovation works despite the imposed government restrictions and generated more covers and revenue ahead of the same period last year. The hotel has applied for the Employment Support Scheme and other government subsidies and HK\$4.0 million was booked under other revenue in the first half of 2020.

## **OUTLOOK**

We expect the fundraising will help to strengthen the Trust Group's financial position, at least for the time being, so that we can continue our operations without concern of the risk for breach of financial covenants. It is uncertain how long this COVID-19 pandemic will last. The pace of the post-pandemic recovery of the Hong Kong hospitality sector may take much longer as overseas visitors resuming normal travelling patterns will be slow. Furthermore, various social distancing measures will likely remain in place even after the pandemic subsides, which will affect the pace of recovery for our domestic F&B business.

We expect the pandemic will not only affect our hotel business in the short term, but will also have long-term implications as companies and individuals reassess the way they work and live. Therefore, it is even more important that we acknowledge that some of the seemingly short-term measures such as reduction in business travel and restaurants' seating capacity limitations could in fact last for a more prolonged period.

As a result, maintaining flexibility and being ready to react to changes in market demand will be very important for our hotels as demand could shift quickly when governments at home and abroad adjust their travel guidelines and restrictions.

Our recent focus has been to grow the domestic staycation and long stay market for our accommodation business and concentrate on building our local food and beverage business. However, the recent heightening of government restrictions in July due to the third wave of COVID-19 infections has again severely impacted our efforts. We expect these operational headwinds to persist in the near term. In fact, July 2020 RevPAR of our hotels continues to be dramatically affected with The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK down year on year by 93.5%, 81.9% and 76.4% respectively.

At the same time, the Hong Kong government has been very supportive during this difficult time with the introduction of a series of relief measures including subsidies for affected licenses during the pandemic and the employment support scheme. These measures will help cushion the losses and help us to sustain the employment level.

As we continue to navigate through these uncertain and volatile times, we are confident that our hotel teams are now well adapted to scale our business appropriately based on the circumstances and with an eye to ensuring costs are minimized.

To this end, we would like to express our sincere gratitude and appreciation for their hard work in implementing heightened precautionary measure to protect the health and safety of our customers and staff.

## **FINANCIAL REVIEW**

### ***Distributions***

Distributable income of the Trust Group for 2020 interim period was HK\$36,000, which represents 100% of total distributable income for current period (2019 interim period: HK\$184,569,000 which represents 100% of total distributable income). 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.

Since the significant decline in the operating performance of the Trust Group's hotels amid the COVID-19 pandemic has led to a decrease in the Hotel's aggregate gross profit before deduction of the global marketing fee and in turn a decrease in the variable rental receivable by the Trust Group, the Board decided not to distribute any of the total distributable income for the six months ended 30 June 2020.

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

Net Assets Attributable to Holders of Share Stapled Units were HK\$7,899.5 million or HK\$3.68 per Share Stapled Unit as at 30 June 2020 (31 December 2019: HK\$9,989.8 million or HK\$4.68 per Share Stapled Unit) which represents a 206.7% premium to the closing Share Stapled Unit price of HK\$1.20 as at 30 June 2020.

### ***Debt Profile***

Total outstanding borrowings of the Trust Group as at 30 June 2020 were HK\$7,227 million (31 December 2019: HK\$7,152 million). The secured term loans of HK\$6,800 million (31 December 2019: HK\$6,800 million) were on a floating-rate interest basis and repayable in full in December 2023. The secured revolving loans of HK\$427 million (31 December 2019: HK\$352 million) were revolving on monthly basis until December 2023.

In order to mitigate the interest rate exposure, the Trust Group entered into several three-year to nearly four-year interest rate swap transactions of HK\$2,700 million during the year. In addition to the HK\$4,000 million four-year interest rate swap transactions entered during 2016 to 2018, the total outstanding borrowings of HK\$6,700 million or 92.7% (31 December 2019: 55.9%) was fixed at a weighted average swap rate of 1.42% p.a. (31 December 2019: 1.65% p.a.).

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

As at 30 June 2020, total gross assets of the Trust Group were HK\$15,646.6 million (31 December 2019: HK\$17,612.0 million). Gearing ratio, calculated as total outstanding borrowings as a percentage of total gross assets, was 46.2% (31 December 2019: 40.6%).

### ***Cash Position***

As at 30 June 2020, the Trust Group had a cash balance of HK\$63.5 million (31 December 2019: HK\$75.7 million) to satisfy a portion of asset enhancement of the Hotels, as well as its working capital and operating requirements. In addition, the Trust Group had unused revolving loan amounting to HK\$273 million as of 30 June 2020 (31 December 2019: HK\$348 million).

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

As at 30 June 2020, investment properties with a fair value of HK\$15,572 million (31 December 2019: HK\$17,500 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\$7,500 million term and revolving loan facilities granted to the Trust Group.

### ***Commitments***

As at 30 June 2020, the Trust Group had authorised capital expenditures for investment properties which were not provided for in the condensed consolidated financial statements amounting to HK\$2,864,000 (31 December 2019: HK\$4,330,000), of which HK\$979,000 (31 December 2019: HK\$2,495,000) were contracted for.

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

## **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.

During the six-month period ended 30 June 2020, 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 employee.

## COMPLIANCE WITH THE MODEL CODE

The Trustee-Manager and the Company have adopted their 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 had fully complied with the Code of Conduct for Securities Transactions for the six-month period ended 30 June 2020.

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

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

During the six-month period ended 30 June 2020, 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 30 June 2020, the total number of issued Share Stapled Units of the Trust and the Company was 2,145,487,833. As compared with the position of 31 December 2019, 9,881,338 new Share Stapled Units were issued during the reporting period, representing 0.46% of the total number of issued Share Stapled Units as at 30 June 2020.

<b>Date</b>	<b>Particulars</b>	<b>No. of Share Stapled Units</b>
31 December 2019	Total number of issued Share Stapled Units	2,135,606,495
26 February 2020	Issue of new Share Stapled Units at the price of HK\$1.986 per Share Stapled Unit as payment of the Hotel Management Fees and Licence Fee to the Hotel Manager of approximately HK\$19,625,000 for the second half of 2019	9,881,338
<b>30 June 2020</b>	<b>Total number of issued Share Stapled Units</b>	<b>2,145,487,833</b>

## **SUFFICIENCY OF 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.

## **REVIEW OF INTERIM RESULTS**

The unaudited condensed consolidated financial statements of the Trust Group and unaudited condensed financial statements of the Trustee-Manager for the six-month period ended 30 June 2020 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 2020 Interim Report will be despatched to Holders of SSUs and published on the Company’s website at [www.langhamhospitality.com](http://www.langhamhospitality.com) and the HKEXnews website at [www.hkexnews.hk](http://www.hkexnews.hk) in August 2020.

## **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. Brett Stephen BUTCHER (*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, 7 August 2020

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 2020

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	<u>NOTES</u>	Six Months Ended 30 June <u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
Revenue	4	104,883	295,523
Property related expenses		<u>(15,269)</u>	<u>(18,268)</u>
Net property income		89,614	277,255
Other income		707	207
Decrease in fair value of investment properties		(1,941,616)	(74,951)
Fair value change on derivative financial instruments		(82,271)	(24,795)
Trust and other expenses		(6,932)	(5,618)
Finance costs	6	<u>(92,592)</u>	<u>(100,278)</u>
(Loss) profit before tax		(2,033,090)	71,820
Income tax expense	7	<u>(3,986)</u>	<u>(34,278)</u>
<b>(Loss) profit and total comprehensive (expense) income for the period attributable to holders of Share Stapled Units</b>	10	<u><u>(2,037,076)</u></u>	<u><u>37,542</u></u>
<b>(Loss) earnings per Share Stapled Unit</b>			
Basic and diluted	11	<u><u>(HK95 cents)</u></u>	<u><u>HK2 cents</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND  
OF THE COMPANY  
AT 30 JUNE 2020

	<u>NOTES</u>	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		4,394	1,383
Investment properties		15,572,000	17,500,000
Derivative financial instruments		-	4,645
		<u>15,576,394</u>	<u>17,506,028</u>
<b>Current assets</b>			
Debtors, deposits and prepayments	12	6,767	22,144
Derivative financial instrument		-	8,142
Bank balances		63,471	75,732
		<u>70,238</u>	<u>106,018</u>
<b>Current liabilities</b>			
Creditors, deposits and accruals	13	37,549	56,843
Derivative financial instruments		20,408	-
Secured bank loans due within one year	14	427,000	352,000
Lease liabilities due within one year		1,831	536
Tax payable		41,552	54,375
		<u>528,340</u>	<u>463,754</u>
<b>Net current liabilities</b>		<u>(458,102)</u>	<u>(357,736)</u>
<b>Total assets less current liabilities</b>		<u>15,118,292</u>	<u>17,148,292</u>
<b>Non-current liabilities</b>			
Derivative financial instruments		58,720	9,644
Secured bank loans due after one year	14	6,761,290	6,755,666
Lease liabilities due after one year		2,631	840
Deferred tax liabilities		396,166	392,355
		<u>7,218,807</u>	<u>7,158,505</u>
<b>NET ASSETS</b>		<u>7,899,485</u>	<u>9,989,787</u>
<b>Capital and reserves</b>			
Issued capital/units		2,145	2,136
Reserves		7,897,340	9,987,651
<b>TOTAL EQUITY</b>		<u>7,899,485</u>	<u>9,989,787</u>

NOTES TO THE TRUST AND THE COMPANY'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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1. GENERAL

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

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

The condensed consolidated financial statements are presented in Hong Kong dollar ("HK\$"), which is also the functional currency of the Company.

2. BASIS OF PRESENTATION AND PREPARATION

In accordance with the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The Trust's condensed consolidated financial statements for the six months ended 30 June 2020 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 2020 comprise the condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group").

The unitholders of the Trust have beneficial interest in the ordinary shares of the Company and the sole activity of the Trust during the period ended 30 June 2020 was investment in the Company. Therefore, the condensed consolidated results and financial position that would be presented in the condensed consolidated financial statements of the Trust Group are identical to the condensed consolidated financial statements of the Group with the only differences being disclosures of capital. The Trustee-Manager and the directors of the Company (the "Directors") believe therefore that it is clearer to present the condensed consolidated financial statements of the Trust Group and the Group together. The condensed consolidated financial statements of the Trust Group and the condensed consolidated financial statements of the Group are presented together to the extent they are identical and are hereinafter referred as "the Trust and the Company's Condensed Consolidated Financial Statements".

## 2. BASIS OF PRESENTATION AND PREPARATION - continued

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

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

The Trust and the Company's Condensed Consolidated Financial Statements have been prepared on a going concern basis because the Trustee-Manager and the Directors 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\$273,000,000, the financial support from the parent company, including the irrevocable undertaking to subscribe for rights share stapled units as more particularly described in the announcement of the Company and the Trust dated 16 July 2020.

The operating performance of The Langham, Hong Kong, Cordis, Hong Kong and Eaton HK (the "Hotels") has declined significantly amid the Covid-19 pandemic. While the Groups continue to receive the fixed base rent from the GE (LHIL) Lessee Limited ("Master Lessee"), the weaker underlying performance of the Hotels has led to a decrease in their aggregate gross operating profit before deduction of global marketing fee and in turn a decrease in variable rent received by the Groups. In addition, there is a negative impact on the valuation of the Groups' investment properties. As such, the condensed consolidated results of operations, cash flows of the Groups and fair value of the investment properties were significantly impacted.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Groups' annual financial statements for the year ended 31 December 2019.

3. PRINCIPAL ACCOUNTING POLICIES - continued

*Application of amendments to HKFRSs*

In the current interim period, the Groups have applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Groups' condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Groups' financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE

	Six Months Ended 30 June	
	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Rental income from Master Lessee (Note)		
Base rent	111,885	111,575
Variable rent	-	227,293
Service fees expense	(7,964)	(44,053)
	<u>103,921</u>	<u>294,815</u>
Rental income from retail shops in Eaton HK	962	708
	<u>104,883</u>	<u>295,523</u>

Note: Included in rental income from Master Lessee, service fees income of HK\$7,964,000 (six months ended 30 June 2019: HK\$44,053,000) has been netted with the same amount of the corresponding service fees expenses.

## 5. SEGMENT INFORMATION

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

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

### Segment revenue and results

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

#### Six months ended 30 June 2020

	The Langham, <u>Hong Kong</u> HK\$'000 (unaudited)	Cordis, <u>Hong Kong</u> HK\$'000 (unaudited)	Eaton <u>HK</u> HK\$'000 (unaudited)	Segment <u>Total</u> HK\$'000 (unaudited)	<u>Reconciliation</u> HK\$'000 (unaudited) (note)	<u>Consolidated</u> HK\$'000 (unaudited)
Segment revenue	<u>39,680</u>	<u>48,499</u>	<u>24,668</u>	<u>112,847</u>	<u>(7,964)</u>	<u>104,883</u>
Segment results	<u>32,634</u>	<u>37,522</u>	<u>19,458</u>	<u>89,614</u>	<u>-</u>	<u>89,614</u>
Other income						707
Decrease in fair value of investment properties						(1,941,616)
Fair value change on derivative financial instruments						(82,271)
Trust and other expenses						(6,932)
Finance costs						<u>(92,592)</u>
Loss before tax						(2,033,090)
Income tax expense						<u>(3,986)</u>
Loss for the period attributable to holders of Share Stapled Units						<u>(2,037,076)</u>

5. SEGMENT INFORMATION - continued

**Segment revenue and results - continued**

Six months ended 30 June 2019

	The Langham, <u>Hong Kong</u> HK\$'000 (unaudited)	Cordis, <u>Hong Kong</u> HK\$'000 (unaudited)	Eaton <u>HK</u> HK\$'000 (unaudited)	Segment <u>Total</u> HK\$'000 (unaudited)	<u>Reconciliation</u> HK\$'000 (unaudited) (note)	<u>Consolidated</u> HK\$'000 (unaudited)
Segment revenue	124,748	158,695	56,133	339,576	(44,053)	295,523
Segment results	102,347	130,449	44,459	277,255	-	277,255
Other income						207
Decrease in fair value of investment properties						(74,951)
Fair value change on derivative financial instruments						(24,795)
Trust and other expenses						(5,618)
Finance costs						(100,278)
Profit before tax						71,820
Income tax expense						(34,278)
Profit for the period attributable to holders of Share Stapled Units						37,542

Note: Reconciliation represents netting of service fees income of HK\$7,964,000 (six months ended 30 June 2019: HK\$44,053,000) with the same amount of the corresponding service fees expense (including hotel management fees, licence fee and global marketing fee) that has been adjusted from revenue.

**Segment assets and liabilities**

For the purpose of performance assessment, other than the fair values 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\$5,645,000,000, HK\$6,790,000,000 and HK\$3,137,000,000 respectively (31 December 2019: HK\$6,475,000,000, HK\$7,595,000,000 and HK\$3,430,000,000 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	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on bank borrowings	81,163	90,362
Net interest on interest rate swaps	5,367	474
Loan front-end fee amortisation	5,624	9,000
Others	438	442
	<u>92,592</u>	<u>100,278</u>

7. INCOME TAX EXPENSE

	Six Months Ended 30 June	
	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong Profits Tax:		
Current tax		
- Current period	175	18,874
Deferred tax		
- Current period	<u>3,811</u>	<u>15,404</u>
	<u>3,986</u>	<u>34,278</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 (loss) profit for the period attributable to holders of Share Stapled Units as adjusted to eliminate the effects of adjustments (as set out in the Trust Deed) which have been recorded in the condensed consolidated statement of profit or loss and other comprehensive income for the relevant period. The adjustments to arrive at the total distributable income for the current interim period are set out below:

	Six Months Ended 30 June	
	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period attributable to holders of Share Stapled Units	(2,037,076)	37,542
Adjustments:		
Add:		
Depreciation	942	4
Deferred tax	3,811	15,404
Non-cash finance costs	5,702	9,000
Hotel management fees and licence fee payable in form of Share Stapled Units	6,665	35,026
Decrease in fair value of derivative financial instruments	82,271	24,795
Decrease in fair value of investment properties	1,941,616	74,951
Less:		
Reserve for furniture, fixtures and equipment	<u>(3,895)</u>	<u>(12,153)</u>
Total distributable income	<u>36</u>	<u>184,569</u>

9. DISTRIBUTION STATEMENT

	<u>NOTE</u>	Six Months Ended 30 June <u>2020</u> HK\$'000 (unaudited)	<u>2019</u> HK\$'000 (unaudited)
<u>Interim distribution period (note a)</u>			
Total distributable income in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: in respect of the six months ended 30 June 2019)	8	36	184,569
Percentage of distributable income for distribution (note b)		-	100%
Distributable income for interim distribution period		-	184,569
Interim distribution (note c)		-	184,569
<u>Final distribution period (note a)</u>			
Total distributable income in respect of the financial year ended 31 December 2019 (six months ended 30 June 2019: in respect of the financial year ended 31 December 2018)		259,064	410,491
Less: distributable income paid for interim distribution period (note d)		(185,798)	(189,875)
Distributable income available for final distribution period		73,266	220,616
Percentage of distributable income for distribution (note b)		100%	100%
Distributable income for final distribution period		73,266	220,616
Final distribution (note c)		73,266	220,616
<b>Distribution per Share Stapled Unit</b>			
Interim distribution per Share Stapled Unit in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: in respect of the six months ended 30 June 2019) (note d)		-	HK8.7 cents
Final distribution per Share Stapled Unit in respect of the financial year ended 31 December 2019 (six months ended 30 June 2019: in respect of the financial year ended 31 December 2018) (note e)		HK3.4 cents	HK10.5 cents

9. DISTRIBUTION STATEMENT - continued

Notes:

- (a) The interim distribution in 2020 is based on total distributable income for the six months ended 30 June 2020.

The final distribution in 2019 is based on total distributable income for the year ended 31 December 2019.

The interim distribution in 2019 is based on total distributable income for the six months ended 30 June 2019.

- (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 not to distribute any of the total distributable income for the six months ended 30 June 2020 due to the deteriorating business results. Details are set out in note 2.

100% of the total distributable income was distributed for the six months ended 30 June 2019.

- (c) The final distribution after 31 December 2019 has not been recognised as a liability as at 31 December 2019.

The interim distribution after 30 June 2019 has not been recognised as a liability as at 30 June 2019.

- (d) Interim distribution

Interim distribution per Share Stapled Unit of HK8.7 cents in 2019 is calculated based on interim distribution of HK\$184,569,000 for the period and 2,121,762,141 Share Stapled Units as at 30 June 2019. In consideration of 13,844,354 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 30 June 2019 on 22 August 2019, the number of Share Stapled Units entitled for the interim distribution in 2019 has been adjusted to be 2,135,606,495. Total distribution of HK\$185,798,000, in respect of 2019 interim distribution period was paid on 27 September 2019.

9. DISTRIBUTION STATEMENT - continued

Notes: - continued

(e) Final distribution

Final distribution per Share Stapled Unit of HK3.4 cents in 2019 is calculated based on distributable income available for final distribution period of HK\$73,266,000 and 2,135,606,495 Share Stapled Units as at 31 December 2019. In consideration of 9,881,338 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 31 December 2019 on 26 February 2020, the number of Share Stapled Units entitled for final distribution in 2019 had been adjusted to be 2,145,487,833. Total distribution of HK\$72,946,000 in respect of 2019 final distribution period was paid on 29 May 2020.

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. In consideration of 12,046,202 Share Stapled Units issued as payment of hotel management fees and licence fee for the six months ended 31 December 2018 on 1 March 2019, the number of Share Stapled Units entitled for final distribution in 2018 had been adjusted to be 2,121,762,141. Total distribution of HK\$222,785,000 in respect of 2018 final distribution period was paid on 5 June 2019.

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

	Six Months Ended 30 June	
	<u>2020</u>	<u>2019</u>
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit and total comprehensive (expense) income for the period has been arrived at after charging (crediting):		
Staff costs (including Directors' emoluments)	2,539	2,407
Share-based payment expenses (Note)	95	146
Depreciation	942	4
Interest income	-	(57)
	<u>          </u>	<u>          </u>

Note: The Groups recognised total expenses of HK\$95,000 for six month ended 30 June 2020 (six month ended 30 June 2019: HK\$146,000) in relation to share options granted by the ultimate holding company under its share option scheme.



12. DEBTORS, DEPOSITS AND PREPAYMENTS - continued

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

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Within 3 months	<u>14</u>	<u>14,061</u>

At 31 December 2019, receivable from Master Lessee represented an amount due from a fellow subsidiary of HK\$14,046,000 which was unsecured, interest-free and payable on presentation of invoices. At 30 June 2020, there is no outstanding amount.

Deposits and prepayments mainly consist of deposits paid to contractors for hotels renovation and prepayment of rates. At 31 December 2019, other debtor represented amount due from a fellow subsidiary of HK\$69,000 which was unsecured, interest-free and payable on presentation of invoices.

13. CREDITORS, DEPOSITS AND ACCRUALS

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Trade creditors	14,631	20,212
Deposits received	654	684
Construction fee payable	7,943	18,697
Interest payables	9,139	12,272
Accruals and other payables	<u>5,182</u>	<u>4,978</u>
	<u>37,549</u>	<u>56,843</u>

13. CREDITORS, DEPOSITS AND ACCRUALS - continued

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

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Within 3 months	11,094	10,481
More than 3 months but within 6 months	3,537	9,731
	<u>14,631</u>	<u>20,212</u>

At 30 June 2020, trade creditors are amounts due to fellow subsidiaries of HK\$14,631,000 (31 December 2019: HK\$20,212,000) which are unsecured, interest-free and payable on presentation of invoices.

At 31 December 2019, included in construction fee payable were amounts due to fellow subsidiaries of HK\$177,000 which were unsecured, interest-free and payable on presentation of invoices.

At 30 June 2020, included in accruals and other payables were amounts due to fellow subsidiaries of HK\$72,000 (31 December 2019: HK\$21,000) which are unsecured, interest-free and payable on presentation of invoices.

14. SECURED BANK LOANS

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Secured term loans	6,800,000	6,800,000
Secured revolving loans	427,000	352,000
Loan front-end fee	(38,710)	(44,334)
	<u>7,188,290</u>	<u>7,107,666</u>
Less: Amount due within one year shown under current liabilities	<u>(427,000)</u>	<u>(352,000)</u>
Amount due after one year	<u>6,761,290</u>	<u>6,755,666</u>

14. SECURED BANK LOANS - continued

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

	At 30 June <u>2020</u> HK\$'000 (unaudited)	At 31 December <u>2019</u> HK\$'000 (audited)
Within one year	427,000	352,000
More than two years but not exceeding five years	6,761,290	6,755,666
	<u>7,188,290</u>	<u>7,107,666</u>

The secured term loans of HK\$6,800,000,000 (31 December 2019: HK\$6,800,000,000) are variable-rate borrowings, bearing interests at HIBOR plus 0.83% (31 December 2019: HIBOR plus 0.83%) per annum and are repayable in one lump sum on maturity date which will fall due in 2023 (31 December 2019: 2023). Secured revolving loans of HK\$427,000,000 (31 December 2019: HK\$352,000,000) are variable-rate borrowings, bearing interest at HIBOR plus 0.83% (31 December 2019: HIBOR plus 0.83%) per annum and are repayable in 2020 (31 December 2019: 2020). All bank loans are secured by the Groups' investment properties.

15. EVENTS AFTER THE REPORTING PERIOD

On 16 July 2020, the Groups announced the proposed transaction of raising up to approximately HK\$1,019 million by way of the rights issue on the basis of one rights share stapled unit for every two Share Stapled Units at the subscription price of HK0.95 each.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 OF LHIL MANAGER LIMITED  
 FOR THE SIX MONTHS ENDED 30 JUNE 2020

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	<u>NOTE</u>	Six Months Ended 30 June <u>2020</u> HK\$ (unaudited)	<u>2019</u> HK\$ (unaudited)
Revenue		-	-
Administrative expenses		(10,357)	(11,957)
Less: Amount borne by a fellow subsidiary		<u>10,357</u>	<u>11,957</u>
<b>Profit or loss before tax</b>		-	-
Income tax	4	<u>-</u>	<u>-</u>
<b>Profit or loss and total 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 2020

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	At 30 June <u>2020</u> HK\$ (unaudited)	At 31 December <u>2019</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 2020

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

The 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 dollar ("HK\$"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2019 that is included in these condensed financial statements as comparative information does not constitute the Company's statutory annual financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

2. BASIS OF PREPARATION - continued

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

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

3. PRINCIPAL 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 2020 are the same as those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019.

In the current interim period, the Company has applied, for the first time, 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 amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed financial statements.

4. INCOME TAX

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

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