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Great Eagle Holdings
Investor Presentation Q3 2019



A Leading Property and Hotel Company with Prime Assets in Global Gateway Cities

Long operating and listing history

- Founded in 1963 and listed since 1972
- 40+ years track record property development

Strong asset base with irreplaceable trophy properties

- Landmark properties in core locations in Hong Kong
- Irreplaceable properties in global gateway cities

Stellar returns and operational performance

- NAV has increased more than four-fold from HK\$20bn in 2006 to HK\$82bn as at the end of June 2019
- Strong financial position as at the end of June 2019

Competitive strengths

- Proactive asset management including timely asset disposals and acquisitions
- Scalable business model after expanded into asset-light hotel and asset management businesses



Highlights of 2019 Interim Results

- The Group has successfully launched ONTOLO, our 723-units luxury residential development project in Pak Shek Kok, Hong Kong. The launch, which took place at a time of large-scale protests across Hong Kong, managed to receive an overwhelmingly positive market response. The 362-rolled out units were a number of times oversubscribed and achieved almost a complete sell out.
- Furthermore, we have successfully disposed of all the remaining units along with Phase II of the Dalian mixed-use development project to an independent third party in July 2019. Gain on sale attributable to the Group will be booked in two stages, with approximately HK\$70 million targeted in the second half of 2019, and the remaining profit of approximately HK\$180 million targeted for 2020 only upon receipt of residual amount.
- In terms of acquisition, we have acquired a small car park site in front of our existing site in Seattle for US\$7.5 million in June 2019. This site will serve as auxiliary car parking facilities of our upcoming project.
- As for the first half of 2019, core operating income increased by 2.1% to HK\$1,318.0 million in the first half of the year, as higher income from Champion REIT had more than offset the decreases in EBITDA of the Hotels Division, net rental income and distribution from LHI.
- Other income of the Group declined by 92.4% to HK\$4.5 million in the first half of 2019, which was due to a high base for comparison. Administrative and other expenses rose by 30.6% to HK\$279.8 million in the first half of 2019 (1H 2018: HK\$214.3 million), the increase was mainly attributable to the write-off of fixed assets related to The Langham, Boston, which is undergoing major renovation works.
- As sale of individual residential units at the Dalian project was put on hold in preparation for a project sale, this has resulted in increased loss incurred for the Dalian development project in the first half of 2019. Hence, share of losses of joint ventures rose by 132.9% to HK\$17.0 million in the first half period. Profit attributable to equity holders dropped by 9.5% to HK\$820.5 million in the first half of 2019 (1H 2018: HK\$906.9 million).



2019 Interim Results

| | 1H 2019 | 1H 2018 | Change | |
|--|-------------------------|-------------------------|----------------------|-------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Gross Revenue | | | | |
| Rental Income | | | | |
| - HK | 98,980 | 101,368 | (2,388) | -2.4% |
| - Building mgt fee | 12,994 | 12,952 | 42 | 0.3% |
| Hotel Income | | | | |
| - Overseas | 1,937,142 | 1,972,912 | (35,770) | -1.8% |
| - Others | 86,254 | 87,571 | (1,317) | -1.5% |
| Income from Champion REIT* | 737,570 | 670,875 | 66,695 | 9.9% |
| Income from Langham Hosp. Investments* | 116,558 | 118,032 | (1,474) | -1.2% |
| Other Operations | 222,152 | 182,010 | 40,142 | 22.1% |
| | <u>3,211,650</u> | <u>3,145,720</u> | <u>65,930</u> | 2.1% |

* Based on attributable dividend income from Champion REIT and LHI in respect of the same financial period.



2019 Interim Results

| | 1H 2019 | 1H 2018 | Change | |
|--|------------------|------------------|-----------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Net Operating Income | | | | |
| Net Rental Income - HK | 87,076 | 90,142 | (3,066) | -3.4% |
| Hotel Income | | | | |
| - Overseas | 251,725 | 308,003 | (56,278) | -18.3% |
| - Others | 52,698 | 49,851 | 2,847 | 5.7% |
| Income from Champion REIT* | | | | |
| - Asset management | 151,514 | 141,211 | 10,303 | 7.3% |
| - Dividend income | 516,942 | 480,787 | 36,155 | 7.5% |
| - Agency commission | 69,114 | 48,877 | 20,237 | 41.4% |
| Income from Langham Hosp. Investments* | | | | |
| - Dividend income | 116,558 | 118,032 | (1,474) | -1.2% |
| Other Operations | 72,358 | 53,813 | 18,545 | 24.1% |
| Income before expenses | 1,317,985 | 1,290,716 | 27,269 | 2.1% |
| Other income | 4,473 | 59,399 | (54,926) | -1.0% |
| Depreciation and amortisation | (145,766) | (115,442) | (30,324) | 26.3% |
| Administrative and other expenses | (279,835) | (214,314) | (65,521) | 30.6% |

* Based on attributable dividend income from Champion REIT and LHI in respect of the same financial period.



2019 Interim Results

| | <u>1H 2019</u> | <u>1H 2018</u> | <u>Change</u> | |
|--|-----------------|-----------------|---------------|--------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Net finance costs | | | | |
| Finance cost | (86,478) | (86,575) | 97 | -4.3% |
| Interest income | 81,289 | 60,109 | 21,180 | -9.3% |
| | (5,189) | (26,466) | 21,277 | -80.4% |
| Share of results of associates | 449 | 362 | 87 | n.m. |
| Share of results of joint ventures | (16,958) | (7,297) | (9,661) | 132.4% |
| Profit before taxation | 875,159 | 986,958 | (111,799) | -11.3% |
| Income taxes | (53,746) | (81,273) | 27,527 | 10.3% |
| Net Profit | 821,413 | 905,685 | (84,272) | -9.3% |
| Less: Non-controlling interest | 899 | (1,165) | 2,064 | 3.7% |
| Profit Attributable to Shareholders | 820,514 | 906,850 | (86,336) | -9.5% |
| Basic earnings per share | \$ 1.17 | \$ 1.30 | | |



2019 Interim Results – Breakdown of Income from Champion REIT

| | <u>1H 2019</u> | <u>1H 2018</u> | <u>Change</u> | |
|--|-----------------------|-----------------------|----------------------|-------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Dividend received | 516,942 | 480,787 | 36,155 | 7.5% |
| Asset management income | 151,514 | 141,211 | 10,303 | 7.3% |
| Agency commission income & Property management income | 69,114 | 48,877 | 20,237 | 41.4% |
| | <u>737,570</u> | <u>670,875</u> | <u>66,695</u> | 9.9% |
| Distribution Per Unit declared in HK\$ | 0.13350 | 0.12530 | | 6.5% |
| Units held by Great Eagle in 000 | 3,872,228 | 3,837,085 | | 0.9% |



2019 Interim Results – Distribution from LHI

| | <u>1H 2019</u> | <u>1H 2018</u> | <u>Change</u> |
|--|------------------|------------------|---------------|
| Distribution Per Share Stapled Unit declared in HK\$ | 0.087 | 0.090 | -3.3% |
| Share Stapled Units held by Great Eagle in 000 | 1,339,751 | 1,311,471 | 2.2% |
| Shareholdings in LHIL | 66.10% | 62.48% | 5.8% |
| Dividend received in HK'000s | 116,558 | 118,032 | -1.2% |



Analysis on change on core income

| | 1H 2019 |
|---|------------------------|
| | \$'000 |
| Change in profit from core business after tax | <u>(86,336)</u> |
| Arise from: | |
| Increase in administration and other expenses (include HK\$40.9mn in fixed asset written off at The Langham, Boston) | (65,521) |
| Decrease in other income (primarily due to absence of amortisation income of historical tax credit) | (54,926) |
| Decrease in EBITDA from hotels division | (53,431) |
| Increase in losses of Joint Ventures | (9,661) |
| Increase in distribution income and management fee income from Champion REIT | 66,695 |
| Decrease in net finance cost | 21,277 |
| Increase in operating income from other operations | 18,545 |
| Others (mostly due to increased depreciation) | (9,314) |
| Change in profit from core business after tax | <u><u>(86,336)</u></u> |



Discount to NAV

NAV based on statutory accounting principles (June 2019)

| | HK\$m | HK\$/shr | % of Total |
|---|---------------|---------------|-------------|
| Investment properties Appraised valuation by independent valuer | 7,672 | 11.0 | 11% |
| Hotels All valued at cost less depreciation | 15,484 | 22.2 | 22% |
| Investment in JVs - Dalian and Miami project | 1,423 | 2.0 | 2% |
| Pak Shek Kok Development project (on cost incurred) | 4,400 | 6.3 | 6% |
| | HK\$m | HK\$/shr | |
| Statutory accounting treatments for Champion REIT and LHI | | | |
| Investment in Champion REIT: -66.10% share of Champion's Net Assets | 46,285 | 66.2 | 64% |
| Investment in U.S. Real Estate Fund - 49.97% share of Fund's NAV | 432 | 0.6 | 1% |
| Investment in Langham Hospitality Investments (LHI): Net liabilities from three HK hotels (calculated as book cost of the hotels less debt) | (1,988) | (2.8) | -3% |
| | 44,729 | 64.0 | 62% |
| Other net (liabilities)/assets | (1,848) | (2.6) | -3% |
| Total | 71,860 | 102.86 | 100% |
| Net debt | (149) | (0.21) | |
| Great Eagle's NAV | 71,711 | 102.64 | |
| Discount to NAV based on share price of HK\$30 | | | -71% |

Note: valuation on investment properties include owner-occupied portion

NAV based on net assets of Champion REIT, LHI and US Fund

| | HK\$m | HK\$/shr | % of Total |
|---|---------------|---------------|-------------|
| Investment properties Appraised valuation by independent valuer | 7,672 | 11.0 | 9% |
| Hotels All valued at cost less depreciation | 15,484 | 22.2 | 19% |
| Investment in JVs - Dalian and Miami project | 1,423 | 2.0 | 2% |
| Pak Shek Kok Development project (on cost incurred) | 4,400 | 6.3 | 5% |
| | HK\$m | HK\$/shr | |
| Share of net assets of Champion REIT and LHI | | | |
| Investment in Champion REIT: -66.10% share of Champion's Net Assets | 46,285 | 66.2 | 56% |
| Investment in U.S. Real Estate Fund - 49.97% share of Fund's NAV | 432 | 0.6 | 1% |
| -63.14% share of LHI's Net Assets Based on appraised valuation of LHI's hotels | 8,089 | 11.6 | 10% |
| | 54,806 | 78.4 | 67% |
| Other net (liabilities)/assets | (1,848) | (2.6) | -2% |
| Total | 81,937 | 117.28 | 100% |
| Net debt | (149) | (0.21) | |
| Great Eagle's NAV | 81,788 | 117.07 | |
| Discount to NAV based on share price of HK\$30 | | | -74% |



Financial position

(A) Base on statutory financial positions

| (HK\$ Million) | Book Carrying Value | Net Cash (Debt) | Net Equity | Loan to Value | Gearing | EBITDA | Net interest expense | Interest Cover |
|------------------------------|---------------------|-------------------------|------------|---------------|---------|--------|----------------------|----------------|
| Hong Kong/ PRC Assets | 72,469 | (10,398) | 62,071 | 14.3% | 16.8% | 1,593 | 324 | 4.9 |
| Overseas Assets | 12,325 | (2,685) | 9,640 | 21.8% | 27.9% | 204 | 42 | 4.9 |
| Group Total | 84,794 | (13,083) ^(c) | 71,711 | 15.4% | 18.2% | 1,797 | 366 | 4.9 |

(B) Base on core financial positions ^(a)

| | Book Carrying Value | Net Cash (Debt) | Net Equity | Loan to Value ^(b) | Gearing ^(b) | Core EBITDA | Net interest expense | Interest Cover |
|------------------------------|---------------------|----------------------|------------|------------------------------|------------------------|-------------|----------------------|----------------|
| Hong Kong/ PRC Assets | 69,941 | 2,730 | 72,671 | n/a | n/a | 870 | 7 | 124.3 |
| Overseas Assets | 11,996 | (2,879) | 9,117 | 24.0% | 31.6% | 218 | 33 | 6.6 |
| Group Total | 81,937 | (149) ^(c) | 81,788 | 0.2% | 0.2% | 1,088 | 40 | 27.2 |

Notes:

- (a) Core financial positions is arrived at sharing the net assets of Champion REIT, LHI and the US Fund. Core EBITDA and net interest expenses are arrived at the Group's profit from core business, and in particular based on dividend entitlement from the Champion REIT, LHI and the U.S. Fund.
- (b) Not applicable since it is in a net cash position.
- (c) Including other liquid investments such as investments in link notes, bonds and equities amounting to HK\$984 mn.



Valuation – Investment properties

Financials

As at the end of June 2019

Hong Kong investment properties

| | GFA (Sqft) | Valuation HK\$/psf | Cap rate | Change from end of Dec 2018 |
|--------------------------------|------------|-----------------------|----------|--------------------------------|
| Great Eagle Centre | | | | |
| Office | 193,271 | 26,776 | 2.9% | 0.2% |
| Retail | 55,944 | 10,099 | 4.5% | 0.5% |
| 3rd floor | 20,959 | 13,169 | | 0.4% |
| Carparks (nos/unit price) | 296 | 1,300,676 | | 0.8% |
| Signage (gross value in HK\$m) | | 137 | | 0.0% |
| Eaton House | | | | |
| Wanchai Gap Road | 34,915 | 11,428 | 3.7% | 4.5% |
| Village Road | 23,350 | 10,407 | 3.5% | 2.5% |
| Blue Pool Road | 33,700 | 11,602 | 3.2% | 2.4% |
| Convention Plaza apartments | 5,817 | 17,397 | | 0.8% |

Langham Hospitality Group





The Langham, London



The Langham, Boston



The Langham, Melbourne



The Langham, Sydney



Cordis, Auckland



Cordis, Hongqiao



The Langham, Pasadena



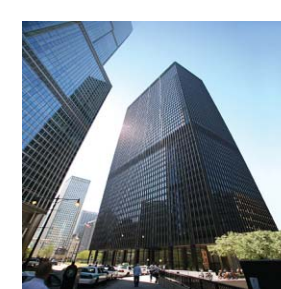
The Langham, Xintiandi



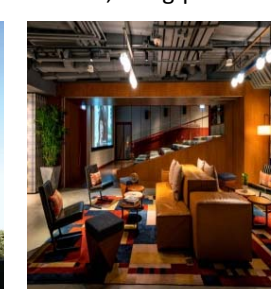
Chelsea Hotel, Toronto



The Langham, New York



The Langham, Chicago



Eaton, Washington D.C.

North America

Improved performances of The Langham, New York, Fifth Avenue, The Langham, Chicago and The Langham Huntington, Pasadena were not enough to offset loss at The Langham, Boston, which has been closed in April for renovations and ramp-up loss at Eaton Washington D.C.

Europe

Improve average room rates boosted profit for the Langham London

Australia/New Zealand

Declines in RevPAR at The Langham, Melbourne and The Langham, Sydney resulted in reduced EBITDA

China

Substantial improvement in RevPAR at the Cordis, Hongqiao, as the hotel continued to ramp up boosted EBITDA



Hotel portfolio – 1H 2019 Operational Statistics

| Occupancy | | | Average Room Rate | | | RevPar | | |
|-----------|---------|--------|-------------------|---------|--------|---------|---------|--------|
| 1H 2019 | 1H 2018 | Change | 1H 2019 | 1H 2018 | Change | 1H 2019 | 1H 2018 | Change |

Owned by subsidiary LHI

Hong Kong

| | | | | | | | | | |
|------------------------|-------|-------|-------|---------|---------|-------|---------|---------|-------|
| The Langham, Hong Kong | 90.0% | 90.6% | -0.6% | \$2,169 | \$2,270 | -4.5% | \$1,952 | \$2,057 | -5.1% |
| Cordis, Hong Kong | 94.4% | 95.2% | -0.8% | \$1,737 | \$1,749 | -0.7% | \$1,640 | \$1,666 | -1.6% |
| Eaton HK | 86.6% | 90.3% | -3.7% | \$1,063 | \$1,025 | 3.7% | \$920 | \$925 | -0.5% |

Wholly-owned hotels

Europe

| | | | | | | | | | |
|---------------------|-------|-------|-------|------|------|------|------|------|------|
| The Langham, London | 72.9% | 74.1% | -1.1% | £356 | £336 | 6.0% | £260 | £249 | 4.4% |
|---------------------|-------|-------|-------|------|------|------|------|------|------|

North America

| | | | | | | | | | |
|-------------------------------------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
| The Langham, Boston | 59.2% | 74.7% | -15.4% | \$233 | \$290 | -19.7% | \$138 | \$217 | -36.3% |
| The Langham, Huntington Pasadena | 68.3% | 72.2% | -3.9% | \$285 | \$278 | 2.4% | \$195 | \$201 | -3.1% |
| The Langham, Chicago | 73.1% | 70.1% | 3.0% | \$383 | \$377 | 1.6% | \$280 | \$265 | 5.9% |
| The Langham, New York, Fifth Avenue | 81.1% | 79.0% | 2.0% | \$523 | \$509 | 2.8% | \$424 | \$402 | 5.4% |
| Eaton Washington DC | 53.3% | - | - | \$272 | - | - | \$145 | - | - |
| Chelsea Hotel, Toronto | 75.9% | 79.2% | -3.3% | \$168 | \$161 | 4.4% | \$128 | \$128 | 0.1% |

Pacific

| | | | | | | | | | |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| The Langham, Melbourne | 86.5% | 87.4% | -0.9% | \$311 | \$314 | -1.1% | \$269 | \$274 | -2.1% |
| The Langham, Sydney | 81.5% | 82.3% | -0.8% | \$458 | \$454 | 0.9% | \$373 | \$374 | -0.1% |
| Cordis, Auckland | 85.1% | 77.5% | 7.6% | \$225 | \$244 | -8.0% | \$191 | \$189 | 1.1% |

China

| | | | | | | | | | |
|----------------------------------|-------|-------|-------|---------|---------|-------|---------|---------|-------|
| The Langham, Xintiandi, Shanghai | 78.9% | 81.1% | -2.2% | ¥ 1,614 | ¥ 1,671 | -3.4% | ¥ 1,273 | ¥ 1,355 | -6.0% |
| Cordis, Hongqiao | 59.5% | 49.8% | 9.7% | ¥ 921 | ¥ 890 | 3.5% | ¥ 548 | ¥ 443 | 23.5% |



Hotel portfolio – 1H 2019 Room and F&B revenue growth (in local currency)

| | Room revenue growth YTD-June 2019 | F&B revenue growth YTD-June 2019 |
|--|--------------------------------------|-------------------------------------|
| The Langham, London | 4% | 6% |
| The Langham, Boston (closed from April 2019 for renovations) | -68% | -62% |
| The Langham, Huntington Pasadena | -3% | 7% |
| The Langham, Chicago | 6% | 11% |
| The Langham, Fifth Avenue, New York | 5% | 6% |
| Delta Chelsea Toronto | 0% | -3% |
| The Langham, Melbourne | -2% | -11% |
| The Langham, Sydney | -2% | -11% |
| Cordis, Auckland | 0% | 8% |
| The Langham, Xintiandi, Shanghai | -6% | 3% |
| Cordis, Hongqiao, Shanghai | 24% | 19% |



Hotel portfolio – Profit contribution

| <u>Owned Hotels</u> | 1H 2019 | 1H 2018 | Change | in HK\$ | |
|--|-----------------|-----------------|---------------|-------------------|----------------------------------|
| | in 'mn in LC | in 'mn in LC | | 1H 2019 in 'mn | Contribution to hotel profits |
| Europe | £5.6 | £4.6 | 21.3% | 56.4 | 22% |
| UK (The Langham, London) | | | | | |
| North America | | | | | |
| U.S. (The Langham, Boston, Chicago, New York L.A., and Eaton Washington D.C.) | (US\$1.3) | US\$6.1 | -121.3% | -10.3 | -4% |
| Canada (Chelsea) | C\$13.6 | C\$13.1 | 3.8% | 79.6 | 32% |
| Australia/New Zealand | | | | | |
| Australia (The Langham, Melbourne and Sydney) | A\$5.1 | A\$6.3 | -19.0% | 28.0 | 11% |
| New Zealand (Cordis, Auckland) | N\$4.6 | N\$4.5 | 2.2% | 24.5 | 10% |
| China | | | | | |
| The Langham, Xintiand and Cordis, Hongqiao | RMB63.6 | RMB54.8 | 16.1% | 73.5 | 29% |
| Total in HK\$' mn | \$251.7 | \$308.0 | -18.3% | 251.7 | 100% |



Hotel portfolio – Currency impact

| | <u>Jun-19</u> | <u>Jun-18</u> | yoy change | Variance in profit contribution (in HK\$ mn) |
|-------|---------------|---------------|------------|---|
| GBP | 10.1472 | 10.7796 | -5.9% | (4.3) |
| CAD | 5.8805 | 6.1363 | -4.2% | (4.0) |
| AUD | 5.5378 | 6.0450 | -8.4% | (3.5) |
| USD | 7.8433 | 7.8378 | 0.1% | (0.0) |
| NZD | 5.2708 | 5.6056 | -6.0% | (2.0) |
| RMB | 1.1555 | 1.2305 | -6.1% | (5.5) |
| Total | | | | - HK\$ 19.2 mn |



Managed Hotels

| | |
|---------------------------------|--------------|
| 2010 | Rooms |
| Cordis, Beijing Capital Airport | 372 |
| 2012 | Rooms |
| The Langham, Shenzhen | 352 |
| 2013 | Rooms |
| Langham Place Guangzhou | 500 |
| 2014 | Rooms |
| Langham Place Ningbo | 143 |
| Langham Place, Xiamen | 327 |
| 2015 | Rooms |
| Langham Place, Haining | 263 |
| 2016 | Rooms |
| The Langham Haikou | 249 |
| 2018 | Rooms |
| The Langham, Hefei | 339 |
| 2019 | Rooms |
| Cordis, Dongqian Lake, Ningbo | 238 |



Hotel pipeline

| 2019 | Rooms | Status |
|---|-------|-------------|
| Cordis, Hangzhou | 184 | Agreement |
| 2020 | Rooms | Status |
| Cordis, Shanghai East Bund | 161 | Agreement |
| The Langham, Jakarta | 225 | Agreement |
| The Langham, Changsha | 296 | Agreement |
| 2021 | Rooms | Status |
| Cordis, Yuhu Lake, Chongqing | 202 | Agreement |
| The Langham Turtle Bay, Queensland, Australia | 58 | Agreement |
| Cordis, Hangzhou | 175 | Agreement |
| 2022 and after | Rooms | Status |
| The Langham, Tokyo | 280 | Owned hotel |
| The Langham, Chengdu | 231 | Agreement |
| Eaton, San Francisco | 180 | Owned hotel |
| Cordis, Baoshan, Shanghai | 262 | Agreement |
| Cordis, Xiamen | 400 | Agreement |
| The Langham, San Francisco | 410 | Owned hotel |
| The Langham, Nanjing | 230 | Agreement |
| A hotel in Seattle | 173 | Owned hotel |

Hotel pipeline does not include management contracts under Technical Service Agreement (TSA)

Investment properties





1H 2019 - Rental income breakdown

| | Gross rental income | | | Net rental income | | |
|--|---------------------|--------------|------------|-------------------|-------------|--------------|
| | 1H 2019 | 1H 2018 | Growth (%) | 1H 2019 | 1H 2018 | Growth (%) |
| (in HK\$ mn) | | | | | | |
| Hong Kong Investment Properties | | | | | | |
| Great Eagle Centre | 69.2 | 71.0 | (2.6) | 67.6 | 69.6 | (3.0) |
| Eaton Residence Apartments | 26.8 | 27.7 | (3.4) | 16.7 | 18.2 | (8.3) |
| Others (Building mgt income, rental income at convention plaza and other properties) | 16.0 | 15.6 | 2.9 | 2.8 | 2.3 | 22.0 |
| Total | 112.0 | 114.3 | 0.4 | 87.1 | 90.1 | (3.4) |

- Gross rental income for the Great Eagle Centre dropped by 2.5% to HK\$69.2 million in the first half of 2019, which was mainly attributable to the absence of rental income after the expiry of leases on office space reserved for our in-house expansion. Net rental income dropped by 2.9% to HK\$67.6 million.
- Reduced demand from the corporate segment has led to lower occupancy of the portfolio, gross rental income of Eaton Residence Apartments dropped by 3.2% year-on-year to HK\$26.8 million in the first half of the 2019, and net rental income dropped by 8.2% year-on-year to HK\$16.7 million for the first half of 2019.



U.S. Fund

The Austin, San Francisco

Construction work was completed by December 2017. The project was completed in December 2017 and was highly acclaimed by Wallpaper Magazine as an embodiment of Californian modernism. Out of 100 units, 90 units were sold and delivered to buyers by the end of June 2019. The profitability of this small project would be minimal.

Cavalleri, Malibu

While the Fund received offers from institutional buyers for an en-bloc sale of the project in late 2018, the sale failed to come through after a severe fire broke out in the area. Notwithstanding, the interest from buyers is currently low and the Fund is not actively marketing the project in the meantime. A loss is expected from this investment on disposal.

Dexter Horton, Seattle

The U.S. Fund had successfully disposed of the property for US\$151 million in December 2018. However, the Fund has decided not to make a distribution in order to retain liquidity in case of difficulty in loan refinancing in relation to the Fund's other development projects.



Development projects I

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Dalian Mixed-use Development Project

- The Group successfully entered into a sale agreement with a third party in July 2019 in respect of all the remaining unsold units of Phase I together with the site for Phase II of the project. Gain on sale will be booked in two stages.

Tokyo Hotel Redevelopment Project

- The site with an initial gross floor area of about 350,000 sq. ft. has been expanded to approximately 379,100 sq. ft. after the acquisition of three small adjacent sites and application for a higher plot ratio. Planning application has been submitted with construction is expected to commence in 2020.

Pak Shek Kok Residential Development Project

- The presale permit was approved in June 2019 and the first batch of the project for pre-sale was launched in July 2019. Accumulated sales have reached approximately half of our total unit count as at the end of August 2019.

U.S. hotel and mixed-use redevelopment projects

- Constructions will commence after proposed developments have been approved by the town's planning department for the sites at 555 Howard Street, 1125 Market Street and 1931 Second Avenue.



Development projects II

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Cordis, Auckland expansion project

- In order to maximise the plot ratio of the site for the Cordis, Auckland, the Group applied for the construction of an additional 244 rooms on the site, which was subsequently approved by the local planning department. Construction commenced in March 2019 and is scheduled to complete ahead of the 2021 Auckland APEC summit

Chelsea Hotel Redevelopment Project

- In order to ensure the highest and best use of this site, the Group has submitted a development proposal to redevelop this site into a mixed-use project with a 400-key hotel, two residential towers and other commercial space which would more than double the existing aggregate gross floor area.
- After lengthy negotiations with City Planning, the Group secured the Entitlement Rights per our development application at the end of 2018. The Group will submit a Site Permit application to the City Planning in the second half of 2019 and we expect to receive Construction Permit approval in two to three years' time after our application submission. The Group is presently soliciting proposals from well-established Toronto property developers to explore potential joint-venture options that would reduce our market exposure while leveraging off local market expertise.



Outlook for the Group's results

For LHI, the lag effect of the recent protests will affect our hotel's businesses at least over the second half of 2019. In fact, all three hotels have witnessed substantially lower RevPARs in July and August of 2019. Furthermore, unless the protests in Hong Kong come to complete halt soon, we expect the pace of hotel room bookings to deteriorate materially in the months ahead.

As for the Hotels Division, given macroeconomic outlook is now more uncertain than usual, this will negatively affect global travel demand, and we expect there will be increased pressure on EBITDA of the overseas hotels in the second half of the year as trading conditions are expected to deteriorate. Furthermore, the lack of revenue contribution from The Langham, Boston throughout the second half of 2019 will also hold back revenue of the Hotels Division in the second half of 2019.

For Champion REIT, the leasing strategy for Three Garden Road would focus on maintaining high occupancy. Given the considerable gap between passing rents and market rents, positive rental reversion of the property should continue. Similarly, Langham Place Office should also stand to gain from positive rental reversion with the gradual consolidation of its lifestyle positioning. However, the outlook of Hong Kong retail market remains highly uncertain. RMB fluctuation and current social unrest have dampened retail sales and the stalled retail environment would significantly impact the turnover rent portion of Langham Place Mall for the rest of 2019, as seen in July and August 2019 preliminary figures.



Reconciliation to core earnings from reported

| | Reported earnings 1H 2019 <u>HK\$'000</u> | Core earnings 1H 2019 <u>HK\$'000</u> | Core earnings 1H 2018 <u>HK\$'000</u> | |
|---|---|---|---|---|
| Gross Revenue | | | | |
| Rental Income | | | | |
| - HK | 98,980 | 98,980 | 101,368 | |
| - Building mgt fee inc | 12,994 | 12,994 | 12,952 | |
| Hotel Income | | | | |
| - HK hotels revenue | 810,204 | - | - | - Core revenue ignores revenue of HK hotels after the spin off |
| - Overseas | 1,937,142 | 1,937,142 | 1,972,912 | |
| - Others | 86,254 | 86,254 | 87,571 | |
| Income from Champion REIT | | | | |
| - Management fee income | 220,628 | 220,628 | 190,088 | - Ignore, core profit base on distributions |
| - Gross rental income | 1,552,942 | | | - Add back distributions of Champion REIT |
| - Distributions | | 516,942 | 480,787 | |
| Income from Langham Hosp. Investments | | | | |
| - Gross rental income | 295,523 | | | - Ignore, core profit base on distributions |
| - Distributions | | 116,558 | 118,032 | - Add back distributions of LHI |
| Income from U.S. Real Estate Fund | 35,190 | | | - Ignore, core profit base on distributions |
| Other Operations | 222,152 | 222,152 | 182,010 | |
| Elimination of intra-group transactions | (574,796) | | | - Ignore intra-group elimination associated with CREIT, LHI and US fund |
| Revenue | <u>4,697,213</u> | <u>3,211,650</u> | <u>3,145,720</u> | |



Reconciliation to core earnings from reported

| | Reported earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2018</u> HK\$'000 | |
|---|---|---|---|---|
| Net Operating Income | | | | |
| Net Rental Income - HK | 87,076 | 87,076 | 90,142 | |
| Hotel Income - Overseas | 251,725 | 251,725 | 308,003 | |
| - Others | 52,698 | 52,698 | 49,851 | |
| Income from Champion REIT | | | | |
| - Management fee income | 220,628 | 220,628 | 190,088 | |
| - Net rental income | 1,111,105 | | | - Ignore net rental income, core profit base on distributions |
| - Distributions | | 516,942 | 480,787 | - Add back distributions of Champion REIT |
| Income from Langham Hosp. Investments | 277,255 | | | - Ignore income of the HK hotels, base on distributions |
| - Distributions | | 116,558 | 118,032 | - Add back distributions of LHI |
| Operating income from U.S. Real Estate Fund | (7,244) | | | - Ignore operating income of US fund, core profit base on distributions |
| Other Operations | 72,358 | 72,358 | 53,813 | |
| Elimination of intra-group transactions | (22,920) | | | |
| Operating profit | 2,042,681 | 1,317,985 | 1,290,716 | |



Reconciliation to core earnings from reported

| | Reported earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2018</u> HK\$'000 | |
|--|---|---|---|--|
| Operating profit before Dep. and Amortisation | 2,042,681 | 1,317,985 | 1,290,716 | |
| Depreciation and amortisation | (385,365) | (145,766) | (115,442) | - Exclude depreciation of CREIT, LHI and US Fund, add back depreciation relating to hotel land and buildings |
| Fair value changes on investment properties | 2,500,153 | | | - Ignored in core earnings calculation |
| Fair value changes on derivative financial instruments | (90,837) | | | - Ignored in core earnings calculation |
| Fair value changes of financial assets designated at FVTPL | 27,682 | | | - Ignored in core earnings calculation |
| Other income (excluding interest income) | 3,993 | 4,473 | 59,399 | - Ignore other income of CREIT, LHI and the US fund |
| Administrative expenses and other expenses | (298,121) | (279,835) | (214,314) | - Exclude admin. expense of CREIT, LHI and US fund |



Reconciliation to core earnings from reported

| | Reported earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2019</u> HK\$'000 | Core earnings <u>1H 2018</u> HK\$'000 | |
|---|---|---|---|--|
| Net finance costs | | | | |
| Finance cost | (432,777) | (86,478) | (86,575) | - Exclude interest expense of CREIT, LHI and US fund |
| Interest income (Classified as "Other income" on income statement) | 102,212 (330,565) | 81,289 (5,189) | 60,109 (26,466) | - Exclude interest income of CREIT, LHI, US fund |
| Share of results of associates | 449 | 449 | 362 | |
| Share of results of joint ventures | (16,958) | (16,958) | (7,297) | |
| Profit before tax | 3,453,112 | 875,159 | 986,958 | |
| Income taxes | (223,146) | (53,746) | (81,273) | -Exclude taxes of CREIT, LHI and US fund |
| Net Profit | 3,229,966 | 821,413 | 905,685 | |
| Less: Non-controlling interest | 1,070,750 | 899 | (1,165) | - Exclude non-controlling interest of CREIT, LHI and US fund |
| Profit Attributable to Shareholders | 2,159,216 | 820,514 | 906,850 | |
| Basic earnings per share | \$ 3.09 | \$ 1.17 | \$ 1.30 | |