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THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00045) website: www.hshgroup.com

2018 Interim Results

HIGHLIGHTS

- Revenue grew by 10% to HK\$2,850 million (2017: HK\$2,596 million) and EBITDA grew by 18% to HK\$664 million (2017: HK\$561 million)
- Including our share of associates and a joint venture, revenue and EBITDA amounted to HK\$3,118 million and HK\$720 million respectively (2017: HK\$2,847 million and HK\$630 million)
- Profit attributable to shareholders amounted to HK\$644 million (2017: HK\$519 million), inclusive of net property revaluation gain of HK\$391 million (2017: HK\$359 million)
- Earnings per share increased by 24% to HK\$0.41 (2017: HK\$0.33)
- Underlying profit* increased by 41% to HK\$255 million (2017: HK\$181 million)
- Our balance sheet remains strong with 12% net debt to total assets and we have 10.9 times cash interest cover
- Interim dividend of 5 HK cents per share (2017: 4 HK cents per share)
- Shareholders' funds as at 30 June 2018 amounted to HK\$38,610 million (31 December 2017: HK\$38,175 million) or HK\$24.03 per share (31 December 2017: HK\$24.02 per share)

* *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items*

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2018	2017	Increase/ (Decrease)
Consolidated Statement of Profit or Loss (HK\$m)			
Revenue	2,850	2,596	10%
EBITDA	664	561	18%
Operating profit	391	319	23%
Profit attributable to shareholders	644	519	24%
Earnings per share (HK\$)	0.41	0.33	24%
Underlying profit *	255	181	41%
Interim dividend	80	63	27%
Interim dividend per share (HK cents)	5	4	25%
Interim dividend cover (times) **	3.2x	2.9x	10%
Interest cover (times) ^Δ	13.0x	4.8x	171%
Cash interest cover (times) ^{ΔΔ}	10.9x	9.7x	12%
Weighted average gross interest rate	2.4%	2.2%	0.2pp
	As at 30 June 2018	As at 31 December 2017	
Consolidated Statement of Financial Position (HK\$m)			
Total assets	48,164	48,520	(1%)
Net assets attributable to shareholders	38,610	38,175	1%
Adjusted net assets attributable to shareholders #	42,306	41,725	1%
Net assets per share (HK\$)	24.03	24.02	–
Adjusted net assets per share (HK\$) #	26.33	26.26	–
Net borrowings	5,835	5,521	6%
Funds from operations to net debt ##	20%	21%	(1pp)
Net debt to equity attributable to shareholders	15%	14%	1pp
Net debt to total asset	12%	11%	1pp
	For the six months ended 30 June 2018	2017	
Condensed Consolidated Statement of Cash Flows (HK\$m)			
Net cash generated from operating activities	646	463	40%
Capital expenditure on existing assets			
– The Peninsulas in Beijing and Chicago and 21 avenue Kléber	(95)	(204)	(53%)
– Others	(105)	(119)	(12%)
Capital expenditure on new projects	(678)	(347)	95%
Share Information (HK\$)			
Highest share price	13.48	14.16	
Lowest share price	10.76	8.27	
Period end closing share price	11.20	14.10	

* Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items

** Interim dividend cover is calculated as underlying profit over interim dividend

^Δ Interest cover is calculated as operating profits divided by net financing charges (excluding financing charges capitalised)

^{ΔΔ} Cash interest cover is calculated as EBITDA divided by net interest paid

Adjusted net assets attributable to shareholders and adjusted net assets per share are calculated by adjusting the Group's hotels and golf courses to fair market value based on the valuation conducted by independent property valuers, net of tax

Being annualised EBITDA less tax paid and net interest paid as a percentage of net debt

pp Denotes percentage points

CEO's Strategic Review

Introduction

We are pleased to report a positive set of results for the first half of 2018, with improvements recorded across most markets in which we operate and some strong operational performances, in particular in our key market of Hong Kong. We are optimistic for the overall outlook for the luxury travel and tourism sector for the remainder of 2018.

Our company continues to be steadfast in its commitment to the long term, improving and developing our assets and operations to ensure a sustainable future. The continued focus of our efforts is on enhancing the quality of our existing assets and operations whilst improving our overall financial performance. We have put an increased emphasis on digital marketing and technology transformation, and we are focused on the continued development of our new hotel projects in London, Istanbul and Yangon, as well as the expansion of the Peak Tram.

Our company is dedicated to further strengthening its brand and recognition as one of the world's finest luxury hotel groups. We are promoting our employer brand with the objective of hiring and training talented people who have the potential to become our future leaders. It is our people who are at the heart of our brand and who have helped us build and operate Peninsula hotels which are regarded as being among the best in the world, and I am most grateful for the continued efforts of my team.

Within the context of our long-term strategy and in the light of the global market uncertainties, the operating results for the period in review were pleasing. Group EBITDA increased by 18% to HK\$664 million for the first six months of 2018, and the Group's combined EBITDA, including its effective share of EBITDA of associates and joint ventures, increased by 14% from the previous year to HK\$720 million. Underlying profit increased by 41% to HK\$255 million.

Hotels Division

Hotels	Revenue 2018 HK\$m	Variance YoY	
		In HK\$	In Local Currency
Consolidated Hotels			
The Peninsula Hong Kong	660	+9%	+9%
The Peninsula Beijing	153	+65%	+53%
The Peninsula New York	331	+6%	+6%
The Peninsula Chicago	265	+6%	+6%
The Peninsula Tokyo	434	+8%	+4%
The Peninsula Bangkok	146	+27%	+15%
The Peninsula Manila	116	-2%	+3%
Non-consolidated Hotels			
The Peninsula Shanghai	306	+10%	+2%
The Peninsula Beverly Hills	296	-8%	-8%
The Peninsula Paris	280	+17%	+6%

Asia

The Peninsula Hong Kong		Variance YoY
Revenue	HK\$660m	+9%
Occupancy		-1pp
Average Room Rate		+23%
RevPAR		+22%

The Peninsula Hong Kong is celebrating its 90th anniversary in 2018 and we are delighted that the hotel was recognised as “Best City Hotel in Hong Kong” by *Travel + Leisure* 2018 World’s Best Awards. Overnight tourist arrivals to Hong Kong increased by 6% in the first half of 2018 and we believe the tourism market outlook is robust for the second half, which is Hong Kong’s traditional peak season. The Peninsula Hong Kong reported a significant increase in average rate and RevPAR for the first six months, driven by strong suite sales, guest direct business and changes to our rate strategy. Business from long-haul markets such as the US, UK and Middle East recorded solid year-on-year gains. Our food and beverage division performed strongly, with most restaurants enjoying increased patronage and higher average spend. *Spring Moon* has benefited from its Michelin star rating for the second year in a row and our signature Peninsula Afternoon Tea continued to attract queues on a daily basis in *The Lobby*. The luxury retail market is still recovering and recent momentum is positive. The Peninsula Arcade was 88% occupied with a number of new tenants and renewals successfully signed. We were honoured to host the “Botero Sojourn” from May 2018 until the end of the year, which is a collection of sixteen iconic paintings and sculptures from the famous Colombian artist Fernando Botero.

The Peninsula Shanghai		Variance YoY
Revenue	RMB249m	+2%
Occupancy		0pp
Average Room Rate		+3%
RevPAR		+3%

The Peninsula Shanghai remained the RevPAR and average rate leader in our competitive set for the first half of 2018, driven by a large number of suite bookings and high-end groups, particularly during the Shanghai Film Festival which was held in June 2018. We have expanded our presence in Chinese social media to attract additional guests through online platforms, including WeChat and DianPing, and as a result we have seen strong growth from the domestic Chinese mainland market during the first half of 2018. We were delighted that *Sir Elly’s Terrace* at The Peninsula Shanghai was the only bar in mainland China to be recognised as one of “The 10 Best Rooftop Bars in the World” by *Condé Nast Traveler* in May 2018, and The Peninsula Shanghai remained the only hotel in mainland China to have two restaurants with Michelin stars. The Peninsula Arcade was 89% occupied in the first half and recent leasing momentum has been positive. No.1 Waitanyuan, the former British Consulate building located adjacent to the hotel which has been fully managed and operated by The Peninsula Shanghai since 2017, has diversified its service offerings and increased its food and beverage revenue.

The Peninsula Beijing		Variance YoY
Revenue	RMB124m	+53%
Occupancy		+14pp
Average Room Rate		-11%*
RevPAR		+16%

* compared to 110 rooms in 1H 2017

The Peninsula Beijing has undergone a complete transformation with an extensive renovation converting its previous 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China. Following the renovation we were delighted to be included in the 2018 *Condé Nast Traveler Hot List*, an elite selection of the best hotel openings from the past year. The hotel’s RevPAR and occupancy showed positive growth year-on-year, and for the last several months we have been the rate leader in our competitive set. We are focusing on driving diplomatic and high-level groups business and have welcomed some heads of state to the hotel in the first six months. We have launched new marketing campaigns to promote our food and beverage business and in June 2018 the new rooftop bar *YUN Summer Lounge* opened, offering sweeping city views. The Peninsula Arcade has retained most of its top luxury tenants and has also welcomed new luxury brands to the Arcade. We were delighted to receive the first-ever BREEAM “good” certification in Beijing for a newly renovated building, which is a significant achievement aligned with our strategy to promote sustainable luxury. 2018 marks Turkish Tourism Year in China and The Peninsula Beijing is supporting the occasion through our appreciation of art: over the course of the year, the hotel will be welcoming four renowned Turkish artists to take up residency at the hotel and showcase their work.

The Peninsula Tokyo		Variance YoY
Revenue	JPY6.01b	+4%
Occupancy		+2pp
Average Room Rate		+5%
RevPAR		+8%

The Peninsula Tokyo was awarded first place in the “Top 10 City Hotels” in the 2018 *Travel + Leisure World’s Best Awards* for the second consecutive year. The first six months of 2018 were positive with improved RevPAR positioning, average rates and increased occupancy. This was due to our strategy to drive suite occupancy, which was particularly successful during the peak *sakura* (cherry blossom) season in February and March. Domestic travel was slightly softer although this was offset by increased business from the US, United Arab Emirates and Thailand, and the Chinese mainland business also remained strong. *Peter* restaurant performed well, and we have implemented an exciting collaboration with four award-winning Japanese artisan chefs during a limited edition culinary series which was well received by guests.

The Peninsula Bangkok		Variance YoY
Revenue	THB592m	+15%
Occupancy		+11pp
Average Room Rate		-1%
RevPAR		+15%

The Peninsula Bangkok is celebrating its 20th anniversary in 2018 and is offering 20 immersive cultural experiences for guests throughout the year, ranging from a sunset helicopter journey and golf at Thai Country Club, to Thai wellness and spirituality experiences. The hotel reported a strong recovery in the first half of 2018 with double digit growth in RevPAR and occupancy, following the end of the one-year mourning period for His Majesty King Bhumibol Adulyadej of Thailand. We welcomed increasing numbers of visitors from the Chinese mainland, Japan, Singapore and Australia and our strategy continued to focus on driving MICE (Meetings, Incentives, Conferences and Exhibitions) business and suite bookings. Food and beverage performed well with double-digit revenue growth, with strong business at *Thiptara* and *the River Café & Terrace*.

The Peninsula Manila		Variance YoY
Revenue	PHP771m	+3%
Occupancy		+5pp
Average Room Rate		+1%
RevPAR		+8%

The Peninsula Manila experienced an improved first half of 2018 with RevPAR, occupancy and average rates increasing over the same period last year. The country's economy continues to grow. We reported almost double the number of Chinese mainland visitors compared to the same period in 2017 and increased visitors year-on-year from the Japan, Australia, India and Korea markets. A shift in rate strategy focusing on guest direct and the domestic market has helped business during the first six months of the year. To celebrate biodiversity, organic local produce and sustainable seafood, our fine dining restaurant *Old Manila* partnered with local Holy Carabao Farms to create a series of signature dining experiences that celebrated the best of Philippine cuisine, which was well received by guests.

US

The Peninsula New York		Variance YoY
Revenue	US\$42m	+6%
Occupancy		+1pp
Average Room Rate		+4%
RevPAR		+5%

The Peninsula New York is celebrating its 30th anniversary in 2018 and has designed a series of 30 curated experiences for guests, including a partnership with Rolls-Royce Motor Cars to launch their new 2018 Phantom in April 2018, and a “Summer Social” at the hotel’s rooftop bar, *Salon de Ning*. The results for the first six months of 2018 were positive compared to the same period over the previous year, which is a creditable result in the light of intense competition in New York City. The Middle East market segment continues to be impacted by travel restrictions and this remains a concern for the second half of the year. We continued to drive food and beverage revenue and saw strong growth at *Clement* restaurant. Throughout the remainder of 2018, as part of the 30th anniversary celebrations, we will be displaying a curated art exhibition celebrating artists who were prominent in the 1980s. The exhibition, installed throughout the public spaces of the hotel, features a collection of original works of Andy Warhol, Francesco Clemente, Keith Haring, Jean-Michel Basquiat and Barbara Kreuger.

The Peninsula Chicago		Variance YoY
Revenue	US\$34m	+6%
Occupancy		+3pp
Average Room Rate		+5%
RevPAR		+11%

The Peninsula Chicago reported positive results in the first half of 2018, maintaining its position as RevPAR and average rate leader in its competitive set in the city, following the completion of the hotel’s major renovation in April 2016. We were delighted to open a stunning new rooftop bar, *Z Bar*, in June 2018, which brings together exciting new concepts, skilled industry leaders and expert hosting skills. The reaction from guests and media has been very positive.

We remain optimistic for the second half, when our hotel will continue its participation in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. Our “Keys to the City” programme, which provides guests with special access to Chicago’s top restaurants and tourist attractions, has proven popular with guests.

The Peninsula Beverly Hills		Variance YoY
Revenue	US\$38m	-8%
Occupancy		-5pp
Average Room Rate		-5%
RevPAR		-11%

We were delighted that **The Peninsula Beverly Hills** was once again voted “The Best Hotel in the US” by *Global Traveler* magazine and remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993. The hotel reported a drop in average rates, occupancy and RevPAR over the previous year, which was in line with the market and partially due to increased competition with the opening of a new five-star luxury hotel in the immediate vicinity of our hotel. However, we have a loyal clientele with a high rate of return and we will continue to nurture long-term relationships with our guests. The travel bans as well as political tension in the Middle East region has led to decreased business from this traditionally strong market. We are controlling costs and implementing strategies to attract group business from other markets such as Australia and Europe to counteract and minimise the impact. In April, we completed a redesign of the hotel’s 195 guest rooms and furnishings, and entered into a new partnership with BMW of North America which offers guests the use of a BMW vehicle during their stay. As part of our sustainability strategy, since April 2018, the hotel has offered complimentary valet parking to all drivers of zero-emission electric vehicles.

Europe

The Peninsula Paris		Variance YoY
Revenue	EUR30m	+6%
Occupancy		+3pp
Average Room Rate		-2%
RevPAR		+5%

The Peninsula Paris reported a better first half of 2018, with increased RevPAR and occupancy over the previous year, despite intense competition in the luxury sector. Food and beverage revenue was robust, particularly from the rooftop restaurant *L’Oiseau Blanc* which offers 360-degree views over Paris and is the location for numerous high-profile events, as well as *Le Bar Kléber*. The recent geopolitical developments in the Middle East have added uncertainty to our business from that region although we welcomed increasing business from Qatar and United Arab Emirates to offset the decline from Saudi Arabia. In collaboration with The Peninsula Beverly Hills, The Peninsula Paris initiated a “Made in California” culinary adventure for summer 2018, taking inspiration from healthy Californian culinary trends and healthy eating principles.

Commercial Properties Division

Commercial Properties	Revenue HK\$m	Variance YoY	
		In HK\$	In Local Currency
The Repulse Bay Complex	313	+1%	+1%
The Peak Tower	100	+3%	+3%
St. John's Building	27	+3%	+3%
The Landmark	20	+1%	+1%
21 avenue Kléber	12	n/a	n/a

The Repulse Bay Complex performed satisfactorily in the first six months of 2018 as we saw a stabilisation of the luxury residential market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is one of the finest luxury residential properties in Hong Kong, and we have seen satisfactory rental renewals despite the soft market across the city. Food and beverage revenue remained flat in the first half and we are implementing summer promotions and packages to drive business. We opened a new outdoor terrace, *breeze*, in early 2018 to take advantage of beautiful views across the bay. We are also exploring a variety of collaborations together with The Peninsula Hong Kong to drive revenue.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 88% occupied. We are actively seeking the right mix of tenants to suit the residential community and we have taken positive steps to fill the vacant spaces.

The Peak Tower was almost fully leased in the first six months of 2018 and revenue grew by 3%. The Peak Tower generates its revenue from commercial leasing and from admission fees to the open-air rooftop attraction Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 performed strongly in the first half.

St John's Building, located at the lower terminus of the Peak Tram, was fully let during the first half and revenue increased by 3% over the same period last year.

The Landmark in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments and office and retail space, reported an increase in revenue in local currency terms, despite a highly competitive market situation in Ho Chi Minh City.

The renovation of **21 avenue Kléber** was completed in 2017. The property offers a convenient location immediately adjacent to The Peninsula Paris on Avenue Kléber, in a chic neighbourhood a short walk from the Arc de Triomphe. The building has been restored in keeping with its heritage, preserving the spacious terraces and a large courtyard while opening up and modernising the internal space into contemporary offices. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and one of the two retail spaces and the search for the remaining commercial tenant is in progress.

Clubs and Services Division

Clubs and Services	Revenue HK\$m	Variance YoY	
		In HK\$	In Local Currency
Peak Tram	67	+7%	+7%
Thai Country Club	35	+16%	+6%
Quail Lodge & Golf Club	56	+7%	+7%
Peninsula Clubs & Consultancy Services	2	-6%	-6%
Peninsula Merchandising	32	+6%	+6%
Tai Pan Laundry	27	+1%	+1%

The Peak Tram is one of Hong Kong's most popular tourist attractions and is celebrating its 130th anniversary in 2018 with a variety of promotional initiatives and community outreach. Revenue increased 7% in the first half, driven by improving tourist arrivals, particularly from India, Thailand and the Philippines, as well as a strategy to sell "combination" tickets for the Peak Tram and Sky Terrace 428. The Peak Tram is a unique experience for visitors, however, we recognise the long queues to board during peak hours can be a source of frustration for visitors and we are working to improve their experience and comfort. To further enhance passengers' experience and reduce waiting time, we are investing in a new ticketing system and a full upgrade of the Peak Tram system and facilities. Extensive planning, design and preparation has already been carried out with the support of numerous consultants and the Hong Kong Government. Full details of the upgrade plan, which involves an investment of HK\$680m, are expected to be released later this year, subject to approval by the Hong Kong Government.

Thai Country Club, which is located near Bangkok, recorded a positive first half of the year due to increasing visitors, strong food and beverage revenue and increasing sales of memberships, as well as a strategy to control expenses. We were delighted to host the Thailand Open again in June 2018 which has helped to maintain the club's exposure and recognition. We have implemented some cross-marketing initiatives with The Peninsula Bangkok to drive awareness of the club.

Quail Lodge & Golf Club reported a positive first half of the year with revenue increasing by 7%. This was due to marketing strategies to drive strong last-minute bookings, as well as improved golf membership sales and golf rounds. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May. This complements the very successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading events for classic car aficionados. *The Quail: A Motorsports Gathering* attracts more than 5,000 visitors and brings the Peninsula brand to the attention of car collectors and enthusiasts.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Refinery opened at the end of 2017 after a significant renovation.

Revenue at **Peninsula Merchandising** was 6% higher than the same period last year, driven by new marketing campaigns, increased business at The Peninsula Boutique at Hong Kong International Airport and various pop-up promotions in leading retail outlets in Hong Kong. Peninsula Merchandising has implemented a strategy of a broader product range and seasonal promotions, which requires an initial investment in operating costs but is expected to lead to a long-term increase in earnings as well as a broader earnings base. In June 2018 we undertook a new brand relaunch, “A Journey to Treasure”, which we expect will improve brand awareness and help drive sales.

Tai Pan Laundry reported a small increase of revenue year-on-year to HK\$27 million, although higher diesel costs impacted the business overall. The division has implemented a number of new marketing initiatives and sales approaches to drive corporate business.

Projects

The Peninsula London

In 2013, our group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. In 2016 HSH acquired the remaining 50% from our partner Grosvenor Estates for an additional cash consideration of £107.5 million, thereby assuming 100% ownership. Grosvenor will remain as the landlord under the 150-year lease.

This property is in a spectacular location overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a high-quality 189-room hotel and 26 luxury residential apartments. The final project budget is in the region of £650 million.

Construction is well underway on the site, with demolition complete and a number of cranes on site working on the foundations and superstructures. The hotel and apartments will set new standards for luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021. Preparation for the sales of the 26 luxury residential apartments in London are underway.

The Peninsula Istanbul

In July 2015, we entered into a joint venture partnership with Doğu Holding and BLG, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey.

The partners agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50% or approximately €150 million. Construction is in progress and with the challenges of dealing with the heritage buildings and some unforeseen site conditions, the expected construction completion date is now scheduled for end 2020.

There will be approximately 180 rooms in this waterfront property, most of which will have sweeping views of the Bosphorus, as well as views across to Istanbul's famous old town. The Peninsula Istanbul will form part of the wider Galataport project being developed by our partners, which incorporates a promenade, museums, art galleries, restaurants, boutiques, retail units, parks and public spaces for the local community as well as a cruise passenger terminal with global standards.

We believe Istanbul is a destination with exciting long-term growth potential for business and leisure travel. However, we continue to monitor the economic, political and security situation in Turkey in the short term.

The Peninsula Yangon

The Company entered into an agreement with Yoma Strategic Holdings in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar with all conditions satisfied in February 2017. The hotel will be renovated to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive fees on the sale and management of The Peninsula Residences Yangon, the luxury residential apartments being developed by our partners, adjacent to the hotel.

The Peninsula Yangon will have 88 guestrooms and suites with high ceilings, surrounded by garden terraces and tropical landscaped gardens with an outdoor swimming pool.

The Group's overall investment will be around US\$126 million, including the value of the leasehold interest and estimated development costs. We look forward to continuing to work with our partners to complete this project by 2021.

Human Resources

Attracting talent and developing our people is a key focus for HSH. As part of our Human Resources five-year strategy, one of our key priorities in 2018 is to continue to attract and develop talent, and with this in mind we are placing an increased emphasis on developing our employer brand for the Group. We continued to improve employee experience and engagement, including a focus on wellness and mindfulness in the workplace with a new "WOW" (Wisdom on Wellness) campaign. We are proud to have a family culture that inspires loyalty and long service, and in the first half of 2018 we reported a voluntary staff turnover rate of 10% which compared favourably with the industry. We are continually striving to reduce the turnover rate amongst our "millennial" (under-30) staff through better onboarding programmes and bespoke development opportunities, including work cross-exposure in our global properties. Our Corporate Management Trainee programme is designed to attract talented hospitality and business graduates who have shown potential to become our future leaders.

As of 30 June 2018, there were 7,598 full time employees in the Group.

Sustainable Luxury

We recognise that there is a perceived divide between the notion of luxury and the principles of sustainability. To bridge this divide can be challenging. However, we believe that attention to detail and quest for quality will help us to innovate by making sustainability part of the appeal of our luxury offering. We continue to witness longer-term trends such as environmental and social impacts becoming more significant in the eyes of our stakeholders. It is essential that we address these challenges strategically. Our global Sustainable Luxury Vision 2020 is in our response to this, emphasising the need to have a positive social, economic and environmental benefit on the local communities in which we operate, and we believe businesses have a responsibility to take action. In line with this strategy, we were delighted to announce that we are banning plastic straws in our operations from November 2018. This is a step in our strategy to transition away from single-use plastics by 2020 through reduction, replacement with sustainable alternatives and increased recycling. Overall, we saw good progress, achieving over 80% of our commitments, as we continued to focus our efforts in the three key areas of “Our Guests, Our People, and Our Cities”.

Outlook

The strength of our group continues to emanate from our genuine focus and commitment to long-term value creation. This provides the vision and willingness to make decisions that are in the best long-term interests of the Company and its shareholders and the staying power to ride through shorter-term cycles in the economy. In the volatile economic, political and social circumstances that we see today, this approach has enabled us to make investment and capital expenditure decisions with a very long-term outlook and to maintain our service quality and the continuity of our people. With this in mind, I remain optimistic that we are continuing to pursue a course which will maximise the value of our assets and operations and deliver appropriate risk-adjusted returns to our shareholders over time.

Our corporate development and investment strategy continues to focus on the enhancement of our existing assets, seeking opportunities to increase their value through new concepts or improved space utilisation, and the development of a small number of the highest quality Peninsula hotels in the most prime locations with the objective of being a long-term owner-operator. This is the approach which we believe has enabled us to establish and sustain a brand which is now recognised as possibly the leading luxury hotel brand in the world, thereby creating value in each Peninsula hotel through both asset value appreciation and operational earnings growth.

In terms of shorter-term outlook, in our core market of Hong Kong, the tourism and high-end retail markets are improving and the high-end residential leasing market is stable. We continue to seek to strengthen these businesses by providing high quality products and services and we believe this differentiation, together with our long-term relationships with many of our guests and tenants, will support our business. We remain cautiously optimistic for the remainder of the year.

We are also seeing a relatively stable outlook in the US, Japan and the Chinese mainland. We are committed to maximising the growth potential of The Peninsula Beijing following its major renovation which has transformed the hotel into a completely new product. We are, however, watching the impact of travel policies and geopolitical developments on our business from the Middle East which has been affecting our US properties. It continues to be a challenge to manage our cost base and profit margins while maintaining and enhancing the quality of both our physical assets and our services. This is a balance that we constantly work on with good support and understanding from our operational managers.

Looking to the longer term, according to the World Travel and Tourism Council (WTTC) the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. This is in spite of an uncertain global economy, political uncertainty, and increasing competition for the hotel industry in the form of private accommodation online aggregators. To remain competitive against such aggregators, we are taking steps to enhance our appeal to discerning guests who are searching for a bespoke, tailored travel experience. We will also continue to monitor uncertainties in the markets in which we operate in the short to medium term.

Overall, our company remains in a strong financial position, and the core operations are performing satisfactorily. With our long-term outlook and the exciting new projects that we are developing, we remain confident and positive about the future, whilst being ready and able to ride out the shorter-term fluctuations in the markets in which we operate.

Clement K.M. Kwok
3 August 2018

Financial Review

The Directors hereby announce the unaudited interim results of the Group for the six months ended 30 June 2018. The Interim Financial Report has been reviewed by the Company's Audit Committee. The Interim Financial Report is unaudited but has been reviewed by the Company's auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the Interim Report to be sent to shareholders.

Basis of Preparation

The Group's Interim Financial Report has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The Group's Underlying Earnings

Our operating results are mainly derived from the operation of hotels; leasing and sale of luxury residential apartments; leasing of office and retail properties; operation of the Peak Tram and retail merchandising. We manage the Group's operations with principal reference to their underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating items, such as any changes in fair value of investment properties, in our statement of profit or loss. To reflect the true performance of the Group, we have provided calculation of the underlying profit attributable to shareholders. This is determined by excluding the post-tax effects of the property revaluation movements and other non-operating items.

The Group's underlying profit attributable to shareholders for the six months ended 30 June 2018 amounted to HK\$255 million, representing an increase of 41%.

HK\$m	For the six months ended 30 June		2018 vs 2017
	2018	2017	
Profit attributable to shareholders	644	519	
Adjustment for fair value movement of investment properties*	(389)	(338)	
Underlying profit attributable to shareholders	<u>255</u>	<u>181</u>	41%

* Including the Group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interest.

The Group's Adjusted Net Asset Value

In the Financial Statements, the Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at depreciated cost less accumulated impairment losses, if any, and not at fair value.

Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 30 June 2018, the details of which are set out on page 21. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 10% to HK\$42,306 million as indicated in the table below.

HK\$m	As at 30 June 2018	As at 31 December 2017
Net assets attributable to shareholders per statement of financial position	38,610	38,175
Adjusting the value of hotels and golf courses to fair value	4,003	3,876
Less: Related deferred tax and non-controlling interests	<u>(307)</u>	<u>(326)</u>
	3,696	3,550
Adjusted net assets attributable to shareholders	<u>42,306</u>	<u>41,725</u>
Net assets per share (HK\$)	<u>24.03</u>	<u>24.02</u>
Adjusted net assets per share (HK\$)	<u>26.33</u>	<u>26.26</u>

Statement of Profit or Loss

The Group's consolidated statement of profit or loss for the six months ended 30 June 2018 is set out on page 24. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 17 to 20 of this Financial Review.

HK\$m	For the six months ended 30 June		2018 vs 2017
	2018	2017	
Revenue	2,850	2,596	10%
Operating costs	<u>(2,186)</u>	<u>(2,035)</u>	7%
EBITDA	664	561	18%
Depreciation and amortisation	(273)	(242)	13%
Net financing charges	(30)	(66)	(55%)
Share of result of The Peninsula Shanghai *	(13)	(26)	(50%)
Share of results of The Peninsula Paris and The Peninsula Beverly Hills **	(20)	(11)	82%
Increase in fair value of investment properties	391	359	9%
Taxation	<u>(75)</u>	<u>(59)</u>	27%
Profit for the period	644	516	25%
Non-controlling interests	-	3	(100%)
Profit attributable to shareholders	<u>644</u>	<u>519</u>	24%

* Being the Group's 50% share of The Peninsula Shanghai (PSH)'s result. The 2018 figure includes the Group's share of unrealised loss of HK\$14 million (2017: HK\$31 million) arising from the revaluation of PSH's investment properties, net of tax.

** Being the Group's 20% share of The Peninsula Paris' operating loss and 20% share of The Peninsula Beverly Hills' profit.

Revenue

The Group has interests in ten luxury hotels under The Peninsula brand in Asia, the US and Europe, two of which are held by the Group's associates and one by a joint venture. In addition to operating hotels, the Group also runs a commercial properties division which is engaged in the development and sale or leasing of luxury residential apartments, and leasing of office and retail buildings in prime city-centre locations in Asia and Europe. The Group's third business division is engaged in the provision of tourism and leisure, club management and other services, including the Peak Tram, one of Hong Kong's most popular tourist attractions.

Total revenue for the six months ended 30 June 2018, including the Group's effective share of revenue of associates and joint venture, increased by 10% to HK\$3,118 million. A breakdown of revenue by business segment and geographical segment is set out in the following tables.

Revenue by business segment

HK\$m	For the six months ended 30 June						2018 vs 2017
	2018			2017			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	2,158	268	2,426	1,926	251	2,177	11%
Commercial Properties	473	-	473	466	-	466	2%
Clubs and Services	219	-	219	204	-	204	7%
	<u>2,850</u>	<u>268</u>	<u>3,118</u>	<u>2,596</u>	<u>251</u>	<u>2,847</u>	10%

Revenue by geographical segment

HK\$m	For the six months ended 30 June						2018 vs 2017
	2018			2017			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	1,231	-	1,231	1,165	-	1,165	6%
Other Asia	926	153	1,079	772	139	911	18%
US and Europe	693	115	808	659	112	771	5%
	<u>2,850</u>	<u>268</u>	<u>3,118</u>	<u>2,596</u>	<u>251</u>	<u>2,847</u>	10%

The hotels division is the main contributor to the Group's revenue, accounting for 78% (2017: 76%) of the total revenue. The increase in revenue of the hotels division was mainly due to the return to full inventory of The Peninsula Beijing after its extensive room renovation and the strong performance achieved by The Peninsula Hong Kong and The Peninsula Bangkok with both hotels achieving double-digit growth in RevPAR.

The commercial properties division performed well, with The Repulse Bay Complex achieving higher rental revenue and rental income contributed from 21 avenue Kléber following the completion of its major renovation in 2017. However, the increase in revenue from these properties was partly offset by the loss of rental income from 1-5 Grosvenor Place which remained in operation until vacant possession of the building was obtained in April 2017 for redevelopment. Revenue growth of the commercial properties division was therefore limited to 2% in the first half of 2018.

For the clubs and services division, the increase in revenue was mainly due to the higher income generated from the Peak Tram and the Thai Country Club.

Details of the operating performances of the Group's individual operations are set out on pages 3 to 11 of the CEO's Strategic Review.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) for the six months ended 30 June 2018 increased by 18% to HK\$664 million. Including the Group's effective share of EBITDA of our joint venture and associates, the increase was 14% to HK\$720 million. The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA by business segment

HK\$m	For the six months ended 30 June						2018 vs 2017
	2018			2017			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	378	56	434	292	69	361	20%
Commercial Properties	278	-	278	261	-	261	7%
Clubs and Services	8	-	8	8	-	8	-
	<u>664</u>	<u>56</u>	<u>720</u>	<u>561</u>	<u>69</u>	<u>630</u>	14%

EBITDA by geographical segment

HK\$m	For the six months ended 30 June						2018 vs 2017
	2018			2017			
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	522	-	522	486	-	486	7%
Other Asia	136	40	176	66	50	116	52%
US and Europe	6	16	22	9	19	28	(22%)
	<u>664</u>	<u>56</u>	<u>720</u>	<u>561</u>	<u>69</u>	<u>630</u>	14%

During the first half of 2018, the combined EBITDA margin of the hotels division increased by one percentage point to 18%, mainly due to the improved margins achieved by The Peninsula Hong Kong and The Peninsula Beijing. The increase in the EBITDA margin for the commercial properties division was mainly due to the contribution from 21 avenue Kléber whereas the EBITDA margin for the clubs and services division remained flat.

EBITDA margin	For the six months ended 30 June					
	2018			2017		
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	18%	21%	18%	15%	27%	17%
Commercial Properties	59%	-	59%	56%	-	56%
Clubs and Services	4%	-	4%	4%	-	4%
Overall EBITDA margin	23%	21%	23%	22%	27%	22%
By region						
Hong Kong	42%	-	42%	42%	-	42%
Other Asia	15%	26%	16%	9%	36%	13%
US and Europe	1%	14%	3%	1%	17%	4%

Increase in Fair Value of Investment Properties

The investment properties of the Group were revalued as at 30 June 2018 by independent firms of valuers based on an income capitalisation approach. The increase in fair value represented the net revaluation surplus of the Group's investment properties, which amounted to HK\$391 million (2017: HK\$359 million), principally attributable to the increase in the appraised market value of The Repulse Bay Complex and the commercial arcade at The Peninsula Hong Kong.

Share of Result of The Peninsula Shanghai

The Group, through a joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex, which comprises a hotel, a shopping arcade and a residential tower of 39 apartments, of which 28 units have been sold to date.

During the first half of 2018, The Peninsula Shanghai remained the market leader in terms of RevPAR in its competitor set, generating an operating EBITDA of HK\$80 million (2017: HK\$100 million). After accounting for the unrealised revaluation loss of the hotel's shopping arcade, depreciation and interest, PSW generated a net loss of HK\$26 million (2017: HK\$52 million) and the Group's share of loss amounted to HK\$13 million (2017: HK\$26 million).

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on page 4.

Share of Results of The Peninsula Beverly Hills and The Peninsula Paris

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these hotels amounted to HK\$20 million (2017: HK\$11 million).

Details of the operating performances of The Peninsula Beverly Hills and The Peninsula Paris are set out in the CEO's Strategic Review section on page 8.

Statement of Financial Position

The Group's financial position as at 30 June 2018 remained strong and net assets attributable to shareholders amounted to HK\$38,610 million, representing a per share value of HK\$24.03 compared to HK\$24.02 as at 31 December 2017. The key components of the Group's assets and liabilities as at 30 June 2018 and 31 December 2017 are set out in the table below.

HK\$m	As at 30 June 2018	As at 31 December 2017	2018 vs 2017
Fixed assets	44,183	43,355	2%
Other long-term assets	2,381	2,356	1%
Cash at banks and in hand	781	1,922	(59%)
Other assets	819	887	(8%)
	48,164	48,520	(1%)
Interest-bearing borrowings	(6,616)	(7,443)	(11%)
Other liabilities	(2,404)	(2,375)	1%
	(9,020)	(9,818)	(8%)
Net assets	39,144	38,702	1%
<i>Represented by</i>			
Shareholders' funds	38,610	38,175	1%
Non-controlling interests	534	527	1%
Total equity	39,144	38,702	1%

Summary of Hotel, Commercial and Other Properties

The Group has interests in ten operating hotels in Asia, US and Europe and three hotels under development. In addition to hotel properties, the Group owns residential apartments, office towers and commercial buildings for rental purposes.

The Group's hotel properties and investment properties are dealt with under different accounting policies as required by accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties (including shopping arcades and offices within the hotels) are stated at fair value as appraised by independent valuers. In order to provide users of the Financial Statements with additional information on the fair value of the Group's properties, independent valuers have been engaged to conduct a valuation of the hotel properties and golf courses as at 30 June 2018.

A summary of the Group's hotel, commercial and other properties, including those held by associates and joint ventures, showing both the book value and the fair value as at 30 June 2018 is set out in the table below.

	Group's interest	30 June 2018		31 December 2017	
		Value of 100% of the property (HK\$m)			
		Fair value	Book value	Fair value	Book value
Hotel properties *					
The Peninsula Hong Kong	100%	12,301	9,941	12,142	9,931
The Peninsula New York	100%	2,356	1,685	2,366	1,710
The Peninsula Beijing	76.6% **	1,715	1,700	1,814	1,777
The Peninsula Tokyo	100%	1,683	1,515	1,640	1,468
The Peninsula Chicago	100%	1,331	1,238	1,331	1,225
The Peninsula Bangkok	50%	664	639	670	660
The Peninsula Manila	77.4%	110	107	126	124
The Peninsula Shanghai Complex #	50%	3,139	2,704	3,207	2,808
The Peninsula Paris #	20%	5,472	5,336	5,861	5,534
The Peninsula Beverly Hills #	20%	2,640	465	2,640	485
		31,411	25,330	31,797	25,722
Commercial properties					
The Repulse Bay Complex	100%	17,695	17,695	17,362	17,362
The Peak Tower	100%	1,444	1,444	1,422	1,422
St. John's Building	100%	1,170	1,170	1,142	1,142
Apartments in Shanghai	100%	419	419	423	423
21 avenue Kléber	100%	720	720	741	741
The Landmark	70% ^Δ	58	58	62	62
		21,506	21,506	21,152	21,152
Other properties					
Thai Country Club golf course	50%	238	269	239	269
Quail Lodge resort, golf course and vacant land	100%	298	279	298	282
Vacant land in Thailand	50%	428	428	431	431
Others	100%	384	218	374	220
		1,348	1,194	1,342	1,202
Total market/book value		54,265	48,030	54,291	48,076
Properties under development ##					
The Peninsula London	100%	4,091	4,091	3,640	3,640
The Peninsula Yangon	70%	374	374	279	279
The Peninsula Istanbul #	50%	655	655	479	479
		5,120	5,120	4,398	4,398

* Including the shopping arcades and offices within the hotels

** The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner in 2033 upon expiry of the co-operative joint venture period

^Δ The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner in 2026 upon expiry of the joint venture period

These properties are held by associates/joint ventures

The Directors consider that the fair value of all properties under development approximates their book value

Statement of Cash Flows

The condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2018 is set out on page 28. The following table summarises the key cash movements for the first six months of 2018.

HK\$m	For the six months ended 30 June	
	2018	2017
EBITDA	664	561
Changes in working capital	(6)	(91)
Tax payment	(12)	(7)
Net cash generated from operating activities	646	463
Capital expenditure on existing assets		
– The Peninsula Beijing	(38)	(167)
– The Peninsula Chicago	(50)	–
– 21 avenue Kléber	(7)	(37)
– Others	(105)	(119)
Net cash inflow after normal capital expenditure	446	140
Capital expenditure on new projects		
– The Peninsula London	(476)	(197)
– The Peninsula Yangon	(93)	(115)
– Capital injection into the Istanbul joint venture	(109)	(35)
Net cash outflow before dividends, other payments and financing activities	(232)	(207)

The after-tax net cash generated from operating activities for the six months ended 30 June 2018 amounted to the HK\$646 million (2017: HK\$463 million), of which HK\$200 million (2017: HK\$323 million) was applied to fund capital expenditure on existing assets.

Treasury Management

The Group's treasury activities are centrally managed and controlled at the corporate level, where currency and interest rate risk exposures are monitored.

In March 2018, the Group signed a £650 million (HK\$6.67 billion) Five-Year Term Loan Facility with a group of five international banks. The facility is unsecured and bears interest at LIBOR plus a fixed margin. The drawdown of the facility will be staggered to fund progress payments for the construction costs of The Peninsula London project.

During the period, net borrowings increased by 6% to HK\$5,835 million (31 December 2017: HK\$5,521 million) and the Group's net debt to total assets increased to 12% (31 December 2017: 11%). The increase was mainly due to the project payments made by The Peninsula London. Cash interest cover, expressed as EBITDA divided by net interest paid, increased to 10.9 times (2017: 9.7 times) due to improved EBITDA as compared to the six months ended 30 June 2017.

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned), The Peninsula Shanghai (50% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Group. Including the Group's share of the net debt of these non-consolidated entities, total net borrowings would amount to HK\$7,051 million at 30 June 2018 (31 December 2017: HK\$6,760 million).

As at 30 June 2018, the Group's fixed-to-floating interest rate ratio increased to 74% (31 December 2017: 65%). This was mainly due to early repayment of USD and HKD floating rates loans with surplus cash. In light of the prospect of higher US and HK interest rates, we are comfortable with the higher fixed rate percentage. The weighted average gross interest rate for the period increased slightly to 2.4% (2017: 2.2%) after taking hedging activities into account.

The Company manages its liquidity risk by constantly monitoring its loan portfolio and by obtaining sufficient borrowing facilities to meet its obligations and commitments.

Consolidated Statement of Profit or Loss – unaudited (HK\$m)

	Note	For the six months ended 30 June	
		2018	2017
Revenue	3	2,850	2,596
Cost of inventories		(180)	(169)
Staff costs and related expenses		(1,132)	(1,047)
Rent and utilities		(278)	(266)
Other operating expenses		(596)	(553)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	664	561
Depreciation and amortisation		(273)	(242)
Operating profit		391	319
Interest income		10	11
Financing charges	4	(40)	(77)
Net financing charges		(30)	(66)
Profit after net financing charges	5	361	253
Share of result of a joint venture	10	(13)	(26)
Share of results of associates	11	(20)	(11)
Increase in fair value of investment properties	9(b)	391	359
Profit before taxation		719	575
Taxation			
Current tax	6	(82)	(68)
Deferred tax	6	7	9
Profit for the period		644	516
Profit attributable to:			
Shareholders of the Company		644	519
Non-controlling interests		–	(3)
Profit for the period		644	516
Earnings per share, basic and diluted (HK\$)	7	0.41	0.33

Details of dividends payable to shareholders of the Company are set out in note 8.

Consolidated Statement of Comprehensive Income – unaudited (HK\$m)

	For the six months ended 30 June	
	2018	2017
Profit for the period	644	516
Other comprehensive income for the period, net of tax		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	(154)	287
– financial statements of joint ventures	(16)	44
– loans to an associate	(18)	55
– hotel operating rights	(14)	41
	<u>(202)</u>	<u>427</u>
Cash flow hedges:		
– effective portion of changes in fair value	1	(17)
– transfer from equity to profit or loss	5	10
Other comprehensive income	<u>(196)</u>	<u>420</u>
Total comprehensive income for the period	448	936
Total comprehensive income attributable to:		
Shareholders of the Company	469	930
Non-controlling interests	(21)	6
Total comprehensive income for the period	448	936

Consolidated Statement of Financial Position – unaudited (HK\$m)

	Note	As at 30 June 2018	As at 31 December 2017
Non-current assets			
Investment properties		37,062	36,249
Other properties, plant and equipment		7,121	7,106
	9	44,183	43,355
Interest in joint ventures	10	1,135	1,055
Interest in associates	11	659	699
Hotel operating rights	12	543	564
Deferred tax assets		44	38
		46,564	45,711
Current assets			
Inventories		81	77
Trade and other receivables	14	677	750
Derivative financial instruments	13	2	–
Amount due from a joint venture		59	60
Cash at banks and in hand		781	1,922
		1,600	2,809
Current liabilities			
Trade and other payables	15	(1,373)	(1,424)
Interest-bearing borrowings	16	(2,019)	(3,391)
Derivative financial instruments	13	–	(4)
Current taxation		(109)	(41)
		(3,501)	(4,860)
Net current liabilities		(1,901)	(2,051)
Total assets less current liabilities		44,663	43,660
Non-current liabilities			
Interest-bearing borrowings	16	(4,597)	(4,052)
Trade and other payables	15	(249)	(230)
Net defined benefit retirement obligations		(17)	(17)
Deferred tax liabilities		(656)	(659)
		(5,519)	(4,958)
Net assets		39,144	38,702
Capital and reserves			
Share capital	17	5,445	5,224
Reserves		33,165	32,951
Total equity attributable to shareholders of the Company		38,610	38,175
Non-controlling interests		534	527
Total equity		39,144	38,702

Consolidated Statement of Changes in Equity – unaudited (HK\$m)

	Note	Attributable to shareholders of the Company				Total	Non-controlling interests	Total equity
		Share capital	Hedging reserve	Exchange and other reserves	Retained profits			
At 1 January 2017		5,005	(27)	(730)	32,111	36,359	215	36,574
Changes in equity for the six months ended 30 June 2017								
Profit for the period		–	–	–	519	519	(3)	516
Other comprehensive income		–	(7)	418	–	411	9	420
Total comprehensive income for the period		–	(7)	418	519	930	6	936
Dividends approved in respect of the previous year	8	165	–	–	(235)	(70)	–	(70)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	35	35
Balance at 30 June 2017 and 1 July 2017		5,170	(34)	(312)	32,395	37,219	256	37,475
Changes in equity for the six months ended 31 December 2017								
Profit for the period		–	–	–	636	636	–	636
Other comprehensive income		–	19	306	–	325	12	337
Total comprehensive income for the period		–	19	306	636	961	12	973
Dividends approved in respect of the current year	8	54	–	–	(63)	(9)	–	(9)
Dividends paid to non-controlling interests		–	–	–	–	–	(5)	(5)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	90	90
Disposal of interest in subsidiaries to a non-controlling shareholder		–	–	70	(66)	4	174	178
Balance at 31 December 2017 and 1 January 2018		5,224	(15)	64	32,902	38,175	527	38,702
Changes in equity for the six months ended 30 June 2018								
Profit for the period		–	–	–	644	644	–	644
Other comprehensive income		–	6	(181)	–	(175)	(21)	(196)
Total comprehensive income for the period		–	6	(181)	644	469	(21)	448
Dividends approved in respect of the previous year	8	221	–	–	(255)	(34)	–	(34)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	28	28
Balance at 30 June 2018		5,445	(9)	(117)	33,291	38,610	534	39,144

Condensed Consolidated Statement of Cash Flows – unaudited (HK\$m)

	For the six months ended 30 June	
	2018	2017
Operating activities		
EBITDA	664	561
Tax paid	(12)	(7)
Changes in working capital	(6)	(91)
Net cash generated from operating activities	646	463
Investing activities		
Loan to an associate	–	(2)
Capital injection into a joint venture	(109)	(35)
Capital expenditure on existing properties		
– The Peninsula Beijing and The Peninsula Chicago	(88)	(167)
– Others	(112)	(156)
Capital expenditure on new projects	(569)	(312)
Cash injected from a non-controlling shareholder	28	–
Dividend received from an associate	2	–
Net cash used in investing activities	(848)	(672)
Financing activities		
Interest received	12	10
Interest and other financing charges paid	(73)	(68)
Net withdrawal of interest-bearing bank deposits with maturity of more than three months	214	4
Net (decrease)/increase in bank borrowings	(839)	10
Dividends paid to shareholders of the Company	(34)	(70)
Net cash used in financing activities	(720)	(114)
Net decrease in cash and cash equivalents	(922)	(323)
Cash and cash equivalents at 1 January	1,660	1,955
Effect of changes in foreign exchange rates	(3)	11
Cash and cash equivalents at 30 June (note)	735	1,643
<i>Note</i>	<i>Analysis of cash and cash equivalents</i>	
	<i>As at 30 June</i>	
	2018	2017
<i>Interest-bearing bank deposits</i>	598	1,582
<i>Cash at banks and in hand</i>	183	193
<i>Total cash at banks and in hand</i>	781	1,775
<i>Less: Interest-bearing bank deposits with maturity of more than three months</i>	(41)	(126)
<i>Less: Bank overdrafts</i>	(5)	(6)
<i>Cash and cash equivalents in the condensed consolidated statement of cash flows</i>	735	1,643

Total cash at banks and in hand at the end of the reporting period include deposits with banks of HK\$204 million (30 June 2017: HK\$143 million) held by overseas subsidiaries which are subject to prevailing regulations and foreign exchange restrictions.

Notes to the unaudited interim financial report

1. Basis of preparation

The unaudited Interim Financial Report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue by the Board of Directors of the Company on 3 August 2018.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these relevant changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs).

The Interim Financial Report is unaudited, but has been reviewed by KPMG 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.

The financial information relating to the financial year ended 31 December 2017 that is included in the Interim Financial Report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those 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 section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the Interim Financial Report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Segment reporting (HK\$m)

The Group is organised on a divisional basis. In a manner consistent with the way in which information is reported internally to the Group's senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable segments are as follows:

Hotels	This segment includes revenue generated from operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings.
Commercial Properties	This segment is engaged in the development, leasing and sale of luxury residential apartments, leasing of retail and office premises (other than those in hotel properties), as well as operating food and beverage outlets in such premises.
Clubs and Services	This segment is engaged in the operation of golf courses, the Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

No operating segments have been aggregated to form the reportable segments.

3. Segment reporting (HK\$m) *continued*

(a) Segment results (HK\$m)

The results of the Group's reportable segments for the six months ended 30 June 2018 and 2017 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Reportable segment revenue*	2,158	1,926	473	466	219	204	2,850	2,596
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	378	292	278	261	8	8	664	561
Depreciation and amortisation	(248)	(219)	(5)	(6)	(20)	(17)	(273)	(242)
Segment operating profit	130	73	273	255	(12)	(9)	391	319
<i>* Analysis of segment revenue</i>								
	<u>2018</u>	<u>2017</u>						
<i>Hotels</i>								
– Rooms	1,025	874						
– Food and beverage	610	562						
– Shopping arcades and offices	319	321						
– Others	204	169						
	<u>2,158</u>	<u>1,926</u>						
<i>Commercial Properties</i>								
– Residential properties	246	243						
– Offices	41	52						
– Shopping arcades	186	171						
	<u>473</u>	<u>466</u>						
<i>Clubs and Services</i>								
– Golf club	91	82						
– Peak Tram operation	67	63						
– Clubs and consultancy services	2	3						
– Others	59	56						
	<u>219</u>	<u>204</u>						
Total	<u>2,850</u>	<u>2,596</u>						

Reconciliation of segment operating profit to the profit before taxation in the consolidated statement of profit or loss is not presented as the segment operating profit is the same as the operating profit presented in the consolidated statement of profit or loss.

3. Segment reporting (HK\$m) *continued*

(b) Segment assets (HK\$m)

Segment assets include all tangible and intangible assets and current assets held directly by the respective segments.

The Group's segment assets and unallocated assets as at 30 June 2018 and 31 December 2017 are set out as follows:

	Note	As at 30 June 2018	As at 31 December 2017
Reportable segment assets			
Hotels		22,602	22,250
Commercial properties		21,792	21,417
Clubs and services		1,092	1,079
		<u>45,486</u>	<u>44,746</u>
Interest in joint ventures	10	1,135	1,055
Interest in associates	11	659	699
Deferred tax assets		44	38
Amount due from a joint venture		59	60
Cash at banks and in hand		781	1,922
Consolidated total assets		<u>48,164</u>	<u>48,520</u>

4. Financing charges (HK\$m)

	For the six months ended 30 June	
	2018	2017
Interest on bank borrowings	62	56
Other borrowing costs	20	10
Total interest expense on financial liabilities carried at amortised cost	82	66
Derivative financial instruments:		
– cash flow hedges, transfer from equity	5	11
	<u>87</u>	<u>77</u>
Less: Interest expenses capitalised into properties under development*	(47)	–
	<u>40</u>	<u>77</u>

* The borrowing costs have been capitalised at an average rate of 2.9% (2017: Nil).

5. Profit after net financing charges (HK\$m)

Profit after net financing charges is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2018	2017
Amortisation of hotel operating rights	7	7
Depreciation	266	235
Interest income	(10)	(11)
	<u> </u>	<u> </u>

6. Taxation (HK\$m)

	For the six months ended 30 June	
	2018	2017
Current tax		
Hong Kong profits tax	74	62
Overseas tax	8	6
	<u> </u>	<u> </u>
	82	68
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	(10)	(8)
Increase/(decrease) in net deferred tax liabilities relating to other temporary differences	3	(1)
	<u> </u>	<u> </u>
	(7)	(9)
	<u> </u>	<u> </u>
	75	59

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries is calculated at the current tax rates applicable in the relevant jurisdictions.

7. Earnings per share

(a) Earnings per share – basic

	For the six months ended 30 June	
	2018	2017
Profit attributable to shareholders of the Company (HK\$m)	644	519
Weighted average number of shares in issue (million shares)	1,590	1,568
Earnings per share (HK\$)	0.41	0.33
	2018	2017
	<i>(million shares)</i>	<i>(million shares)</i>
<i>Issued shares at 1 January</i>	1,589	1,567
<i>Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2017 final dividend (2017: 2016 final dividend)</i>	1	1
<i>Weighted average number of shares in issue at 30 June</i>	1,590	1,568

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2018 and 2017 and hence the diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK\$m)

(a) Dividends payable to shareholders of the Company attributable to the interim period

	For the six months ended 30 June	
	2018	2017
Interim dividend declared and to be paid after the interim period of 5 HK cents per share (2017: 4 HK cents per share)	80	63

The interim dividend declared after the interim period has not been recognised as a liability at the end of the reporting period.

8. Dividends (HK\$m) *continued*

(b) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2018	2017
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 16 HK cents per share (year ended 31 December 2016: 15 HK cents per share)	<u>255</u>	<u>235</u>

9. Investment properties, other properties, plant and equipment (HK\$m)

(a) Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired items of fixed assets with a cost of HK\$831 million, of which HK\$649 million related to development costs incurred for the projects in London and Yangon (six months ended 30 June 2017: HK\$642 million, related to the renovations at The Peninsula Beijing and 21 avenue Kléber, and development costs incurred for the projects in London and Yangon). Items of properties, plant and equipment disposed of during the six months ended 30 June 2018 and 2017 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2018 using the income capitalisation approach by applying a capitalisation rate to the expected rental income adjusted for the quality and location of the building, which are the same valuation techniques as were used by the valuers when carrying out the December 2017 valuations, except for the development site in respect of The Peninsula London, which was revalued by taking into account the fair value of the completed complex and then by deducting from that amount the estimated cost to complete the redevelopment. The changes in fair value of the investment properties during the period were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the Group, who have staff with recent and relevant experience in the location and category of the properties being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at the reporting date.

As a result of the revaluation, a net gain of HK\$391 million (2017: HK\$359 million) has been included in the consolidated statement of profit or loss.

9. Investment properties, other properties, plant and equipment (HK\$m) *continued*

(c) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2018. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK\$6,391 million (31 December 2017: HK\$6,476 million), was HK\$9,714 million as at 30 June 2018 (31 December 2017: HK\$9,656 million). It is important to note that the surplus of HK\$3,323 million (31 December 2017: HK\$3,180 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in this Interim Financial Report but are provided for additional information only.

10. Interest in joint ventures (HK\$m)

	As at 30 June 2018	As at 31 December 2017
Share of net assets	614	534
Loans to a joint venture (<i>note 10(b)</i>)	521	521
	1,135	1,055

(a) Details of the joint ventures are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US\$117,500,000 (31 December 2017: US\$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)	Incorporated	Turkey	TRY288,300,000 (31 December 2017: TRY171,700,000)	50%*	Hotel investment

* PIT was incorporated on 10 February 2016 and the Group's interest in this joint venture is held indirectly by the Company. PIT has redevelopment and operating rights in respect of a property within the Salıpaazarı Port Project Area in Istanbul, Turkey. The Group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 30 June 2018 mainly comprised of property under development, and cash at bank and in hand of HK\$655 million (31 December 2017: HK\$479 million) and HK\$21 million (31 December 2017: HK\$9 million) respectively.

10. Interest in joint ventures (HK\$m) *continued*

- (b) The loans to The Peninsula Shanghai (BVI) Limited, holding company of PSW, are dominated in US dollars, unsecured, interest free and have no fixed repayment terms.
- (c) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million (HK\$2,961 million) (31 December 2017: RMB2,500 million (HK\$2,991 million)). As at 30 June 2018, the loan drawn down amounted to RMB1,125 million (HK\$1,333 million) (31 December 2017: RMB1,205 million (HK\$1,442 million)). The net carrying amount of these pledged assets amounted to RMB2,840 million (HK\$3,364 million) (31 December 2017: RMB2,905 million (HK\$3,475 million)).
- (d) Set out below is a summary of the financial information of PSW, of which the Group has a 50% share:

	As at 30 June 2018	As at 31 December 2017
Non-current assets	2,704	2,808
Cash at bank and in hand	65	154
Apartments held for sale and other current assets	723	738
Current liabilities	(296)	(341)
Non-current liabilities	(2,627)	(2,748)
Net assets	569	611
	For the six months ended 30 June	
	2018	2017
Income	306	277
Cost of inventories and operating expenses	(226)	(177)
EBITDA	80	100
Depreciation	(44)	(42)
Net financing charges	(35)	(48)
Profit before non-operating items	1	10
Non-operating items, net of tax *	(27)	(62)
Loss for the period	(26)	(52)
The Group's share of result of PSW	(13)	(26)

* *Being the net re-valuation adjustment on investment properties.*

11. Interest in associates (HK\$m)

	As at 30 June 2018	As at 31 December 2017
Interest in associates	<u>659</u>	<u>699</u>

- (a) Details of the principal unlisted associates, which are accounted for using the equity method in the Group's consolidated financial statements, are as follows:

Company name	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest*	Principal activity
19 Holding SAS (19 Holding) **	Incorporated	France	EUR1,000	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR100,000	20%	Hotel operation
The Belvedere Hotel Partnership (BHP) #	Partnership	United States of America	US\$46,500,000	20%	Hotel investment

* The Group's effective interest is held indirectly by the Company.

** 19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.

BHP holds a 100% interest in The Peninsula Beverly Hills.

- (b) Included in the balance of interest in associates are unsecured long-term loans to 19 Holding of HK\$456 million (31 December 2017: HK\$467 million). The loans were made pro rata to the Group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.
- (c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR220 million (HK\$1,996 million) (31 December 2017: EUR220 million (HK\$2,053 million)). As at 30 June 2018, the loan drawn down amounted to EUR220 million (HK\$1,996 million) (31 December 2017: EUR220 million (HK\$2,053 million)). As at 30 June 2018, the net carrying amount of these pledged assets amounted to EUR583 million (HK\$5,291 million) (31 December 2017: EUR593 million (HK\$5,531 million)).
- (d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US\$145 million (HK\$1,131 million) (31 December 2017: US\$145 million (HK\$1,131 million)). As of 30 June 2018, the net carrying amount of the pledged assets amounted to US\$60 million (HK\$468 million) (31 December 2017: US\$62 million (HK\$485 million)). As at 30 June 2018, the loan drawn down amounted to US\$132 million (HK\$1,030 million) (31 December 2017: US\$134 million (HK\$1,044 million)).

11. Interest in associates (HK\$m) *continued*

- (e) Set out below is a summary of the aggregate financial information of the associates, of which the Group has a 20% share:

	For the six months ended 30 June	
	2018	2017
EBITDA	80	96
Depreciation	(138)	(112)
Interest	(43)	(39)
Net loss from operations	(101)	(55)
Other comprehensive income	-	-
Total comprehensive income	(101)	(55)
The Group's share of results of the associates	(20)	(11)

12. Hotel operating rights

Hotel operating rights represent the cost attributable to securing the Group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris. The amortisation charge for the period is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

13. Derivative financial instruments (HK\$m)

	As at 30 June 2018	As at 31 December 2017
	Assets	Liabilities
Cash flow hedges to be settled within one year:		
Interest rate swaps	2	(4)

14. Trade and other receivables (HK\$m)

	As at 30 June 2018	As at 31 December 2017
Trade debtors	256	285
Rental deposits, payments in advance and other receivables	417	461
Tax recoverable	4	4
	677	750

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK\$144 million (31 December 2017: HK\$111 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

14. Trade and other receivables (HK\$m) *continued*

The Directors consider that the carrying amounts of all trade and other receivables approximate their fair value.

The Group has no concentrations of credit risk in view of its large number of customers. The Group maintains a defined credit policy to ensure that credit is given only to customers with an appropriate credit history. In respect of the Group's rental income from operating leases, rentals are normally received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. As such, the Group normally does not obtain collateral from its customers.

The ageing analysis of trade debtors is as follows:

	As at 30 June 2018	As at 31 December 2017
Current	227	253
Less than one month past due	24	25
One to three months past due	4	6
More than three months but less than 12 months past due	1	1
Amounts past due	29	32
	256	285

Trade debtors are normally due within 30 days from the date of billing.

15. Trade and other payables (HK\$m)

	As at 30 June 2018	As at 31 December 2017
Trade creditors	90	140
Interest payable	9	9
Accruals for property, plant and equipment	194	172
Tenants' deposits	367	360
Guest deposits and gift vouchers	217	155
Golf membership deposits	88	89
Other payables	657	729
Financial liabilities measured at amortised cost	1,622	1,654
Less: Non-current portion of trade and other payables	(249)	(230)
Current portion of trade and other payables	1,373	1,424

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK\$329 million (31 December 2017: HK\$321 million). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

15. Trade and other payables (HK\$m) *continued*

The ageing analysis of trade creditors is as follows:

	As at 30 June 2018	As at 31 December 2017
Less than three months	83	130
Three to six months	3	4
More than six months	4	6
	<u>90</u>	<u>140</u>

16. Interest-bearing borrowings (HK\$m)

	As at 30 June 2018	As at 31 December 2017
Total facilities available:		
Term loans and revolving credits	14,446	9,310
Uncommitted facilities, including bank overdrafts	429	429
	<u>14,875</u>	<u>9,739</u>
Utilised at 30 June 2018/31 December 2017:		
Term loans and revolving credits	6,696	7,466
Uncommitted facilities, including bank overdrafts	11	12
	<u>6,707</u>	<u>7,478</u>
Less: Unamortised financing charges	(91)	(35)
	<u>6,616</u>	<u>7,443</u>
<i>Represented by:</i>		
Long-term bank loans, repayable within one year	2,008	3,379
Short-term bank loans and overdrafts, repayable on demand	11	12
	<u>2,019</u>	<u>3,391</u>
Long-term bank loans, repayable:		
Between one and two years	550	488
Between two and five years	4,138	3,599
Over five years	-	-
	<u>4,688</u>	<u>4,087</u>
Less: Unamortised financing charges	(91)	(35)
Non-current portion of long-term bank loans	4,597	4,052
Total interest-bearing borrowings	<u>6,616</u>	<u>7,443</u>

Interest-bearing borrowings are carried at amortised cost. The non-current portion of long-term bank loans is not expected to be settled within one year and all borrowings are unsecured.

17. Share capital

	At 30 June 2018		At 31 December 2017	
	No. of shares (million)	HK\$'m	No. of shares (million)	HK\$'m
Ordinary shares, issued and fully paid				
At 1 January	1,589	5,224	1,567	5,005
Shares issued under scrip dividend scheme	18	221	22	219
At 30 June 2018/31 December 2017	<u>1,607</u>	<u>5,445</u>	<u>1,589</u>	<u>5,224</u>

During the six months ended 30 June 2018, the Company issued and allotted approximately 18 million new ordinary shares at HK\$11.972 per share in respect of the 2017 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK\$221 million. All ordinary shares issued during the period rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18. Fair value measurement of financial instruments

(a) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* requires disclosure of the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

All derivative financial instruments carried at fair value are categorised as falling under Level 2 of the fair value hierarchy.

(b) Fair values of financial instruments carried at other than fair value

Financial instruments are carried at amounts not materially different from their fair values as at 30 June 2018. The loans to an associate (note 11) are at floating interest rates and the carrying amount of these loans approximate their fair values. The loans to a joint venture (note 10(b)) are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose its fair value.

19. Commitments (HK\$m)

Capital commitments outstanding as at 30 June 2018 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2018			As at 31 December 2017		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	1,874	6,085	7,959	1,616	7,363	8,979
The Group's share of capital commitments of joint ventures and associates	402	621	1,023	525	649	1,174
	<u>2,276</u>	<u>6,706</u>	<u>8,982</u>	<u>2,141</u>	<u>8,012</u>	<u>10,153</u>

The Group's capital commitments include the capital expenditure for the major upgrade project to be undertaken by the Peak Tram as well as the development costs to be incurred for The Peninsula London, The Peninsula Yangon and The Peninsula Istanbul projects.

20. Material related party transactions

There were no material related party transactions during the six months ended 30 June 2018, other than the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2017.

Other Corporate Information

Corporate Governance

Good corporate governance is crucial to sustaining the Group through the changing regulatory and market environment over the long term. The Board of Directors of the Company sees corporate governance as an integral part of its business strategy. By putting in place a strong governance framework, the Board of Directors has set a culture of integrity, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the Company. The Governance section of the 2017 Annual Report outlines the Company's approach to governance and its initiatives and activities.

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of HSH Corporate Governance Code (HSH Code). Recognising all the principles underlying the CG Code, the HSH Code has already encompassed all code provisions and recommended best practices of the CG Code, save for certain recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as set out in the Corporate Governance Report on page 142 of the 2017 Annual Report.

Throughout the six months ended 30 June 2018, the Company has complied with the HSH Code, which as stated above incorporates all the code provisions in the CG Code and most of the recommended best practices.

Risk Management and Internal Control

Effective risk management plays an integral role in the overall achievement of the Group's strategic objectives. The Group's business strategy is to optimise the quality of our asset portfolio in the long term, ensure the long-term sustainability of our business, deliver a high standard of luxury, preserve the tradition of integrity and respect for our heritage. This in turn shapes the Group's approach to risk governance and principal risks, which is outlined in the Governance section of the 2017 Annual Report.

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and control systems in the Group. In particular, for the first half of year 2018 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and the existing risk management and internal control systems remain effective and adequate.

Corporate Responsibility and Sustainability

The Group's Sustainable Luxury Vision 2020 guides our commitment to managing sustainability risks and opportunities. With three key areas of focus — Our Guests, Our People, and Our Cities, covering all divisions of our business — Vision 2020 sets out specific economic, social and environmental goals that we are targeting to achieve by year 2020.

The 2017 Corporate Responsibility and Sustainability Report (CRS Report) discusses in detail our progress towards Vision 2020 and specific material issues that contribute to the sustainable development of the Group. The CRS Report discloses the Group's corporate responsibility and sustainability performance which complies with the "comply or explain" provisions in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules (ESG Guide). It also includes a number of relevant recommended disclosures and contains standard disclosures from the Global Reporting Initiative Sustainability Reporting Standards. Together with the 2017 Annual Report, we have taken reference from the International Integrated Reporting Framework from the International Integrated Reporting Council. KPMG was commissioned to conduct assurance and an independent opinion on the CRS Report in accordance with the ESG Guide. The CRS Report is available on the Company's and the Stock Exchange's websites.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2018.

Dealings in the Company's Securities by Directors and Specified Employees

The Company has adopted its Code for Dealing in the Company's Securities by Directors (Securities Code) on terms no less exacting than the required standards set out in the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code).

The Company has made specific enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the six months ended 30 June 2018. The Directors have confirmed their full compliance with the required standard set out in the Model Code and the Securities Code.

The Company has further extended the Securities Code to specified employees including senior management who may from time to time come across inside information. All specified employees have also confirmed their full compliance with the required standards set out in the adopted Code for Dealing in the Company's Securities by Specified Employees.

Interim Dividend

The Board of Directors has resolved to declare an interim dividend of 5 HK cents per share (2017: 4 HK cents per share) for the six months ended 30 June 2018. The interim dividend will be payable on 12 October 2018 to shareholders whose names appear on the register of members on 6 September 2018.

The interim dividend will be offered with a scrip alternative for shareholders to elect to receive such interim dividend wholly or partly in the form of new fully paid shares instead of in cash. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 12 September 2018.

Closure of Register of Members

The register of members will be closed from 4 September 2018 to 6 September 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30pm on Monday, 3 September 2018.

Interim Report

The Interim Report of the Company will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 24 August 2018.

By Order of the Board

Christobelle Liao

Company Secretary

Hong Kong, 3 August 2018

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

Non-Executive Chairman

The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman

Andrew Clifford Winawer Brandler

Executive Directors

Managing Director and Chief Executive Officer

Clement King Man Kwok

Chief Operating Officer

Peter Camille Borer

Chief Financial Officer

Matthew James Lawson

Non-Executive Directors

William Elkin Mocatta

John Andrew Harry Leigh

Nicholas Timothy James Colfer

James Lindsay Lewis

Philip Lawrence Kadoorie

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li

Patrick Blackwell Paul

Pierre Roger Boppe

Dr William Kwok Lun Fung

Dr Rosanna Yick Ming Wong

Dr Kim Lesley Winser

Ada Koon Hang Tse