2018

Interim Report 中期報告

Stock Code股份代號: 00045

The Hongkong and Shanghai Hotels, Limited 香港上海大酒店有限公司

The Peninsula Hong Kong's 90th Anniversary

Our flagship hotel, The Peninsula Hong Kong, is celebrating its 90th anniversary in 2018. The legendary "Grande Dame of the Far East" blends the best of Eastern and Western hospitality in an atmosphere of classical grandeur and timeless elegance. A stay at the hotel allows you to relive the glamour of travel from a bygone era, combined with the most up-to-date seamless modern technology and convenience. This year, The Peninsula Hong Kong celebrates its heritage in signature style – from the revival of Afternoon Tea Dances in the majestic Lobby, to a culinary adventure through the hotel's top dining establishments – we continue to create memorable and timeless experiences for our guests.

香港半島酒店90周年誌慶

集團旗艦酒店香港半島酒店於2018年慶祝成立90周年。這位聞名遐邇的「遠東貴婦」融匯東西方殷勤好客之道，是結合典雅華麗和永垂不朽的完美化身。下榻於此讓您重溫昔日的魅力與光輝，同時體驗先進的現代科技與便利。今年，香港半島酒店的慶祝活動回歸經典，在富麗堂皇的大堂重現下午茶舞，並於酒店各家頂級餐廳呈獻美饌盛宴。我們會繼續為賓客帶來永誌難忘的體驗。

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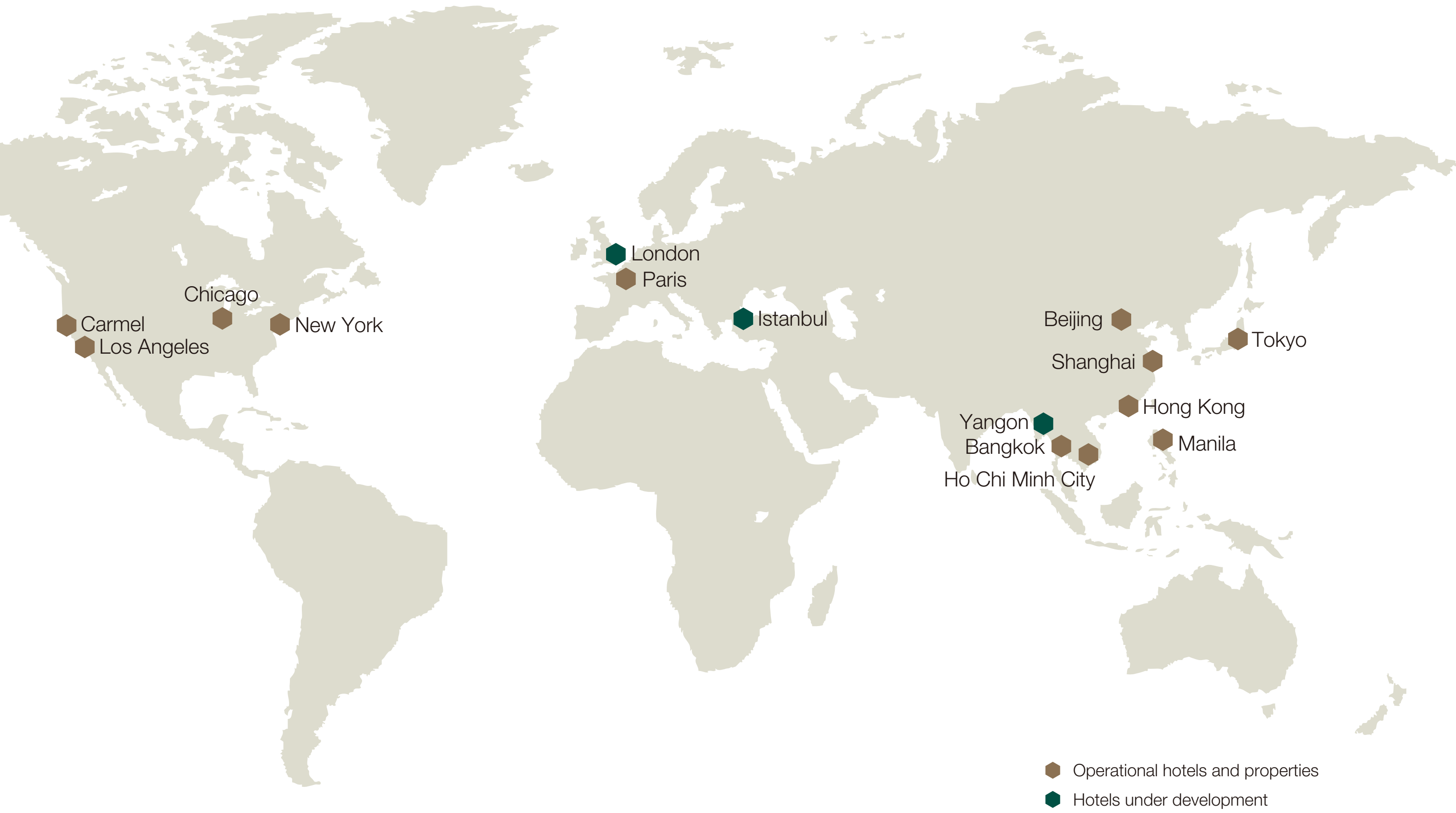
COMPANY AT A GLANCE



HOTELS

The Hongkong and Shanghai Hotels, Limited (HSH) was incorporated in 1866 and is listed on the Hong Kong Stock Exchange (00045). HSH is the holding company of a Group which is engaged in the ownership, development and management of prestigious hotels and commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of tourism and leisure, club management and other services.

HSH businesses are grouped under three divisions: hotels, commercial properties and clubs and services.

The Peninsula Hong Kong
Established: 1928

Rooms: 300 Ownership: 100%

The Peninsula Shanghai
Established: 2009

Rooms: 235 Ownership: 50%

The Peninsula Beijing
Established: 1989

Rooms: 230 Ownership: 76.6%*

The Peninsula Tokyo
Established: 2007

Rooms: 314 Ownership: 100%

The Peninsula Bangkok
Established: 1998

Rooms: 370 Ownership: 50%

The Peninsula Manila
Established: 1976

Rooms: 469 Ownership: 77.4%

The Peninsula New York
Acquired: 1988

Rooms: 235 Ownership: 100%

The Peninsula Chicago
Established: 2001

Rooms: 339 Ownership: 100%

The Peninsula Beverly Hills
Established: 1991

Rooms: 195 Ownership: 20%

The Peninsula Paris
Established: 2014

Rooms: 200 Ownership: 20%

* The Group owns 100% economic interest of The Peninsula Beijing with a reversionary interest to the PRC partner at the end of the co-operating joint venture period

COMMERCIAL PROPERTIES

The Repulse Bay
Hong Kong (residential and arcade)
Established: 1976 &1989

GFA:1,058,455 sq. ft.
Ownership: 100%

The Peninsula Office Tower
Hong Kong
Established: 1994

GFA: 75,082 sq. ft.
Ownership: 100%

The Peak Tower
Hong Kong (retail)
Established: 1996

GFA: 116,768 sq. ft.
Ownership: 100%

21 avenue Kléber
Paris, France (office and retail)
Acquired: 2013

GFA: 44,218 sq. ft.
Ownership: 100%

St. John's Building
Hong Kong (office)
Established: 1983

GFA: 71,400 sq. ft.
Ownership: 100%

The Landmark
Ho Chi Minh City, Vietnam
(office and residential)
Established: 1994

GFA: 175,903 sq. ft.
Ownership: 70%**

** The Group owns 50% economic interest of The Landmark with a reversionary interest to the Vietnamese partner at the end of the joint venture period

CLUBS AND SERVICES

The Peak Tram
Hong Kong
Established: 1888
Ownership: 100%

Thai Country Club
Bangkok, Thailand
Established: 1996
Ownership: 50%

Quail Lodge & Golf Club
Carmel, USA
Acquired: 1997
Ownership: 100%

Peninsula Clubs and
Consultancy Services
Established: 1977
Ownership: 100%

Peninsula Merchandising
Established: 2003
Ownership: 100%

Tai Pan Laundry
Hong Kong
Established: 1980
Ownership: 100%

PROJECTS

The Peninsula London
Ownership : 100%

The Peninsula Istanbul
Ownership : 50%

The Peninsula Yangon
Ownership : 70%

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 HK$m	Variance YoY In HK$	Variance YoY 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 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 HONG KONG	Revenue HK$660m	Occupancy	Average Room Rate	RevPAR
	+9%	-1pp	+23%	+22%

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 SHANGHAI	Revenue RMB249m	Occupancy	Average Room Rate	RevPAR
	+2%	0pp	+3%	+3%

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 BEIJING	Revenue RMB124m	Occupancy	Average Room Rate	RevPAR
	+53%	+14pp	-11%*	+16%

* compared to 110 rooms in 1H 2017

The Peninsula Tokyo was awarded first place in the "Top 10 City Hotels" in the *Travel + Leisure* 2018 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 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 TOKYO	Revenue JPY6.01b	Occupancy	Average Room Rate	RevPAR
	+4%	+2pp	+5%	+8%

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 BANGKOK	Revenue THB592m	Occupancy	Average Room Rate	RevPAR
	+15%	+11pp	-1%	+15%

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 Filipino cuisine, which was well received by guests.

THE PENINSULA MANILA	Revenue PHP771m	Occupancy	Average Room Rate	RevPAR
	+3%	+5pp	+1%	+8%

US

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 NEW YORK	Revenue US$42m	Occupancy	Average Room Rate	RevPAR
	+6%	+1pp	+4%	+5%

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 CHICAGO	Revenue US$34m	Occupancy	Average Room Rate	RevPAR
	+6%	+3pp	+5%	+11%

We were delighted that **The Peninsula Beverly Hills** was once again voted "The Best Hotel in the US" by *Global Traveler* magazine and has retained its AAA Five Diamond and Forbes Five Star-rated ratings, accolades 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.

THE PENINSULA BEVERLY HILLS	Revenue US$38m	Occupancy	Average Room Rate	RevPAR
	-8%	-5pp	-5%	-11%

Europe

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.

THE PENINSULA PARIS	Revenue EUR30m	Occupancy	Average Room Rate	RevPAR
	+6%	+3pp	-2%	+5%

Commercial Properties Division

		Variance YoY	
Commercial Properties	Revenue HK$m	In HK$	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 bar, *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$m	Variance YoY In HK$	Variance YoY 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 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 Doğuş 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 property 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, and will have 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 Kwok
3 August 2018

The Interim Report includes 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 and the Company's Auditor, KPMG, whose independent review report to the Board of Directors is set out on page 51.

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%.

	For the six months ended 30 June		
HK$m	**2018**	2017	2018 vs 2017
Profit attributable to shareholders	**644**	519	
Adjustment for fair value movement of investment properties*	**(389)**	(338)	
Underlying profit attributable to shareholders	**255**	181	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 23. 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$m	**As at 30 June 2018**		As at 31 December 2017	
Net assets attributable to shareholders per statement of financial position		**38,610**		38,175
Adjusting the value of hotels and golf courses to fair value	**4,003**		3,876	
Less: Related deferred tax and non-controlling interests	**(307)**		(326)	
		3,696		3,550
Adjusted net assets attributable to shareholders		**42,306**		41,725
Net assets per share (HK$)		**24.03**		24.02
Adjusted net assets per share (HK$)		**26.33**		26.26

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 32. 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 18 to 21 of this Financial Review.

	For the six months ended 30 June		
HK$m	**2018**	2017	2018 vs 2017
Revenue	**2,850**	2,596	10%
Operating costs	**(2,186)**	(2,035)	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	**(75)**	(59)	27%
Profit for the period	**644**	516	25%
Non-controlling interests	**–**	3	(100%)
Profit attributable to shareholders	**644**	519	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 next page.

Revenue by business segment

HK$m	For the six months ended 30 June 2018 Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2017 Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2018 vs 2017
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%
	2,850	**268**	**3,118**	2,596	251	2,847	10%

Revenue by geographical segment

HK$m	For the six months ended 30 June 2018 Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2017 Group's subsidiaries	Associates and joint venture (effective share)	Combined total	2018 vs 2017
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%
	2,850	**268**	**3,118**	2,596	251	2,847	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 7 to 14 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			2017			2018 vs 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	–
	664	**56**	**720**	561	69	630	14%

EBITDA by geographical segment

HK$m	For the six months ended 30 June 2018			2017			2018 vs 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	(21%)
	664	**56**	**720**	561	69	630	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 8.

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 pages 11 and 12.

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%
Represented by			
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.

		30 June 2018		31 December 2017	
		Value of 100% of the property (HK$m)			
	Group's interest	**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 36. The following table summarises the key cash movements for the first six months of 2018.

	For the six months ended 30 June	
HK$m	**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.

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.

Board and Board Committees

The composition of the Board and Board committees as at the date of this Report is set out below:

Non-Executive Directors	Executive Directors	Independent Non-Executive Directors
The Hon. Sir Michael Kadoorie N E *Non-Executive Chairman*	Clement K.M. Kwok E F *Managing Director and Chief Executive Officer*	Dr the Hon. Sir David K.P. Li N
Andrew C.W. Brandler A R E F *Non-Executive Deputy Chairman*	Peter C. Borer *Chief Operating Officer*	Patrick B. Paul A R
William E. Mocatta	Matthew J. Lawson F *Chief Financial Officer*	Pierre R. Boppe
John A.H. Leigh E F		Dr William K.L. Fung N
Nicholas T.J. Colfer		Dr Rosanna Y.M. Wong R
James L. Lewis		Dr Kim L. Winser
Philip L. Kadoorie		Ada K.H. Tse A

Governance Board Committees
A Audit Committee
N Nomination Committee
R Remuneration Committee
Chairman of the Committee

Other Board Committees
E Executive Committee
F Finance Committee
Chairman of the Committee

Disclosure under Rule 13.51B(1) of the Listing Rules

(a) Directors' Remuneration

With effect from 1 January 2018, the basic compensation of the three Executive Directors, Messrs Clement Kwok, Peter Borer and Matthew Lawson was increased by 3.5%. The basis for determining the Directors' bonuses, incentives and retirement benefits remains unchanged.

The Board in March 2018 approved the recommendation of the Remuneration Committee on the revision of the fees payable to Non-Executive Directors (NEDs) and Independent Non-Executive Directors (INEDs) to HK$325,000 and HK$375,000 respectively per annum. These fees were approved by Shareholders at the 2018 Annual General Meeting. The Board also approved a revision of the fee payable to the Chairman of the Remuneration Committee to HK$100,000 per annum.

These revised fees took effect on 9 May 2018 and are paid to the NEDs and INEDs and Chairman of the Remuneration Committee on a pro rata basis for the financial year ending 31 December 2018.

(b) Directors' information

Mr Clement Kwok resigned as an Independent Non-Executive Director of Orient Overseas (International) Limited on 3 August 2018.

Dr William Fung resigned as a Non-Executive Director of Trinity Limited on 18 April 2018.

Save as disclosed above, as at 3 August 2018, being the date of approval of the Company's Interim Report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The biographical details of Directors are available on the Company's website.

Interests of Directors

As at 30 June 2018, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, are as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	872,071,472	54.252
Mr Clement K.M. Kwok	Beneficial Owner	733,174	0.046
Mr Peter C. Borer	Beneficial Owner	365,503	0.023
Mr Matthew J. Lawson	Beneficial Owner	200,000	0.012
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (b)	82,651,862	5.142
Mr Philip L. Kadoorie	Note (c)	678,009,416	42.179
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,096,830	0.068
Mr Pierre R. Boppe	Beneficial Owner	30,000	0.002

Notes:

(a) The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 872,071,472 shares in the Company. These shares were held in the following capacity:

(i) 194,062,056 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 344,021,301 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder; and

(iii) 333,988,115 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the discretionary beneficiaries and the founder.

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 872,071,472 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

(b) Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 82,651,862 shares in the Company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 82,651,862 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 82,651,862 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 678,009,416 shares in the Company. These shares were held in the following capacity:

(i) 344,021,301 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and

(ii) 333,988,115 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries.

Messrs Andrew Brandler, Nicholas Colfer, James Lewis, Patrick Paul, Dr William Fung, Dr Rosanna Wong, Dr Kim Winser and Ms Ada Tse who are Directors of the Company have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 30 June 2018.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 30 June 2018, none of the Directors of the Company (including their spouses and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO.

At no time during the period was the Company, or its subsidiaries, or its associated companies, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

Interests of Senior Management

As at 30 June 2018, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director of the Company, as at 30 June 2018, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are as follows:

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	194,062,056	12.07[(i)]
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	276,713,918	17.21[(i)]
Guardian Limited	Beneficiary/Interest of controlled corporation	82,651,862	5.14[(v)]
Harneys Trustees Limited	Interests of controlled corporations	678,009,416	42.18[(iii)]
Lawrencium Holdings Limited	Beneficiary	333,988,115	20.78[(ii)]
Lawrencium Mikado Holdings Limited	Beneficiary	344,021,301	21.40[(ii)]
The Magna Foundation	Beneficiary	344,021,301	21.40[(ii)]
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	678,009,416	42.18[(ii)]
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	82,651,862	5.14[(iv)]
Oak (Unit Trust) Holdings Limited	Trustee	82,651,862	5.14[(i)]
Oak HSH Limited	Beneficiary	82,651,862	5.14[(iv)]
Mr Richard Parsons	Trustee	82,651,862	5.14[(v)]

Notes:

(i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, Oak (Unit Trust) Holdings Limited and The Oak Private Trust Company Limited were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie is among the discretionary objects as disclosed in "Interests of Directors".

(ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie and/or Mr Philip L. Kadoorie are among the discretionary beneficiaries and/or a founder as disclosed in "Interests of Directors".

(iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.

(iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited was deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such company.

(v) Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 82,651,862 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Satinu Resources Group Ltd.	Interests of controlled corporations	184,360,714	11.47(i)
Songbird SG Pte. Ltd.	Interests of controlled corporations	184,360,714	11.47(i)
Tai He Financial Group Limited	Interests of controlled corporations	184,360,714	11.47(i)
Tai United Holdings Limited	Beneficiary	184,360,714	11.47(i)
Mr Ng Chee Siong	Trustee	78,402,393	5.00(ii)
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00(ii)
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00(ii)

Notes:

(i) Satinu Resources Group Ltd. (Satinu) was deemed to be interested in the 184,360,714 shares through its interests of controlled corporations including Songbird SG Pte. Ltd. (Songbird), Tai He Financial Group Limited (Tai He) and Tai United Holdings Limited (Tai United). Hence, the share interests of Satinu, Songbird, Tai He and Tai United as disclosed were duplicated. The nature, number and the percentage of shares held by Satinu and Songbird, and Tai United are based on the substantial shareholder notices filed with the Stock Exchange on 29 June and 27 June 2018 respectively.

On 26 June 2018, Tai United and Solis Capital Limited (Solis) entered into a sale and purchase agreement in relation to the proposed disposal of 184,360,714 shares in the Company by Tai United. The ultimate owner of Solis is Satinu. The proposed disposal is subject to the shareholders' approval of Tai United.

(ii) Mr Ng Chee Siong and Mr Philip Ng Chee Tat, had trustee interest in their capacity as the co-executors of the estate of Mr Ng Teng Fong, who controlled Sino Hotels (Holdings) Limited and therefore they were both deemed to be interested in the 78,402,393 shares in which Sino Hotels (Holdings) Limited was deemed to be interested. Hence, the share interests of Mr Ng Chee Siong, Mr Philip Ng Chee Tat and Sino Hotels (Holdings) Limited as disclosed were duplicated. The nature, number and the percentage of shares held by all of them are based on the substantial shareholder notices filed with the Stock Exchange on 8 May 2017.

Except as set out above, as at 30 June 2018, the Company had not been notified of any substantial shareholder (other than Directors of the Company) who had interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 30 June 2018, the Company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

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 4:30 pm on Monday, 3 September 2018.

By Order of the Board

Christobelle Liao
Company Secretary
3 August 2018

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.

The notes on pages 37 to 50 form part of this Interim Financial Report.

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		
Items that may be reclassified subsequently to profit or loss:		
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
	(202)	427
Cash flow hedges:		
– effective portion of changes in fair value	**1**	(17)
– transfer from equity to profit or loss	**5**	10
Other comprehensive income	**(196)**	420
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

The notes on pages 37 to 50 form part of this Interim Financial Report.

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

The notes on pages 37 to 50 form part of this Interim Financial Report.

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

		Attributable to shareholders of the Company						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
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**

The notes on pages 37 to 50 form part of this Interim Financial Report.

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

Note Analysis of cash and cash equivalents

	As at 30 June	
	2018	2017
Interest-bearing bank deposits	**598**	1,582
Cash at banks and in hand	**183**	193
Total cash at banks and in hand	**781**	1,775
Less: Interest-bearing bank deposits with maturity of more than three months	**(41)**	(126)
Less: Bank overdrafts	**(5)**	(6)
Cash and cash equivalents in the condensed consolidated statement of cash flows	**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.

The notes on pages 37 to 50 form part of this Interim Financial Report.

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. KPMG's independent review report to the Board of Directors is included on page 51.

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	
	For the six months ended 30 June							
	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

* Analysis of segment revenue

	2018	2017
Hotels		
– Rooms	**1,025**	874
– Food and beverage	**610**	562
– Shopping arcades and offices	**319**	321
– Others	**204**	169
	2,158	1,926
Commercial Properties		
– Residential properties	**246**	243
– Offices	**41**	52
– Shopping arcades	**186**	171
	473	466
Clubs and Services		
– Golf club	**91**	82
– Peak Tram operation	**67**	63
– Clubs and consultancy services	**2**	3
– Others	**59**	56
	219	204
Total	**2,850**	2,596

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
		45,486	44,746
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		**48,164**	48,520

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
	87	77
Less: Interest expenses capitalised into properties under development*	**(47)**	–
	40	77

* 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)

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
	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)
	(7)	(9)
	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*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,589***	*1,567*
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)	***1***	*1*
Weighted average number of shares in issue at 30 June	***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.

(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)	**255**	235

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.

(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 (note 10(b))	**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 Salıpazarı 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

(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)).

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

(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	**659**	699

(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 Assets	As at 31 December 2017 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.

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.

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

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.

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
	90	140

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

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

	As 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	**1,607**	**5,445**	1,589	5,224

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
	2,276	**6,706**	**8,982**	2,141	8,012	10,153

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.

Review Report to the Board of Directors

The Hongkong and Shanghai Hotels, Limited (incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the Interim Financial Report set out on pages 32 to 50 which comprises the consolidated statement of financial position of The Hongkong and Shanghai Hotels, Limited as of 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the Interim Financial Report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the Interim Financial Report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

3 August 2018

Shareholder Information

Financial Calendar	2018
2018 interim results announcement	3 August
Interim Report available	24 August
Ex-dividend date for interim dividend	31 August
For entitlement to receive interim dividend	
– Last day to register	3 September 4:30pm
– Closure of register of members	4 September to 6 September (both days inclusive)
– Record date	6 September
Scrip dividend scheme circular and/or election form available	12 September
Last day to return scrip dividend election form	2 October 4:30pm
Dividend warrants and share certificates for interim dividend available	On or about 12 October
Financial year end	31 December

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Share Information

Stock Code: 00045
2017 Final Dividend: 16 HK cents per share
2018 Interim Dividend: 5 HK cents per share

Request for Feedback

To improve the quality of our interim reporting, we welcome your feedback via email to ir@hshgroup.com or by post to our registered office.

Shareholder Services

For enquiries about share transfer and registration, please contact the Company's Share Registrar:

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
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E-mail: hkinfo@computershare.com.hk

Shareholders may at any time change their choice of language or means of receipt of the Company's corporate communications by notice in writing to the Company's Share Registrar at the address above. The Change Request Form may be downloaded from the Company's website at www.hshgroup.com.

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