Interim Report 2019 中期報告

The Hongkong and Shanghai Hotels, Limited

香港上海大酒店有限公司

Stock Code 股份代號: 00045

In 2019, The Peninsula Hotels became the first and the only luxury hotel brand in the world to achieve a Forbes Travel Guide Five-Star rating for every hotel in its portfolio. This is the first time in the 61-year history of the Forbes Travel Guide that a single brand has achieved this status. The cover design of this report is inspired by the company's dedicated marketing campaign "A Perfect Ten" in celebration of the Forbes recognition.

2019年半島酒店集團旗下每一間酒店均榮獲《福布斯旅行指南》五星評級，成為全球首個也是唯一獲得此大滿貫殊榮的酒店集團。該獎項也是《福布斯旅行指南》61年歷史以來首次頒予同一品牌的殊榮。本中期報告之封面設計意念，乃源自本集團名為「十全十美」的市場推廣活動系列，以紀念此項來自福布斯的嘉許。

"This award is the culmination of an immense amount of hard work from colleagues across our ten hotels. Our employees dedicate themselves to providing our guests with the best possible standards of luxury service"

Peter Borer, Chief Operating Officer, The Hongkong and Shanghai Hotels (centre) pictured at an awards ceremony in Los Angeles with General Managers of The Peninsula Hotels around the world.

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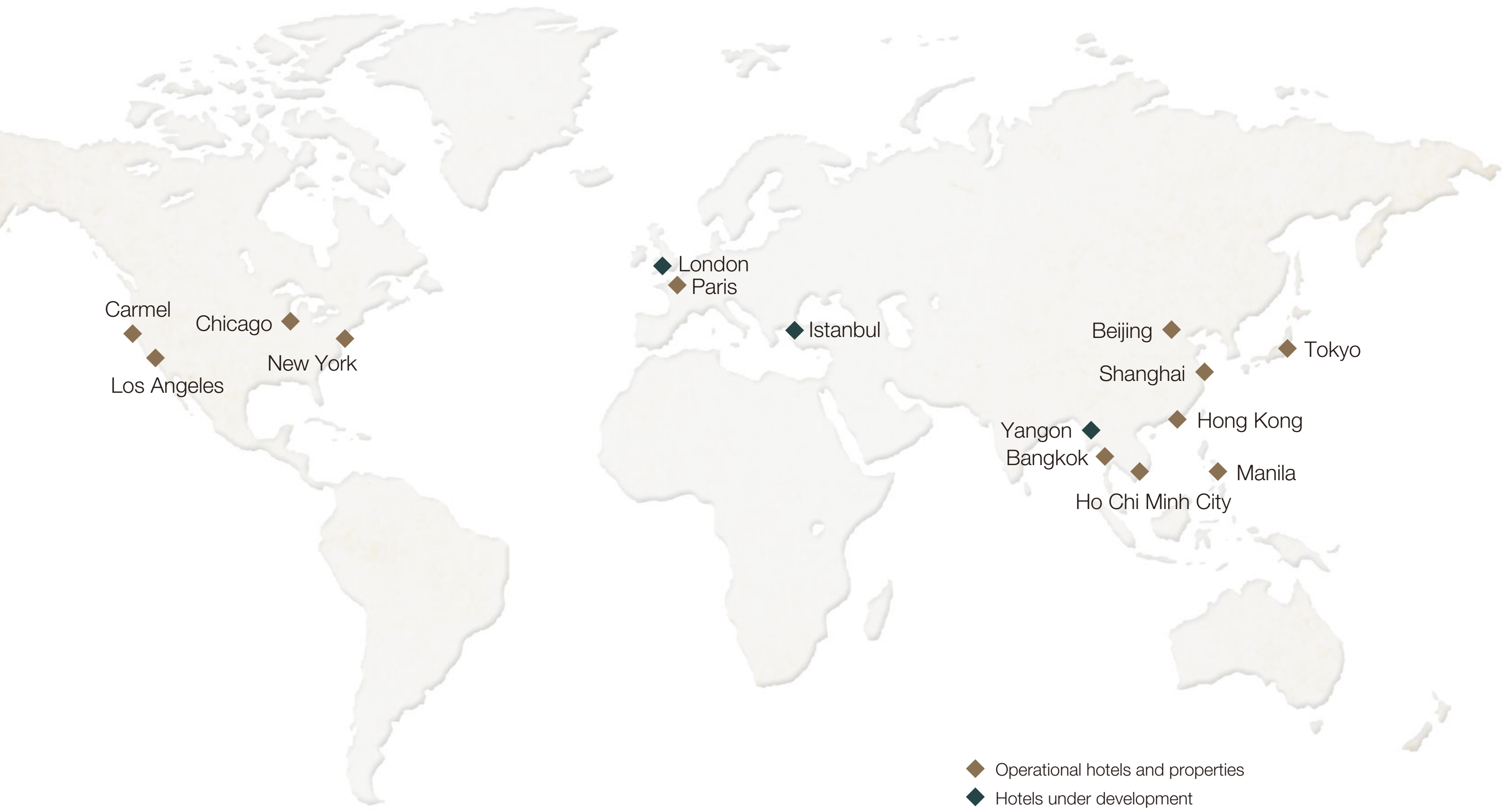
Company at a Glance



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
Acquired: 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%

COMMERCIAL PROPERTIES

The Repulse Bay
Hong Kong (residential and retail)
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%

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 UNDER DEVELOPMENT

The Peninsula London

Ownership: 100%

The Peninsula Istanbul

Ownership: 50%

The Peninsula Yangon

Ownership: 70%

Financial Highlights

	For the six months ended 30 June		
	2019	2018 (restated)	Increase/ (Decrease)
Consolidated Statement of Profit or Loss (HK$m)			
Revenue	**2,791**	2,850	(2%)
EBITDA	**610**	730	(16%)
Operating profit	**319**	427	(25%)
Profit attributable to shareholders	**254**	630	(60%)
Earnings per share (HK$)	**0.16**	0.40	(60%)
Underlying profit *	**148**	241	(39%)
Interim dividend	**65**	80	(19%)
Interim dividend per share (HK cents)	**4**	5	(20%)
Interim dividend cover (times) **	**2.3x**	3.0x	(23%)
Interest cover (times) Δ			
– *Excluding financing charges on lease liabilities*	**14.5x**	14.2x	2%
– *Including financing charges on lease liabilities*	**4.4x**	5.3x	(17%)
Cash interest cover (times) ΔΔ	**9.3x**	10.9x	(15%)
Weighted average gross interest rate on bank borrowings	**2.3%**	2.4%	(0.1pp)

	As at 30 June 2019	As at 31 December 2018 (restated)	
Consolidated Statement of Financial Position (HK$m)			
Total assets	**52,229**	51,724	1%
Net assets attributable to shareholders	**38,797**	38,664	–
Adjusted net assets attributable to shareholders #	**42,598**	42,411	–
Net assets per share (HK$)	**23.82**	23.97	(1%)
Adjusted net assets per share (HK$) #	**26.15**	26.29	(1%)
Net borrowings			
– *Excluding lease liabilities*	**6,364**	5,917	8%
– *Including lease liabilities*	**9,515**	8,940	6%
Funds from operations to net debt ##			
– *Excluding lease liabilities and the related lease interest*	**17%**	22%	(5pp)
– *Including lease liabilities and the related lease interest*	**10%**	14%	(4pp)
Net debt to equity attributable to shareholders			
– *Excluding lease liabilities*	**16%**	15%	1pp
– *Including lease liabilities*	**25%**	23%	2pp
Net debt to total assets			
– *Excluding lease liabilities*	**12%**	11%	1pp
– *Including lease liabilities*	**18%**	17%	1pp

	For the six months ended 30 June		
	2019	2018 (restated)	
Condensed Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities before net working capital movement	**602**	718	(16%)
Capital expenditure on existing assets	**(242)**	(200)	21%
Capital expenditure on new projects and investments	**(611)**	(678)	(10%)
Share Information (HK$)			
Highest share price	**12.08**	13.48	
Lowest share price	**10.18**	10.76	
Period end closing share price	**10.18**	11.20	

* 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
ΔΔ Cash interest cover is calculated as EBITDA less lease payments divided by net interest on bank loans 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

The first half of 2019 has been a challenging period for our group. We have encountered global political and economic uncertainty, with escalating trade tensions in some of the key markets in which we operate. The business impact of the US-China trade war is difficult to quantify, but when analysing our results, we believe our hotels in Hong Kong and the Chinese mainland have been negatively affected during the period. Uncertainty in Europe caused by the ongoing Brexit negotiations and the *gilets jaunes* protests in Paris impacted our business in the early months of 2019. At the time of this report, political protests in Hong Kong that started in June are continuing and we are concerned about the impact of these on tourist arrivals as well as broader economic stability in Hong Kong. We will continue to monitor the situation.

Looking at our group's results for the first six months, our revenue was down modestly by 2%. This was impacted by the temporary service suspension of the Peak Tram as part of its major upgrade project, as well as softer market conditions for some of our hotels, particularly The Peninsula Hong Kong and The Peninsula New York. Our operating expenses were relatively well contained, increasing less than 3%, which we consider reasonable in the light of the increased costs associated with supporting our three new hotel projects and the Peak Tram upgrade project. However, considering the high fixed-cost nature of our business, including depreciation charges, interest and the reduction in the non-operating and (non-cash) revaluation gain on the investment properties in Hong Kong as compared to the previous year, we felt it prudent to update shareholders that our unaudited profit attributable to shareholders would be significantly lower year-on-year, as per the profit alert released on 21 June 2019.

Despite the political and economic uncertainty that we face, our long-term philosophies and values remain steadfast. By taking a long-term view and by maintaining and enhancing the quality of our assets and operations, we seek to create significant value for our shareholders from the long-term appreciation in the capital value of our properties, as well as from the increasing operating yield as each property grows its income over time.

Due to this approach, I believe The Peninsula is recognised as one of the finest hotel brands in the world. The level of quality in our hotels is such that in February 2019 we were awarded Forbes Five-star ratings for all ten Peninsula hotels and we believe we are the only hotel group in the world to achieve such a rating for all its hotels.

During challenging times such as the present, we maintain a constant focus on building a long-term sustainable business. We retain a conservative capital structure to help insulate our business against volatility. We continue to invest in improving our assets, and developing our people with training, learning and development opportunities, as well as investing in technology and digital capabilities to enhance our marketing efforts. We are making significant progress in our Peninsula hotel projects in London, Istanbul and Yangon as well the Peak Tram upgrade project, although we are facing significant cost pressure in London. More generally, we are implementing cost efficiency measures and controlling expenses where possible in our global operations and head office.

Business Performance

Our group comprises three key divisions – hotels, commercial properties and clubs and services. These divisions are described in more detail in the following review.

Hotels Division

Hotels	Revenue HK$m	Variance In HK$	Variance In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	617	–7%	–7%
The Peninsula Beijing	151	–1%	+5%
The Peninsula New York	316	–4%	–4%
The Peninsula Chicago	277	+4%	+4%
The Peninsula Tokyo	434	0%	+1%
The Peninsula Bangkok	140	–5%	–5%
The Peninsula Manila	119	+3%	+3%
Non-consolidated hotels			
The Peninsula Shanghai	259	–15%	–10%
The Peninsula Beverly Hills	294	–1%	–1%
The Peninsula Paris	279	0%	+6%

Asia

The Peninsula Hong Kong

The Peninsula Hong Kong was the market leader in average rate in the first half of 2019, although overall revenue declined 7% over the same period last year, partly due to an exceptional performance in the first half of 2018 from large non-recurring group business. This factor combined with increased supply in the Tsim Sha Tsui area of Hong Kong and a soft market overall for the luxury sector led to a challenging environment in the first half.

The US, Chinese mainland and Japan remain our top three market segments. We believe the US-China trade war had a negative impact on occupancy compared to the same period last year, although the scale of this impact is difficult to quantify. We were pleased to report increasing arrivals from Taiwan, South America and Eastern Europe following sales outreach in these markets.

As part of our ongoing commitment to showcase contemporary art, we celebrated the inaugural *Art in Resonance* at The Peninsula Hong Kong in March 2019, coinciding with Art Basel Hong Kong, the world's premier art fair for modern and contemporary art. The Peninsula Hotels worked alongside respected curators to carefully select contemporary artists Janet Echelman, Iván Navarro, Timothy Paul Myers and the Shanghai-based architecture collective MINAX. The Gala event was well received in the art community and by global media.

The Peninsula Office Tower continued to perform well and was fully occupied throughout the first half of 2019, and the immediate outlook is stable. The Peninsula Arcade occupancy was 83% and the overall environment in Hong Kong for luxury retail remained soft. We collaborated with a high-end luxury jewellery brand to design a bespoke Signature Afternoon Tea and to help promote the Arcade to guests.

THE PENINSULA HONG KONG	Revenue HK$617m	Occupancy	Average Room Rate	RevPAR
	-7%	-7pp	-1%	-11%

The Peninsula Shanghai

The Peninsula Shanghai remains the market leader in average room rate in the city, driven by our beautiful and spacious room product as well as high-end groups occupying the premium suites. We were delighted to be named as the "Best Hotel in Shanghai" by *Travel + Leisure* magazine. Despite our favourable position compared to our competitive set, the hotel reported a softer first half of 2019 against the previous year in terms of occupancy and RevPAR due to intense competition and significantly increased supply since 2017.

The domestic Chinese mainland market continued to be our largest revenue driver and we noted positive growth in arrivals from the Russia and Middle East markets. The US market was weaker which we believe was due to the effects of the US-China trade war which impacted corporate travel and groups business. The Peninsula Shanghai remains the only hotel in mainland China to have two restaurants with Michelin stars. However, overall food and beverage revenue declined over the same period last year.

In June 2019, we were proud to partner with world-leading independent arts charity BAFTA (the British Academy of Film and Television Arts) on the launch of their new programme 'BAFTA Breakthrough China' at No 1 Waitanyuan, the property we lease adjacent to the hotel. This is an initiative designed to identify and nurture the next generation of creative talent in Asia.

In addition to the hotel, The Peninsula Shanghai Complex also comprises a shopping arcade and a residential tower of 39 apartments. By the first half of 2019, a total of 29 residential units have been sold and The Peninsula Arcade was 95% occupied, with recent leasing momentum remaining stable.

THE PENINSULA SHANGHAI	Revenue RMB224m	Occupancy	Average Room Rate	RevPAR
	-10%	-2pp	-4%	-7%

The Peninsula Beijing

The Peninsula Beijing reported positive growth in RevPAR for the first half of 2019, following its major transformation in 2018. The hotel was the rate leader in our competitive set for the first half and we were delighted to be included in the Verified List for the World's Best Hotel Rooms in 2019 by Forbes Travel Guide.

Tourist arrivals in Beijing declined slightly in the first half of 2019 but we expect the hotel industry to continue to benefit from the Chinese Government's Belt and Road Initiative bringing in group business. We are implementing a strategy to focus on diplomatic and group bookings for the coming year and are proud to have welcomed several heads of state during the first half.

Following the renovation of our dining outlets and new positioning of *Jing*, we have launched new marketing campaigns to drive our food and beverage business.

The Peninsula Arcade was 66% occupied and has welcomed a number of new luxury brands to the Arcade which have been well received by guests.

THE PENINSULA BEIJING	Revenue RMB131m	Occupancy	Average Room Rate	RevPAR
	+5%	-1pp	+7%	+5%

The Peninsula Tokyo

We were pleased to report a strong year for **The Peninsula Tokyo** with improved RevPAR positioning, average rates and increased occupancy for the first half. The peak *sakura* (cherry blossom) season in the first quarter was particularly robust and we reported increasing arrivals from the US, Chinese mainland and the domestic Japanese market. The Middle East market continues to grow at a healthy pace.

Food and beverage revenue was weaker compared to the same period last year, due to softer demand from the wedding market and general MICE (Meetings, Incentives, Conferences and Exhibitions) market. In April 2019 we welcomed a new tenant restaurant, *Sushi Wakon*, featuring two Michelin-starred Chef Rei Masuda. Spa revenue continues to remain strong due to the launch of an exclusive line of treatments and retail products. We also launched an exclusive high-end, limited-edition Peninsula whisky which was very popular and sold out within months of its release.

We are optimistic for the coming year as visitor arrivals to Japan continue to be very strong ahead of the Rugby World Cup in 2019 and the Tokyo Olympics in 2020.

THE PENINSULA TOKYO	Revenue JPY6.09b	Occupancy	Average Room Rate	RevPAR
	+1%	0pp	+7%	+6%

The Peninsula Bangkok

The Peninsula Bangkok reported a relatively soft start to the year, impacted by a slower economy and uncertainty over the country's first elections since 2014. Our hotel was also negatively affected by extensive roadworks adjacent to our property which impacted our food and beverage and catering business.

Despite these challenges, the hotel reported positive growth in average rates in the first half of 2019, with good growth in arrivals mainly from Hong Kong and Southeast Asia due to the visa-free agreements with these territories. Chinese mainland tourist arrivals declined year-on-year following a tragic boating accident in Phuket in 2018 which led to reduced group tourism to the country overall.

Our strategy continued to focus on driving MICE business and suite bookings. We have launched promotions to drive food and beverage revenue. We were delighted to position the hotel at the forefront of Thailand's thriving arts scene by becoming the first luxury hotel in Bangkok to offer an Artist in Residence programme, which welcomed Thai and international artists to live and work for two months in a custom-created studio at the hotel. Spa performed well and we increased retail space in the hotel's commercial area to offer more variety for guests.

THE PENINSULA BANGKOK	Revenue THB562m	Occupancy	Average Room Rate	RevPAR
	-5%	-6pp	+8%	0%

The Peninsula Manila

The Peninsula Manila reported positive growth in occupancy and overall hotel revenue during the first half of the year despite intense and increasing competition in a highly price-sensitive market. Our food and beverage operations performed well with nearly all outlets achieving positive revenue growth as compared to last year. We commenced our soft room refurbishment programme in April 2019, with plans to update and refresh all of our guestrooms and suites before the year end.

During the first half the Philippines experienced a 7% increase in foreign tourist arrivals year-on-year, with the Korean market remaining No 1 and the Chinese mainland being the fastest-growing inbound market with a double digit year-over-year growth. The re-opening of Boracay island is expected to further boost tourism into the Philippines for 2019, highlighting "sustainable tourism" as a key focus.

Manila continues to develop as a high-end culinary destination. We launched a partnership with three of Manila's top chefs who will bring 15 of Asia's Top Chefs for a series of luxury dinners throughout the year.

THE PENINSULA MANILA	Revenue PHP792m	Occupancy	Average Room Rate	RevPAR
	+3%	+5pp	-5%	+2%

US

The Peninsula New York

The Peninsula New York had a challenging first half of 2019 with decreasing revenue and occupancy compared to the same period last year. The Middle East market segment overall continues to be impacted by travel restrictions and geopolitical tensions although corporate business from other markets was strong.

The hotel's food and beverage performance experienced a soft first half, partly exacerbated by the hotel's rooftop bar, *Salon de Ning*, being negatively affected by the unseasonably rainy weather in the second quarter.

In April, we presented *Home*, an art exhibition honoring the notions of home, identity and community, as an ode to The Peninsula's larger commitment to celebrating family and heritage. The exhibition featured a curated selection of original works by artists including Do Ho Suh, Catherine Opie, Angel Otero, Ashley Bickerton and Heidi Bucher, among others.

During the first half of the year, we focused on improving the property by completing some upgrading work of facilities in the hotel as well as a statutory requirement to enhance the pavement on Fifth Avenue.

THE PENINSULA NEW YORK	Revenue US$41m	Occupancy	Average Room Rate	RevPAR
	-4%	-7pp	+4%	-6%

The Peninsula Chicago

The Peninsula Chicago reported a positive first half, achieving market leader position in RevPAR and average rates despite significant new supply and fewer large conventions being held in the city which resulted in fewer business travellers.

Amidst intense competition, we were delighted to receive the accolade of "No 1 Best Luxury Hotel in the US" by *Tripadvisor*, as well as "No 1 hotel in Illinois" and "No 2 in the United States" from *U.S. News* and *World Report* respectively. These accolades are a testament to the popularity of the hotel following its renovation in 2016. *Z Bar*, which opened in 2018, has helped to drive revenue in the first half and continues to grow an influential social media following.

We added exciting new activities to our "Keys to the City" programme in the first half of 2019, highlighting the culinary, architectural and cultural aspects of Chicago that make it unique and offering exclusive VIP access to attractions for our guests.

THE PENINSULA CHICAGO	Revenue US$35m	Occupancy	Average Room Rate	RevPAR
	+4%	0pp	0%	+1%

The Peninsula Beverly Hills

The Peninsula Beverly Hills was voted the No 1 Hotel in the Greater LA Area by *Travel + Leisure* magazine in July 2019 and has achieved AAA Five Diamond and Forbes Five-star Hotel ratings every year since 1993. *The Belvedere* is the only AAA Five Diamond restaurant in Los Angeles.

The hotel reported slightly decreased revenue and occupancy over the same period last year, which reflected the softer market across the city and increased supply of luxury accommodation. The traditionally robust market of the Middle East was weaker than previous years in the early summer months due to ongoing political uncertainty and the US Administration's travel policies. Food and beverage revenue, particularly on *The Roof Garden*, was negatively impacted by unseasonal cold and cloudy weather in spring.

We have implemented cost control measures to counteract the softer first half in addition to undertaking new marketing initiatives to drive business. In May we completely redesigned the award-winning Peninsula Spa and introduced a new high-end product line which has garnered a lot of attention. Our newly launched Emerging Artist Series held on the terrace celebrates vibrant LA street art, with proceeds donated to an LGBT-focused mental health charity, The Trevor Project. In the first half of 2019, we initiated "dim sum Sundays" in *The Belvedere* and launched a new programme for children called "Camp Peninsula" to attract family travellers. Our connections in the entertainment industry remain strong and we remain the hotel of choice for celebrities during awards season.

THE PENINSULA BEVERLY HILLS	Revenue US$38m	Occupancy	Average Room Rate	RevPAR
	-1%	-1pp	+1%	0%

Europe

The Peninsula Paris

In the first half of 2019, the city of Paris continued to be negatively impacted by the *gilets jaunes* protests which started in 2018. This impacted our operating results in the early part of 2019, as some of the protests occurred in the immediate vicinity of our hotel, although business improved in the second quarter. We believe the situation has calmed and we are cautiously optimistic for the remainder of 2019.

Overall **The Peninsula Paris** reported improved RevPAR, occupancy and average rates. We have focused on driving groups and MICE business and we were honoured to welcome several diplomatic groups including a high-level state visit during the first half of the year. Food and beverage revenue was satisfactory, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from Sacre-Coeur to the Eiffel Tower and has become well established among Parisian celebrities and high society. *Le Bar Kléber* also performed well and we are implementing new marketing initiatives and positioning for our Chinese restaurant *Lili*.

We hosted The Peninsula Classics Best of the Best Award in February 2019 which was well attended by classic car *aficionados* and celebrities and received extensive press coverage.

THE PENINSULA PARIS	Revenue EUR31m	Occupancy	Average Room Rate	RevPAR
	+6%	+1pp	+8%	+8%

Commercial Properties Division

Commercial Properties	Revenue HK$m	Variance In HK$	Variance In Local Currency
The Repulse Bay Complex	329	+5%	+5%
The Peak Tower	93	–7%	–7%
St. John's Building	27	+1%	+1%
The Landmark	19	–1%	+1%
21 avenue Kléber	12	0%	+6%

Our largest residential property, **The Repulse Bay Complex**, reported a positive first half with increased revenue and occupancy despite a softening market for luxury residential across the city.

Food and beverage revenue increased in the first half due to a number of promotions and initiatives to drive F&B business, including revamping our afternoon tea offering and promoting *Spices* as a venue for corporate events. *The Verandah* continues to attract excellent wedding business given the spectacular location and views of Repulse Bay. *Breeze*, our new outdoor venue which opened in 2018, has been popular with residents and visitors. We launched our first-ever public art exhibition to coincide with Art Basel, titled *Art @the Bay: Time and Transformation* featuring two sculptures and seven installations by Hong Kong artist Matthew Tsang.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was 99% occupied for most of the year.

The Peak Tower was fully leased for the first half of 2019. Revenue decreased by 7% due to the temporary closure of the Peak Tram, which also impacted the open-air rooftop attraction Sky Terrace 428, as forewarned in our 2018 Annual Report. We have implemented significant sales and marketing strategies to continue to drive business at the Peak.

St John's Building, located at the lower terminus of the Peak Tram, offers an excellent location for office space. The property was fully let during the first half of 2019 and revenue was stable.

The Landmark, a 16-storey residential and office property, is located on a prime riverfront site in the central business district of Ho Chi Minh City, Vietnam. Revenue and occupancy from the offices remained stable year-on-year, despite intense competition, while residential decreased compared to the same period last year. The Landmark maintains its popularity and leadership in a competitive market and continues to attract awards for its management and facilities.

21 avenue Kléber offers a prime location immediately adjacent to The Peninsula Paris on Avenue Kléber, just steps from the Arc de Triomphe. 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 the two retail spaces and revenue increased by 6% compared to the same period last year.

Clubs and Services Division

Clubs and Services	Revenue HK$m	Variance In HK$	Variance In Local Currency
The Peak Tram	46	–31%	–31%
The Thai Country Club	36	+4%	+3%
Quail Lodge & Golf Club	61	+7%	+7%
Peninsula Clubs & Consultancy Services	3	+17%	+17%
Peninsula Merchandising	31	–1%	–1%
Tai Pan Laundry	27	–1%	–1%

The Peak Tram is one of Hong Kong's most popular tourist attractions and has been operated by HSH for 131 years. From April to July 2019 we temporarily suspended the service of the Peak Tram to enable us to carry out construction work as part of the previously announced upgrade project which was approved by the Hong Kong Government in 2018. In the first half of 2019 revenue decreased by 31% due to the impact of the suspension of the Tram, which therefore had a significant impact on our group earnings as forewarned in the 2018 Annual Report and the profit alert announcement in June 2019. The upgrade project will result in covered queueing and waiting areas with entertainment features for up to 1,300 passengers. The new tramcars will be able to carry 210 passengers instead of 120 at present and visitors' waiting time will be significantly reduced. The full cost of the HK$684 million upgrade project, which is scheduled to be completed in 2021, is being fully funded by HSH. The second planned service suspension period will continue to negatively impact our earnings in 2020.

The Thai Country Club which is located near Bangkok, recorded a challenging first half of 2019 due to uncertainty over the political climate in Thailand which resulted in fewer visitors, although we reported increasing sales of golf memberships and implemented a strategy to control expenses. We have also continued to develop cross-marketing initiatives with The Peninsula Bangkok to drive further awareness of the club.

Quail Lodge & Golf Club revenue increased by 7% year on year, driven by new marketing activities including a "sunset shuttle" to take guests to the beach for sunset and bicycle hire to enjoy the surrounding scenic areas of Carmel. Golf membership sales and golf rounds improved over the same period last year. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 3,000 visitors in May 2019 and was the venue for the global launch of the new electric Harley-Davidson motorcycle. This event complements the very successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car *aficionados*.

Peninsula Clubs & Consultancy Services (PCCS) reported slightly higher revenue compared to the same period last year. PCCS manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and The Refinery (formerly Butterfield's). The Bankers Club will move from its current location in the Landmark, Central to Nexxus Building on Connaught Road, Central in October 2020.

Revenue at **Peninsula Merchandising** was 1% lower than the same period last year, due to softer corporate retail sales overall and weaker performance from the HKIA boutique. Peninsula Merchandising is planning to expand in Asia, and will open new boutiques in key cities and drive online sales, widen distribution channels and increase brand awareness to customers in the Greater China region.

Tai Pan Laundry revenue was flat compared to the same period last year, and the company is driving new business with marketing strategies and greater automation.

Projects under development

The Peninsula London

HSH has a 150-year leasehold interest in The Peninsula London. The property is in a high-profile location at the gateway to Belgravia, overlooking Hyde Park Corner, the Wellington Arch, Green Park and the gardens of Buckingham Palace. We are developing a 189-room Peninsula hotel with 26 luxury Peninsula-branded residential apartments for sale also integrated into the development. The construction budget for the project has previously been reported in the region of £650 million, however, we have faced significant cost pressure from recent tender returns and a thorough review of the budget is underway.

Construction of the project is progressing well and we held the topping out ceremony on the first core of the building on 19 June 2019. The below-ground excavation and structural works will continue for some time.

We have commenced some private marketing of apartments in the development and are pleased with the exchanges of contract achieved to date.

Our ambition is for the hotel and residences to set new standards in luxury and service in the London market when complete, currently scheduled for 2021.

The Peninsula Istanbul

In July 2015, we entered into a shareholders' agreement with Doğuş Holding and BLG to form a joint venture partnership, 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%.

The project has encountered some unforeseen site conditions and challenges with the heritage building which has caused some delays. Opening of the project is currently targeted to be in the second half of 2021. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, Spa and verdant garden area on the waterfront.

Istanbul is a beautiful historic city that embodies the meeting point of East and West, and the location of The Peninsula Istanbul on the Bosphorus is truly spectacular. 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 in the long-term future of Istanbul as one of the world's leading business and tourism destinations.

The Peninsula Yangon

The Company entered into a shareholders' agreement with Yoma Strategic Investments Ltd. ("Yoma") and First Myanmar Investment Public Company Limited ("FMI") 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. The existing building is being 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 branding fees on the sale and management of the adjacent The Peninsula Residences Yangon, the luxury residential apartments being developed by Meeyahta Development Limited which is a joint venture between our partners Yoma and FMI, Mitsubishi Corporation, Mitsubishi Estate Corporation, Asian Development Bank and International Finance Corporation.

The project encountered some delays due to the collapse of a small portion of the heritage building façade wall in 2018. Insurance claims are ongoing and we are mitigating the delays as much as possible. Although the revised timeline has not yet been finalised, we are currently still expecting the project to be completed in 2021.

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

The group's overall investment is around US$130 million, including the value of the leasehold interest and estimated development costs.

Human Resources

We held a Global Human Resources Conference in June 2019 attended by HR leaders from across our group. The theme was "Ignite – Power for Tomorrow" which we believe reflects our vision for our people and the talent we hire, and our desire for them to be passionate and empowered in their roles. We are putting steps in place to start hiring for our three new hotels in London, Istanbul and Yangon and our human resources team has travelled to various hotel schools this year to speak to students.

I am personally heading up a new WorkPlace 2025 initiative in which our focus is to create effective transformation for our teams and modernise our workplace. This is supported by the continued hiring of strong leaders, the growth of our mental and physical well-being programmes, and the improvement of our engagement strategies. Our internal cross-exposure programme has been successful with 189 staff scheduled to take part this year, an increase from the 142 people who participated last year. We are also pleased to report an 89% response rate in our 2019 Employee Engagement Survey, with 91% of respondents saying that they are proud to work for The Hongkong and Shanghai Hotels.

As of 30 June 2019, we have a team of 7,557 full time staff and we are pleased that our voluntary staff turnover rate is 9.6% which is favourable compared to the industry.

Sustainable Luxury

Sustainable luxury is an integral part of our long-term mindset. We aim to properly manage risk as well as invest in the right opportunities while enabling a sense of belonging by offering services that are sustainable, thoughtful and purposeful to the needs of our guests and customers.

During the first half of 2019, we continued to move towards our goal of eliminating single-use plastics by 2020 as well as reducing our energy and water usage. As a new member of "We Mean Business", a global coalition of non-profit organisations working towards a zero-carbon economy, we are advocating for climate change solutions on water risks and climate disclosures. We implemented a pilot programme of recycling and upcycling our textile materials in Hong Kong and the Philippines, and we are in the process of developing a sustainable seafood tool that is being shared with the hospitality sector to make sustainable seafood sourcing easier. We aim to launch this tool at the end of 2019.

Overall, we continued to see good progress in achieving 85% of our commitments and focusing our efforts in three key areas of "Our Guests, Our People and Our Cities".

Outlook

In terms of outlook for the coming year, we are facing uncertainties around the world and geopolitical instability in some of the regions we operate in, including our home market of Hong Kong. We are concerned about the effect this political uncertainty may have on our results, especially given the proportion of our income which is earned in Hong Kong. It should be noted that we are currently in dispute with the local partner concerning the future management arrangements for The Peninsula Bangkok and the Thai Country Club, and we are working towards a resolution with our partner.

We are implementing a number of new strategies to drive business in the year ahead, including driving our Chinese mainland business, enhancing our food and beverage strategy and improving data analytics. We are optimistic for The Peninsula Tokyo as Japan prepares to welcome the Rugby World Cup in 2019 and the Tokyo Olympics in 2020. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open from 2021 onwards.

Our Peak Tram business will continue to be negatively impacted in 2020 due to suspension and temporary service plans during its improvement and upgrade programme that was previously announced to shareholders. However, in the long term we believe it will significantly improve the visitor experience and enhance Hong Kong's tourism image.

Overall, our company remains in a strong financial position with a highly motivated and dedicated team of people who are committed to our long-term vision. We strongly believe that a top hospitality company is built on attention to detail, quality and exceptional facilities. This passion for perfection is set by our leadership and translates through to the work of our general managers, our designers, project teams, operations teams and our partners, to create a truly prestigious brand that is celebrated across the world, and a company that consistently lives up to its unique brand proposition. I would like to thank each member of my team who contributes to our company's success year after year.

Clement Kwok
7 August 2019

The Interim Report includes the unaudited interim results of the group for the six months ended 30 June 2019. 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 57.

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 HKICPA.

Reinstatement of Comparative Figures under the Adoption of HKFRS 16, *Leases*

The group is the owner and lessor of a number of investment properties which are leased to third parties for rentals. The group is also the lessee in respect of a number of properties, including its hotels in New York and Tokyo as well as the development project in London.

In the previous financial statements, the rental income in respect of the group's investment properties and the lease payments in respect of the group's leased assets were classified as operating lease payments in accordance with Hong Kong Accounting Standard 17, *Leases* (HKAS 17) issued by HKICPA, under which payments under the leases were recognised in the group's consolidated statement of profit or loss over the accounting periods covered by the lease term.

In 2016, HKICPA issued Hong Kong Financial Reporting Standard 16, *Leases* (HKFRS 16) to replace HKAS 17 for accounting periods commencing on 1 January 2019. The accounting policies applicable to lessors under HKFRS 16 remain substantially unchanged from those under HKAS 17. However, under HKFRS 16, lessees are required to recognise a right-of-use asset and a lease liability at the present value of the future minimum lease payments for all leases, except for leases that have a lease term of 12 months or less and leases of low value assets. After initial recognition, the right-of-use asset is depreciated on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease liability is remeasured at each accounting period end to reflect the interest accrued on the outstanding lease liability and the lease payments made.

The adoption of HKFRS 16 constitutes a change in accounting policies by the group which has been applied retrospectively in accordance with the transitional provisions of HKFRS 16. Accordingly, the opening balances of the group's consolidated statements of financial position at 1 January 2018 and 31 December 2018 and certain comparative figures of the group's consolidated statement of profit or loss for the corresponding period of six months ended 30 June 2018, including rental and utilities, EBITDA, depreciation and amortisation, financing charges and profit attributable to shareholders have been restated. Details of the impacts of the transition on the group's financial statements are disclosed in note 2 of the financial statements set out on pages 39 to 43.

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 consolidated 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 2019 amounted to HK$148 million, representing a decrease of 39%. Further details of the group's overall trading results and the performances of individual operations in the first half of 2019 are set out on pages 20 to 24 of this Financial Review and pages 7 to 15 of the CEO's Strategic Review.

HK$m	For the six months ended 30 June **2019**	 2018 (restated)	2019 vs 2018
Profit attributable to shareholders	**254**	630	
Adjustment for fair value movement of investment properties *	**(106)**	(389)	
Underlying profit attributable to shareholders	**148**	241	(39%)

* 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 2019, the details of which are set out on page 25. If these assets were to be stated at fair value, the group's net assets attributable to shareholders would increase by 10% to HK$42,598 million as indicated in the table below.

HK$m	**As at 30 June 2019**		As at 31 December 2018 (restated)	
Net assets attributable to shareholders per statement of financial position		**38,797**		38,664
Adjusting the value of hotels and golf courses to fair value	**4,119**		4,092	
Less: Related deferred tax and non-controlling interests	**(318)**		(345)	
		3,801		3,747
Adjusted net assets attributable to shareholders		**42,598**		42,411
Net assets per share (HK$)		**23.82**		23.97
Adjusted net assets per share (HK$)		**26.15**		26.29

Statement of Profit or Loss

As described in the profit alert issued by the company on 21 June 2019, the group's results for the six months ended 30 June 2019 were negatively affected by the decrease in revenue recorded by two hotels in Hong Kong and the United States, as well as the planned temporary service suspension of The Peak Tram for its major upgrade project, and the reduction in unrealised revaluation gains on the group's investment properties in Hong Kong.

The group's consolidated statement of profit or loss for the six months ended 30 June 2019 is set out on page 33. 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 20 to 24 of this Financial Review.

	For the six months ended 30 June		
HK$m	**2019**	2018 (restated)	2019 vs 2018
Revenue	**2,791**	2,850	(2%)
Operating costs	**(2,181)**	(2,120)	3%
EBITDA	**610**	730	(16%)
Depreciation and amortisation	**(291)**	(303)	(4%)
Net financing charges	**(72)**	(80)	(10%)
Share of result of a joint venture	**(4)**	(13)	(69%)
Share of results of associates	**(18)**	(20)	(10%)
Increase in fair value of investment properties	**102**	391	(74%)
Taxation	**(67)**	(75)	(11%)
Profit for the period	**260**	630	(59%)
Non-controlling interests	**(6)**	–	n/a
Profit attributable to shareholders	**254**	630	(60%)

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, retail and wholesale of merchandise, 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 2019, including the group's effective share of revenue of associates and joint venture, decreased by 3% to HK$3,035 million. A breakdown of revenue by business segment and geographical segment is set out in the tables on the following page.

Revenue by business segment

HK$m	For the six months ended 30 June 2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2018 Group's subsidiaries	2018 Associates and joint venture (effective share)	2018 Combined total	2019 vs 2018
Hotels	**2,101**	**244**	**2,345**	2,158	268	2,426	(3%)
Commercial Properties	**486**	**–**	**486**	473	–	473	3%
Clubs and Services	**204**	**–**	**204**	219	–	219	(7%)
	2,791	**244**	**3,035**	2,850	268	3,118	(3%)

Revenue by geographical segment

HK$m	For the six months ended 30 June 2019 Group's subsidiaries	2019 Associates and joint venture (effective share)	2019 Combined total	2018 Group's subsidiaries	2018 Associates and joint venture (effective share)	2018 Combined total	2019 vs 2018
Hong Kong	**1,175**	**–**	**1,175**	1,231	–	1,231	(5%)
Other Asia	**922**	**129**	**1,051**	926	153	1,079	(3%)
US and Europe	**694**	**115**	**809**	693	115	808	–
	2,791	**244**	**3,035**	2,850	268	3,118	(3%)

The hotels division is the main contributor to the group's revenue, accounting for 77% (2018: 78%) of the total revenue. The decrease in revenue of the hotels division was mainly due to new room supply in Hong Kong and the general softness of the market resulting from the US-China trade war. The depreciation of Renminbi and Japanese Yen has also contributed to the negative revenue growth of the hotels division.

The commercial properties division performed satisfactorily, with The Repulse Bay Complex achieving higher occupancy and average rent. The decrease in revenue of the clubs and services division was mainly due to the planned service suspension of the Peak Tram for the major upgrade project that will in future result in a significant increase in the tram passenger capacity.

Details of the operating performances of the group's individual operations are set out on pages 8 to 15 of the CEO's Strategic Review.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation), including the group's effective share of EBITDA of associates and joint venture for the six months ended 30 June 2019, decreased by 16% to HK$662 million. The breakdowns of the group's EBITDA by business segment and by geographical segment are set out in the following tables.

EBITDA by business segment

HK$m	For the six months ended 30 June 2019			2018 (restated)			2019 vs 2018
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**338**	**52**	**390**	428	60	488	(20%)
Commercial Properties	**267**	**–**	**267**	286	–	286	(7%)
Clubs and Services	**5**	**–**	**5**	16	–	16	(69%)
	610	**52**	**662**	730	60	790	(16%)

EBITDA by geographical segment

HK$m	For the six months ended 30 June 2019			2018 (restated)			2019 vs 2018
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**460**	**–**	**460**	542	–	542	(15%)
Other Asia	**148**	**36**	**184**	164	44	208	(12%)
US and Europe	**2**	**16**	**18**	24	16	40	(55%)
	610	**52**	**662**	730	60	790	(16%)

During the first half of 2019, the combined EBITDA margin of the hotels division decreased by 3 percentage points to 17%, mainly due to decreased margins recorded by The Peninsula Hong Kong and The Peninsula New York. The decrease in the EBITDA margin for the commercial properties division was mainly due to the higher property tax and maintenance costs incurred and the decrease in the EBITDA margin for the clubs and services division was mainly due to the planned service suspension of the Peak Tram for the major upgrade project.

EBITDA margin

	For the six months ended 30 June					
	2019			2018 (restated)		
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	**16%**	**21%**	**17%**	20%	22%	20%
Commercial Properties	**55%**	**–**	**55%**	60%	–	60%
Clubs and Services	**2%**	**–**	**2%**	7%	–	7%
Overall EBITDA margin	**22%**	**21%**	**22%**	26%	22%	25%
By region						
Hong Kong	**39%**	**–**	**39%**	44%	–	44%
Other Asia	**16%**	**28%**	**18%**	18%	29%	19%
US and Europe	**–**	**14%**	**2%**	3%	14%	5%

Increase in Fair Value of Investment Properties

The investment properties of the group were revalued as at 30 June 2019 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$102 million (2018: HK$391 million), principally attributable to the increase in the appraised market value of The Repulse Bay Complex net of the decrease in appraised market value of the commercial arcades at The Peninsula Hong Kong and The Peninsula Beijing. The decrease in appraised market value of the commercial arcade at The Peninsula Hong Kong was a reflection of the luxury retail market conditions in Hong Kong. The decrease in appraised market value of the commercial arcade at The Peninsula Beijing was mainly due to the decrease in the remaining lease term.

Share of Result of a Joint Venture

The group, through its joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex, which comprises The Peninsula Shanghai Hotel and shopping arcade and the adjoining Peninsula Residences apartment tower of 39 apartments, of which 29 units have been sold to date. The Peninsula Shanghai is the market leader in terms of average room rate in its competitor set. PSW also earns leasing income from the residential apartments which remained unsold during the period.

Inclusive of hotel and arcade operations and residential leasing income, PSW generated an EBITDA of HK$73 million in the first half of 2019 (2018: HK$88 million). After accounting for depreciation and interest (2018: and the unrealised loss on revaluation of the hotel shopping arcade), PSW sustained an accounting loss of HK$7 million (2018: HK$26 million) and the group's share of loss amounted to HK$4 million (2018: HK$13 million).

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on page 9.

Share of Results of Associates

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$18 million (2018: HK$20 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 12 and 13.

Statement of Financial Position

The group's financial position as at 30 June 2019 remained strong and net assets attributable to shareholders amounted to HK$38,797 million, representing a per share value of HK$23.82 compared to HK$23.97 as at 31 December 2018. The key components of the group's assets and liabilities as at 30 June 2019 and 31 December 2018 are set out in the table below.

HK$m	**As at 30 June 2019**	As at 31 December 2018 (restated)	2019 vs 2018
Fixed assets	**44,932**	44,276	1%
Properties under development for sale	**3,270**	3,121	5%
Other long-term assets	**2,344**	2,305	2%
Cash at banks and in hand	**842**	1,178	(29%)
Other assets	**841**	844	–
	52,229	51,724	1%
Interest-bearing borrowings	**(7,206)**	(7,095)	2%
Other liabilities	**(5,634)**	(5,429)	4%
	(12,840)	(12,524)	3%
Net assets	**39,389**	39,200	–
Represented by			
Shareholders' funds	**38,797**	38,664	–
Non-controlling interests	**592**	536	10%
Total equity	**39,389**	39,200	–

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 the relevant 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 2019.

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 2019 is set out in the table below.

		30 June 2019		31 December 2018	
		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%	**12,265**	**9,850**	12,360	9,954
The Peninsula New York	100%	**2,301**	**1,685**	2,356	1,689
The Peninsula Beijing	76.6%Δ	**1,554**	**1,521**	1,614	1,590
The Peninsula Tokyo	100%	**1,742**	**1,523**	1,681	1,507
The Peninsula Chicago	100%	**1,332**	**1,232**	1,332	1,253
The Peninsula Bangkok	50%	**716**	**670**	676	615
The Peninsula Manila	77.4%	**115**	**114**	109	108
The Peninsula Shanghai #	50%	**2,957**	**2,500**	2,964	2,548
The Peninsula Paris #	20%	**5,217**	**5,048**	5,357	5,133
The Peninsula Beverly Hills #	20%	**2,632**	**419**	2,632	434
		30,831	**24,562**	31,081	24,831
Commercial properties					
The Repulse Bay Complex	100%	**17,932**	**17,932**	17,769	17,769
The Peak Tower	100%	**1,478**	**1,478**	1,467	1,467
St. John's Building	100%	**1,216**	**1,216**	1,198	1,198
Apartments in Shanghai	100%	**402**	**402**	402	402
21 avenue Kléber	100%	**711**	**711**	711	711
The Landmark	70%ΔΔ	**53**	**53**	56	56
		21,792	**21,792**	21,603	21,603
Other properties					
Thai Country Club golf course	50%	**255**	**285**	242	273
Quail Lodge resort, golf course and vacant land	100%	**296**	**282**	296	277
Vacant land in Thailand	50%	**462**	**462**	433	433
Others	100%	**400**	**214**	392	214
		1,413	**1,243**	1,363	1,197
Properties under development ##					
The Peninsula London	100%	**4,979**	**4,979**	4,465	4,465
The Peninsula Yangon	70%	**486**	**486**	438	438
The Peninsula Istanbul #	50%	**708**	**708**	594	594
		6,173	**6,173**	5,497	5,497
Total market/book value		**60,209**	**53,770**	59,544	53,128

* Excluding the book value of right-of-use assets capitalised under HKFRS16, *Leases*

** Including the shopping arcades and offices within the hotels

Δ 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

ΔΔ 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 2019 is set out on page 37. The following table summarises the key cash movements for the first six months of 2019.

HK$m	For the 6 months ended 30 June **2019**	2018 (restated)
EBITDA	**610**	730
Tax payment	**(8)**	(12)
Net cash generated from operating activities before net working capital movement	**602**	718
Changes in working capital	**40**	(6)
Capital expenditure on existing assets		
– The Peak Tram upgrade project	**(54)**	(7)
– Others	**(188)**	(193)
Net cash inflow after normal capital expenditure	**400**	512
Capital expenditure on new projects and investment		
– The Peninsula London	**(490)**	(476)
– The Peninsula Yangon	**(51)**	(93)
– Capital injection into the Istanbul joint venture	**(70)**	(109)
Net cash outflow before dividends, other payments and financing activities	**(211)**	(166)

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.

During the period, net borrowings, excluding lease liabilities, increased by 8% to HK$6,364 million (31 December 2018: HK$5,917 million) with an average duration of 3.2 years (31 December 2018: 3.7 years). The increase was mainly due to the project payments made by The Peninsula London. As at 30 June 2019, the group's net debt to total assets remained healthy at 12% (31 December 2018: 11%). Cash interest cover, expressed as EBITDA less lease payments divided by net interest on bank loans paid, decreased to 9.3 times (2018: 10.9 times).

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 gross debt of these non-consolidated entities, total gross borrowings, excluding lease liabilities, would amount to HK$8,412 million at 30 June 2019 (31 December 2018: HK$8,307 million).

As at 30 June 2019, the group's fixed-to-floating interest rate ratio increased to 79% (31 December 2018: 73%). This was mainly due to the early repayment of HKD floating rates loans with surplus cash. The weighted average gross interest rate for the period decreased slightly to 2.3% (2018: 2.4%) 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 the right governance framework, the Board of Directors has set a culture of integrity, accountability and transparency that permeates throughout the group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the company. The Governance section of the 2018 Annual Report outlines the company's approach to governance and its focus and activities.

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the HSH Corporate Governance Code (HSH Code). The Board of Directors recognises the principles underlying the CG Code and have applied all of them to the HSH Code. Throughout the six months ended 30 June 2019, the company has complied with all of the code provisions and recommended best practices in the CG Code, save for the 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 151 of the 2018 Annual Report.

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 approach to risk management is shaped by our business strategy which is to optimise the quality of our asset portfolio in the long term, ensure the sustainability of our business, deliver a high standard of luxury, and to preserve the tradition of integrity and respect for our heritage. Details of the group's approach to risk governance and principal risks have been disclosed in the Governance section of the 2018 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 2019 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 remained 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 2018 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 Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide (ESG Guide) in Appendix 27 of the Listing Rules, which includes a number of relevant recommended disclosures. It has also been prepared in accordance with the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards): Core option, and references the International Integrated Reporting Framework from the International Integrated Reporting Council (IIRC) (read together with the 2018 Annual Report) and Task Force on Climate-related Financial Disclosures (TCFD). 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 websites of the company and the Stock Exchange.

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

Senior Management

With effect from 1 June 2019, Mr Joseph Chong was appointed to Group Management Board. This was the only change to the senior management composition during the reported period. Biographical details of Mr Chong and all other senior management members are available on the company's website.

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

(a) Directors' remuneration

With effect from 1 January 2019, 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.

(b) Directors' information

Dr William Fung retired as an Independent Non-Executive Director of Shui On Land Limited on 31 May 2019.

Dr David Li stepped down as Chief Executive and was re-designated as Executive Chairman of The Bank of East Asia, Limited on 1 July 2019.

Save as disclosed above, as at 7 August 2019, 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 2019, 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), as 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)	888,362,831	54.531
Mr Clement K.M. Kwok	Beneficial Owner	746,870	0.046
Mr Peter C. Borer	Beneficial Owner	372,330	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)	84,195,900	5.168
Mr Philip L. Kadoorie	Note (c)	690,675,459	42.396
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,117,319	0.069
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 888,362,831 shares in the company. These shares were held in the following capacity:

(i) 197,687,372 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;

(ii) 350,448,036 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) 340,227,423 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 888,362,831 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 84,195,900 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 84,195,900 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 84,195,900 shares.

(c) Mr Philip L. Kadoorie was deemed (by virtue of the SFO) to be interested in 690,675,459 shares in the company. These shares were held in the following capacity:

(i) 350,448,036 shares were ultimately held by a discretionary trust, of which Mr Philip L. Kadoorie is one of the discretionary beneficiaries; and

(ii) 340,227,423 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 2019.

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 2019, 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, as 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 2019, 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 2019, 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	197,687,372	12.13(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	281,883,272	17.30(i)
Guardian Limited	Beneficiary/Interest of controlled corporation	84,195,900	5.17(v)
Harneys Trustees Limited	Interests of controlled corporations	690,675,459	42.40(iii)
Lawrencium Holdings Limited	Beneficiary	340,227,423	20.88(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	350,448,036	21.51(ii)
The Magna Foundation	Beneficiary	350,448,036	21.51(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	690,675,459	42.40(ii)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	84,195,900	5.17(iv)
Oak (Unit Trust) Holdings Limited	Trustee	84,195,900	5.17(i)
Oak HSH Limited	Beneficiary	84,195,900	5.17(iv)
Mr Richard Parsons	Trustee	84,195,900	5.17(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 84,195,900 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.	Interest of controlled corporation	185,179,077	11.37
Mr Ng Chee Siong	Trustee	78,402,393	5.00[i]
Mr Philip Ng Chee Tat	Trustee	78,402,393	5.00[i]
Sino Hotels (Holdings) Limited	Interests of controlled corporations	78,402,393	5.00[i]

Note:

(i) 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 2019, 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 2019, 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 2019.

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 2019. 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 4 HK cents per share (2018: 5 HK cents per share) for the six months ended 30 June 2019. The interim dividend will be payable on 11 October 2019 to shareholders whose names appear on the register of members on 4 September 2019.

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 10 September 2019.

Closure of Register of Members

The register of members will be closed from 2 September 2019 to 4 September 2019, 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 Friday, 30 August 2019.

By Order of the Board

Christobelle Liao
Company Secretary
7 August 2019

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

	Note	For the six months ended 30 June 2019	2018 (restated)
Revenue	3	**2,791**	2,850
Cost of inventories		**(186)**	(180)
Staff costs and related expenses		**(1,159)**	(1,132)
Rent and utilities		**(221)**	(212)
Other operating expenses		**(615)**	(596)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**610**	730
Depreciation and amortisation		**(291)**	(303)
Operating profit		**319**	427
Interest income		**8**	10
Financing charges	4	**(80)**	(90)
Net financing charges		**(72)**	(80)
Profit after net financing charges	5	**247**	347
Share of results of joint ventures	11	**(4)**	(13)
Share of results of associates	12	**(18)**	(20)
Increase in fair value of investment properties	9(c)	**102**	391
Profit before taxation		**327**	705
Taxation			
Current tax	6	**(70)**	(82)
Deferred tax	6	**3**	7
Profit for the period		**260**	630
Profit attributable to:			
Shareholders of the company		**254**	630
Non-controlling interests		**6**	–
Profit for the period		**260**	630
Earnings per share, basic and diluted (HK$)	7	**0.16**	0.40

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

The notes on pages 38 to 56 form part of this Interim Financial Report.

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

	For the six months ended 30 June	
	2019	2018 (restated)
Profit for the period	**260**	630
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	**4**	(155)
– financial statements of joint ventures	**(4)**	(16)
– loans to an associate	**(5)**	(18)
– hotel operating rights	**(4)**	(14)
	(9)	(203)
Cash flow hedges:		
– effective portion of changes in fair value	**(17)**	1
– transfer from equity to profit or loss	**3**	5
Other comprehensive income	**(23)**	(197)
Total comprehensive income for the period	**237**	433
Total comprehensive income attributable to:		
Shareholders of the company	**212**	454
Non-controlling interests	**25**	(21)
Total comprehensive income for the period	**237**	433

The notes on pages 38 to 56 form part of this Interim Financial Report.

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

	Note	As at 30 June 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Non-current assets				
Investment properties		**33,212**	33,077	36,249
Other properties, plant and equipment		**11,720**	11,199	9,855
	9	**44,932**	44,276	46,104
Properties under development for sale	10	**3,270**	3,121	–
Interest in joint ventures	11	**1,150**	1,088	1,053
Interest in associates	12	**613**	638	699
Hotel operating rights	13	**519**	530	564
Deferred tax assets		**62**	49	38
		50,546	49,702	48,458
Current assets				
Inventories		**87**	84	77
Derivative financial instruments		**1**	2	–
Trade and other receivables	14	**696**	701	737
Amount due from a joint venture		**57**	57	60
Cash at banks and in hand		**842**	1,178	1,922
		1,683	2,022	2,796
Current liabilities				
Trade and other payables	15	**(1,439)**	(1,441)	(1,424)
Interest-bearing borrowings	16	**(772)**	(403)	(3,391)
Derivative financial instruments		**–**	–	(4)
Current taxation		**(87)**	(26)	(41)
Lease liabilities		**(146)**	(121)	(125)
		(2,444)	(1,991)	(4,985)
Net current (liabilities)/assets		**(761)**	31	(2,189)
Total assets less current liabilities		**49,785**	49,733	46,269
Non-current liabilities				
Interest-bearing borrowings	16	**(6,434)**	(6,692)	(4,052)
Trade and other payables	15	**(240)**	(252)	(230)
Net defined benefit retirement obligations		**(22)**	(22)	(17)
Derivative financial instruments		**(23)**	(7)	–
Deferred tax liabilities		**(672)**	(658)	(646)
Lease liabilities		**(3,005)**	(2,902)	(2,871)
		(10,396)	(10,533)	(7,816)
Net assets		**39,389**	39,200	38,453
Capital and reserves				
Share capital	17	**5,688**	5,509	5,224
Reserves		**33,109**	33,155	32,702
Total equity attributable to shareholders of the company		**38,797**	38,664	37,926
Non-controlling interests		**592**	536	527
Total equity		**39,389**	39,200	38,453

The notes on pages 38 to 56 form part of this Interim Financial Report.

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

	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total reserves	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company							
			Reserves						
At 1 January 2018, as previously reported		5,224	(15)	64	32,902	32,951	38,175	527	38,702
Impact of change in accounting policies on adoption of HKFRS 16		–	–	–	(249)	(249)	(249)	–	(249)
Balance at 1 January 2018 (restated)		5,224	(15)	64	32,653	32,702	37,926	527	38,453
Changes in equity for the six months ended 30 June 2018									
Profit for the period (restated)		–	–	–	630	630	630	–	630
Other comprehensive income (restated)		–	6	(182)	–	(176)	(176)	(21)	(197)
Total comprehensive income for the period (restated)		–	6	(182)	630	454	454	(21)	433
Dividends approved in respect of the previous year	8	221	–	–	(255)	(255)	(34)	–	(34)
Capital contribution from a non-controlling shareholder		–	–	–	–	–	–	28	28
Balance at 30 June 2018 and 1 July 2018 (restated)		5,445	(9)	(118)	33,028	32,901	38,346	534	38,880
Changes in equity for the six months ended 31 December 2018									
Profit for the period (restated)		–	–	–	586	586	586	(1)	585
Other comprehensive income (restated)		–	(7)	(245)	–	(252)	(252)	8	(244)
Total comprehensive income for the period (restated)		–	(7)	(245)	586	334	334	7	341
Dividends approved in respect of the current year	8	64	–	–	(80)	(80)	(16)	–	(16)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(5)	(5)
Balance at 31 December 2018 and 1 January 2019 (restated)		**5,509**	**(16)**	**(363)**	**33,534**	**33,155**	**38,664**	**536**	**39,200**
Changes in equity for the six months ended 30 June 2019									
Profit for the period		**–**	**–**	**–**	**254**	**254**	**254**	**6**	**260**
Other comprehensive income		**–**	**(14)**	**(28)**	**–**	**(42)**	**(42)**	**19**	**(23)**
Total comprehensive income for the period		**–**	**(14)**	**(28)**	**254**	**212**	**212**	**25**	**237**
Dividends approved in respect of the previous year	8	**179**	**–**	**–**	**(258)**	**(258)**	**(79)**	**–**	**(79)**
Capital contribution from a non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**31**	**31**
Balance at 30 June 2019		**5,688**	**(30)**	**(391)**	**33,530**	**33,109**	**38,797**	**592**	**39,389**

The notes on pages 38 to 56 form part of this Interim Financial Report.

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

	Note	For the six months ended 30 June 2019	2018 (restated)
Operating activities			
EBITDA		**610**	730
Tax paid		**(8)**	(12)
Payment for the development of properties under development for sale		**(147)**	–
Changes in working capital		**40**	(6)
Net cash generated from operating activities		**495**	712
Investing activities			
Capital injection into a joint venture		**(70)**	(109)
Capital expenditure on property, plant and equipment		**(242)**	(200)
Capital expenditure on projects under development		**(394)**	(569)
Cash injected from a non-controlling shareholder		**31**	28
Distribution from an associate		**2**	2
Net cash used in investing activities		**(673)**	(848)
Financing activities			
Interest received		**9**	12
Interest and other financing charges		**(67)**	(73)
Net withdrawal of interest-bearing bank deposits with maturity of more than three months		**59**	214
Net increase/(decrease) in bank borrowings		**53**	(839)
Capital element of lease rentals paid		**(25)**	(19)
Interest element of lease rentals paid		**(47)**	(47)
Dividends paid to shareholders of the company	17	**(79)**	(34)
Net cash used in financing activities		**(97)**	(786)
Net decrease in cash and cash equivalents		**(275)**	(922)
Cash and cash equivalents at 1 January		**1,098**	1,660
Effect of changes in foreign exchange rates		**(1)**	(3)
Cash and cash equivalents at 30 June (note)		**822**	735

Note Analysis of cash and cash equivalents

	As at 30 June 2019	2018
Interest-bearing bank deposits	**598**	598
Cash at banks and in hand	**244**	183
Total cash at banks and in hand	**842**	781
Less: Interest-bearing bank deposits with maturity of more than three months	**(17)**	(41)
Less: Bank overdrafts	**(3)**	(5)
Cash and cash equivalents in the condensed consolidated statement of cash flows	**822**	735

Total cash at banks and in hand at the end of the reporting period include deposits with banks of HK$259 million (30 June 2018: HK$204 million) held by overseas subsidiaries which are subject to prevailing regulations and foreign exchange restrictions.

The notes on pages 38 to 56 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 7 August 2019.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are first effective for the current accounting period of the group. 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 2018 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 57.

The financial information relating to the financial year ended 31 December 2018 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 2018 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 new financial reporting standard, namely, HKFRS 16, *Leases* and a number of new amendments to HKFRSs that are effective for the current accounting period of the group for the first time. Of these, except for HKFRS 16, the other developments do not have a material impact on the group's results and financial position for the current or prior periods that have been prepared and presented in this Interim Financial Report.

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

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires lessees to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The accounting requirements for lessors, which are brought forward from HKAS 17, are substantially unchanged.

The group has initially applied HKFRS 16 on 1 January 2019 using the full retrospective approach. Accordingly, the group has recognised the cumulative effect of applying HKFRS 16 at the start of the earliest comparative period as if the accounting requirements under the new accounting standard had always been applied and restated the comparative information of the financial statements.

Further details of the nature and effect of the changes to the previous accounting policies are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The group applies the new definition of a lease in HKFRS 16 retrospectively to all contracts except for short-term leases and leases of low-value assets.

2. Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(b) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the group is concerned, these capitalised leases are primarily in relation to the group's hotels in New York and Tokyo which have lease terms of 90 years commencing in 1988 and 70 years commencing in 2015 respectively, as well as the development project in London which has a lease term of 146 years commencing in 2016.

Where a lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate at the inception of the lease. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(c) Lessor accounting

The group leases out its investment properties for rentals.

The accounting policies applicable to the group as a lessor remain substantially unchanged from those under HKAS 17. The adoption of HKFRS 16 does not have a significant impact on the group's financial statements for leases in which it acts as a lessor.

(d) Impact on the financial results, segment results and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities at the inception of the leases, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the EBITDA in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the accounting period.

In the condensed consolidated statement of cash flows, the group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the condensed consolidated statement of cash flows.

The following table reconciles the group's financial results, segment results and cash flows for the six months ended 30 June 2018 as previously reported to the restated results on adoption of HKFRS 16.

2. Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(d) Impact on the financial results, segment results and cash flows of the group (continued)

	As previously reported HK$m	Effect of adoption of HKFRS 16 HK$m	As restated HK$m
Consolidated statement of profit or loss for the corresponding six months ended 30 June 2018:			
Rent and utilities	(278)	66	(212)
EBITDA	664	66	730
Depreciation and amortisation	(273)	(30)	(303)
Operating profit	391	36	427
Financing charges	(40)	(50)	(90)
Profit for the period	644	(14)	630
Profit attributable to the shareholders of the company	644	(14)	630
Earnings per share (HK dollar)	0.41	(0.01)	0.40
Reportable segment results for the corresponding six months ended 30 June 2018:			
EBITDA			
– Hotels	378	50	428
– Commercial properties	278	8	286
– Clubs and services	8	8	16
Depreciation and amortisation			
– Hotels	(248)	(20)	(268)
– Commercial properties	(5)	(4)	(9)
– Clubs and services	(20)	(6)	(26)
Condensed consolidated statement of cash flows for the corresponding six months ended 30 June 2018:			
Net cash generated from operating activities	646	66	712
Capital element of lease rentals paid	–	(19)	(19)
Interest element of lease rentals paid	–	(47)	(47)
Net cash used in financing activities	(720)	(66)	(786)

(e) Impact on the consolidated statement of financial position of the group

The following table summarises the impact of the adoption of HKFRS 16 on the group's financial positions as at 1 January 2018 and 31 December 2018.

2. Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

(e) Impact on the consolidated statement of financial position of the group (continued)

	As previously reported HK$m	Effect of adoption of HKFRS 16 HK$m	As restated HK$m
Consolidated statement of financial position as at 31 December 2018:			
Other properties, plant and equipment	8,452	2,747	11,199
Interest in joint ventures	1,089	(1)	1,088
Trade and other receivables	715	(14)	701
Lease liabilities – current	–	(121)	(121)
Lease liabilities – non-current	–	(2,902)	(2,902)
Deferred tax liabilities	(672)	14	(658)
Exchange and other reserves	362	1	363
Retained profits	(33,810)	276	(33,534)
Consolidated statement of financial position as at 1 January 2018:			
Other properties, plant and equipment	7,106	2,749	9,855
Interest in joint ventures	1,055	(2)	1,053
Trade and other receivables	750	(13)	737
Lease liabilities – current	–	(125)	(125)
Lease liabilities – non-current	–	(2,871)	(2,871)
Deferred tax liabilities	(659)	13	(646)
Retained profits	(32,902)	249	(32,653)

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 2019 and 2018 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	For the six months ended 30 June							
	2019	2018 (restated)	**2019**	2018 (restated)	**2019**	2018 (restated)	**2019**	2018 (restated)
Reportable segment revenue*	**2,101**	2,158	**486**	473	**204**	219	**2,791**	2,850
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	**338**	428	**267**	286	**5**	16	**610**	730
Depreciation and amortisation	**(255)**	(268)	**(11)**	(9)	**(25)**	(26)	**(291)**	(303)
Segment operating profit	**83**	160	**256**	277	**(20)**	(10)	**319**	427

* Analysis of segment revenue

	2019	2018
Hotels		
– Rooms	**1,001**	1,025
– Food and beverage	**591**	610
– Shopping arcades and offices	**309**	319
– Others	**200**	204
	2,101	2,158
Commercial Properties		
– Residential properties	**265**	246
– Offices	**51**	41
– Shopping arcades	**170**	186
	486	473
Clubs and Services		
– Golf clubs	**97**	91
– Peak Tram operation	**46**	67
– Peninsula Merchandising	**31**	35
– Others	**30**	26
	204	219
Total	**2,791**	2,850

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 2019, 31 December 2018 and 1 January 2018 are set out as follows:

	Note	**As at 30 June 2019**	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Reportable segment assets				
Hotels		**22,900**	22,574	24,969
Commercial properties		**25,392**	25,014	21,419
Clubs and services		**1,212**	1,124	1,094
		49,504	48,712	47,482
Unallocated assets				
Interest in joint ventures	11	**1,150**	1,088	1,053
Interest in associates	12	**613**	638	699
Deferred tax assets		**62**	49	38
Amount due from a joint venture		**57**	57	60
Derivative financial instruments		**1**	2	–
Cash at banks and in hand		**842**	1,178	1,922
Consolidated total assets		**52,229**	51,724	51,254

4. Financing charges (HK$m)

	For the six months ended 30 June	
	2019	2018 (restated)
Interest on bank borrowings	**57**	62
Interest on lease liabilities	**71**	71
Other borrowing costs	**20**	20
Total interest expense on financial liabilities carried at amortised cost	**148**	153
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**3**	5
	151	158
Less: Interest expenses capitalised into		
– properties under development*	**(50)**	(47)
– right-of-use asset#	**(21)**	(21)
	80	90

* The borrowing costs have been capitalised at an average rate of 2.7% (2018: 2.9%)

Interest on lease liabilities have been capitalised at an average rate of 5.0% (2018: 5.0%)

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	
	2019	2018 (restated)
Amortisation	**7**	7
Depreciation		
– owned properties, plants and equipment	**250**	266
– right-of-use assets	**34**	30
Interest income	**(8)**	(10)

6. Taxation (HK$m)

	For the six months ended 30 June	
	2019	2018
Current tax		
Hong Kong profits tax	**63**	74
Overseas tax	**7**	8
	70	82
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(4)**	(10)
Increase in net deferred tax liabilities relating to other temporary differences	**1**	3
	(3)	(7)
	67	75

The provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 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	
	2019	2018 (restated)
Profit attributable to shareholders of the company (HK$m)	**254**	630
Weighted average number of shares in issue (million shares)	**1,614**	1,590
Earnings per share (HK$)	**0.16**	0.40

	2019	*2018*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,613***	*1,589*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2018 final dividend (2018: 2017 final dividend)	***1***	*1*
Weighted average number of shares in issue at 30 June	***1,614***	*1,590*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2019 and 2018 and hence the diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK$m)

(a) Dividend policy

The company adopts a dividend policy of providing its shareholders with a stable and sustainable dividend stream, which is linked to the cash flows from operating activities and underlying earnings achieved. The company also offers a scrip dividend alternative to its shareholders. The consideration in respect of the new shares issued under the scrip dividend scheme is retained as capital of the company.

(b) Dividends payable to shareholders of the company attributable to the interim period

	For the six months ended 30 June	
	2019	2018
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2018: 5 HK cents per share)	**65**	80

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

(c) 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	
	2019	2018
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 2017: 16 HK cents per share)	**258**	255

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

(a) Rights-of-use assets

As discussed in note 2, the group has initially applied HKFRS 16 using the full retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The right-of-use assets as at 30 June 2019 included in other properties, plant and equipment amounted to HK$2,866 million.

(b) Acquisitions and disposals

During the six months ended 30 June 2019, the group acquired items of fixed assets with a cost of HK$721 million, of which HK$444 million related to development costs incurred for the projects in London and Yangon (six months ended 30 June 2018: HK$831 million, of which HK$649 million, related to 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 2019 and 2018 were insignificant in value.

(c) Valuation of investment properties

All investment properties of the group were revalued as at 30 June 2019 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 2018 valuations. 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$102 million (2018: HK$391 million) has been included in the consolidated statement of profit or loss.

(d) 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 2019. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$6,260 million (31 December 2018: HK$6,282 million), was HK$9,674 million as at 30 June 2019 (31 December 2018: HK$9,682 million). It is important to note that the surplus of HK$3,414 million (31 December 2018: HK$3,400 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. Properties under development for sale

The Peninsula London development comprises a mixed use complex consisting of a Peninsula hotel and luxury residential apartments which are held for sale. The development costs incurred for the former component are included in the properties, plant and equipment and are accounted for as construction in progress. The development costs incurred for the latter component are accounted for as properties under development for sale.

As at 30 June 2019, the balance of properties under development for sale amounted to HK$3,270 million (31 December 2018: HK$3,121 million) and such amount will be recovered or recognised as cost of inventories after more than one year.

Reservation fees and pre-sale deposits, if any, paid by buyers of the apartments will be held in escrow accounts in accordance with the local regulations in the UK and therefore, such fees and deposits are not reflected in the consolidated statement of financial position.

11. Interest in joint ventures (HK$m)

	As at 30 June 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Share of net assets	**629**	567	532
Loans to a joint venture (note 11(b))	**521**	521	521
	1,150	1,088	1,053

(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 2018: US$117,500,000)	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT) *	Incorporated	Turkey	TRY383,000,000 (31 December 2018: TRY288,300,000)	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 2019 mainly comprised of property under development, and cash at bank and in hand of HK$708 million (31 December 2018: HK$594 million) and HK$2 million (31 December 2018: HK$3 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.

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

(c) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million (HK$2,840 million) (31 December 2018: RMB2,500 million (HK$2,847 million)). As at 30 June 2019, the loan drawn down amounted to RMB1,068 million (HK$1,214 million) (31 December 2018: RMB1,068 million (HK$1,216 million)). The net carrying amount of these pledged assets amounted to RMB2,706 million (HK$3,074 million) (31 December 2018: RMB2,728 million (HK$3,106 million)).

(d) Set out below is a summary of the financial information of PSW, of which the group has a 50% share:

	As at 30 June 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Non-current assets	**2,517**	2,571	2,847
Cash at bank and in hand	**146**	161	154
Apartments held for sale and other current assets	**656**	670	738
Current liabilities	**(327)**	(383)	(355)
Non-current liabilities	**(2,520)**	(2,537)	(2,776)
Net assets	**472**	482	608

	For the six months ended 30 June	
	2019	2018 (restated)
Income	**259**	306
Cost of inventories and operating expenses	**(186)**	(218)
EBITDA	**73**	88
Depreciation	**(51)**	(51)
Net financing charges	**(31)**	(36)
Profit before non-operating items	**(9)**	1
Non-operating items, net of tax *	**2**	(27)
Loss for the period	**(7)**	(26)
The group's share of the results of PSW	**(4)**	(13)

* Being the net re-valuation adjustment on investment properties

12. Interest in associates (HK$m)

	As at 30 June 2019	As at 31 December 2018
Interest in associates	**613**	638

(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$447 million (31 December 2018: HK$451 million). The loans were made pro rata to the group's shareholding in 19 Holding; bear interest rates at 3.25% and are repayable in December 2022.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR224 million (HK$1,991 million) (31 December 2018: EUR224 million (HK$2,007 million)). As at 30 June 2019, the loan drawn down amounted to EUR224 million (HK$1,991 million) (31 December 2018: EUR224 million (HK$2,007 million)). As at 30 June 2019, the net carrying amount of these pledged assets amounted to EUR564 million (HK$5,012 million) (31 December 2018: EUR573 million (HK$5,133 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 2018: US$145 million (HK$1,131 million)). As of 30 June 2019, the net carrying amount of the pledged assets amounted to US$54 million (HK$421 million) (31 December 2018: US$56 million (HK$437 million)). As at 30 June 2019, the loan drawn down amounted to US$128 million (HK$998 million) (31 December 2018: US$130 million (HK$1,014 million)).

12. 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	
	2019	2018
EBITDA	**80**	80
Depreciation	**(128)**	(138)
Interest	**(42)**	(43)
Net loss from continuing operations	**(90)**	(101)
Other comprehensive income	**–**	–
Total comprehensive income	**(90)**	(101)
The group's share of results of the associates	**(18)**	(20)

13. 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.

14. Trade and other receivables (HK$m)

	As at 30 June 2019	As at 31 December 2018 (restated)	As at 1 January 2018 (restated)
Trade debtors	**289**	319	285
Rental deposits, payments in advance and other receivables	**405**	379	448
Tax recoverable	**2**	3	4
	696	701	737

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$146 million (31 December 2018: HK$122 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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 2019	As at 31 December 2018
Current	**262**	278
Less than one month past due	**19**	34
One to three months past due	**6**	6
More than three months but less than 12 months past due	**2**	1
Amounts past due	**27**	41
	289	319

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

15. Trade and other payables (HK$m)

	As at 30 June 2019	As at 31 December 2018
Trade creditors	**104**	152
Interest payable	**8**	8
Accruals for property, plant and equipment	**145**	195
Tenants' deposits	**363**	367
Guest deposits and gift vouchers	**262**	158
Golf membership deposits	**85**	84
Other payables	**712**	729
Financial liabilities measured at amortised cost	**1,679**	1,693
Less: Non-current portion of trade and other payables	**(240)**	(252)
Current portion of trade and other payables	**1,439**	1,441

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$344 million (31 December 2018: HK$346 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 2019	As at 31 December 2018
Less than three months	**98**	147
Three to six months	**3**	1
More than six months	**3**	4
	104	152

16. Interest-bearing borrowings (HK$m)

	As at 30 June 2019	As at 31 December 2018
Total facilities available:		
Term loans and revolving credits	**14,179**	14,127
Uncommitted facilities, including bank overdrafts	**442**	429
	14,621	14,556
Utilised at 30 June 2019/31 December 2018:		
Term loans and revolving credits	**7,272**	7,170
Uncommitted facilities, including bank overdrafts	**11**	15
	7,283	7,185
Less: Unamortised financing charges	**(77)**	(90)
	7,206	7,095
Represented by:		
Long-term bank loans, repayable within one year	**769**	399
Short-term bank loans and overdrafts, repayable on demand	**3**	4
	772	403
Long-term bank loans, repayable:		
Between one and two years	**674**	858
Between two and five years	**5,474**	5,569
Over five years	**363**	355
	6,511	6,782
Less: Unamortised financing charges	**(77)**	(90)
Non-current portion of long-term bank loans	**6,434**	6,692
Total interest-bearing borrowings	**7,206**	7,095

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

17. Share capital

	At 30 June 2019		At 31 December 2018	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid				
At 1 January	**1,613**	**5,509**	1,589	5,224
Shares issued under scrip dividend scheme	**16**	**179**	24	285
At 30 June 2019/31 December 2018	**1,629**	**5,688**	1,613	5,509

During the six months ended 30 June 2019, the company issued and allotted approximately 16 million new ordinary shares at HK$11.284 per share in respect of the 2018 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK$179 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 2019. The loans to an associate (note 12) are with short maturity period and the carrying amount of these loans approximate their fair values. The loans to a joint venture (note 11(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 2019 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2019			As at 31 December 2018		
	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	**2,930**	**3,808**	**6,738**	1,799	5,805	7,604
The group's share of capital commitments of joint ventures and associates	**383**	**580**	**963**	429	609	1,038
	3,313	**4,388**	**7,701**	2,228	6,414	8,642

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

The group's share of development cost in respect of The Peninsula Istanbul is included in the share of capital commitments of joint ventures.

20. Material related party transactions

There were no material related party transactions during the six months ended 30 June 2019, other than the nature of those as disclosed in the group's annual financial statements for the year ended 31 December 2018.

21. Comparative figures

The group has initially applied HKFRS 16 at 1 January 2019 using the full retrospective approach. Accordingly, the comparative figures have been restated as if the accounting requirements under HKFRS 16 had always been applied. Further details of the changes in accounting policies are disclosed in note 2.

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 33 to 56 which comprises the consolidated statement of financial position of The Hongkong and Shanghai Hotels, Limited as of 30 June 2019 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 2019 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

7 August 2019

Shareholder Information

Financial Calendar	2019
2019 interim results announcement	7 August
Dispatch of Interim Report	21 August
Ex-dividend date for interim dividend	29 August
For entitlement to receive interim dividend	
– Last day to register	30 August 4:30pm
– Closure of register of members	2 September to 4 September (both days inclusive)
– Record date	4 September
Dispatch of scrip dividend circular and election form	10 September
Last day to return scrip dividend election form	27 September 4:30pm
Dispatch of dividend warrants and share certificates for interim dividend	On or about 11 October
Financial year end	31 December

Company Website

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Email: corpaffairs@peninsula.com

Investor Enquiries

www.hshgroup.com/investors
Email: ir@hshgroup.com

Corporate Responsibility and Sustainability Enquiries

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Email: cr@hshgroup.com

Registered Office

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Fax: (852) 2810 4306

Share Information

Stock Code: 00045
2018 Final Dividend: 16 HK cents per share
2019 Interim Dividend: 4 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
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
Email: 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 Request Form may be downloaded from the company's website at www.hshgroup.com.

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India 000 800 852 1388
Italy 800 789 365
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* Toll free access number is only available through Saudi Telecom Company

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THE HONGKONG AND SHANGHAI HOTELS, LIMITED
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