THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00045) website: www.hshgroup.com

2017 Annual Results

HIGHLIGHTS

Key financial results

- Revenue grew by 3% to HK$5,782 million (2016: HK$5,631 million) and EBITDA grew by 10% to HK$1,422 million (2016: HK$1,288 million)
- Including our share of associates and a joint venture, revenue and EBITDA amounted to HK$6,313 million and HK$1,583 million respectively (2016: HK$6,150 million and HK$1,426 million)
- Profit attributable to shareholders amounted to HK$1,155 million (2016: HK$675 million), inclusive of net property revaluation gain of HK$609 million (2016: HK$29 million)
- Earnings per share was HK$0.73 (2016: HK$0.43)
- Underlying profit* amounted to HK$801 million (2016: HK$646 million)
- Our balance sheet remains strong with 13% net gearing and 11.9 times cash interest cover
- Final dividend of 16 HK cents per share (2016: 15 HK cents per share), making a total dividend of 20 HK cents per share for 2017 (2016: 19 HK cents per share)
- Shareholders' funds as at 31 December 2017 amounted to HK$38,175 million (2016: HK$36,359 million) or HK$24.02 per share (2016: HK$23.20 per share)

Key developments

- In line with our commitment to enhance our existing properties, we have completed two major renovation projects: the transformation of The Peninsula Beijing into an all-suite hotel by combining two guestrooms into one, from 525 to 230 keys; and a complete renovation of 21 avenue Kléber, Paris where leases have been signed with office and retail tenants for the majority of the space
- We held the groundbreaking ceremonies of The Peninsula London on 2 November 2017 and The Peninsula Yangon on 16 February 2017. We made good progress with construction of The Peninsula Istanbul. Our focus for the next few years will be on the successful delivery and financing of these three new hotel developments
- The Peninsula Tokyo celebrated its 10th anniversary in October 2017

* *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation*

FINANCIAL HIGHLIGHTS

	2017	2016	Increase/ (Decrease)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)			
Revenue	**5,782**	5,631	3%
EBITDA	**1,422**	1,288	10%
Operating profit	**919**	824	12%
Profit attributable to shareholders	**1,155**	675	71%
Earnings per share (HK$)	**0.73**	0.43	70%
Underlying profit *	**801**	646	24%
Dividends	**318**	297	7%
Dividends per share (HK cents)	**20**	19	5%
Dividend cover (times)**	**2.5x**	2.2x	14%
Interest cover (times)[Δ]	**10.6x**	8.6x	23%
Cash interest cover (times)[ΔΔ]	**11.9x**	13.8x	(14%)
Weighted average gross interest rate	**2.2%**	2.1%	0.1pp
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**48,520**	45,870	6%
Audited net assets attributable to shareholders	**38,175**	36,359	5%
Adjusted net assets attributable to shareholders [#]	**41,725**	39,711	5%
Audited net assets per share (HK$)	**24.02**	23.20	4%
Adjusted net assets per share (HK$) [#]	**26.26**	25.34	4%
Net borrowings	**5,521**	4,911	12%
Funds from operations to net debt [##]	**21%**	22%	(1pp)
Net debt to equity attributable to shareholders	**14%**	14%	-
Gearing	**13%**	12%	1pp
CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities before taxation	**1,369**	1,312	4%
Capital expenditure on existing assets			
- The Peninsulas in Beijing and Chicago and 21 avenue Kléber	**(349)**	(737)	(53%)
- Others	**(252)**	(263)	(4%)
Capital expenditure on new projects/new acquisitions	**(1,053)**	(1,419)	(26%)
SHARE INFORMATION (HK$)			
Highest share price	**17.12**	9.49	
Lowest share price	**8.27**	7.15	
Year end closing share price	**11.60**	8.60	

* *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation*

** *Dividend cover is calculated based on underlying profit over dividends*

Δ *Interest cover is calculated based on operating profits divided by net financing changes*

ΔΔ *Cash interest cover is calculated based on EBITDA divided by net interest paid*

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

\## *Being EBITDA less tax paid and net interest paid as a percentage of net debt*

pp Denotes percentage points

CEO's STRATEGIC REVIEW

The Hongkong and Shanghai Hotels has had a long history of hospitality excellence and one of our key philosophies is to build on this heritage while continuing to maintain and enhance the quality of our assets for value creation over the very long term. Over the past 15 years, we have continually invested in and enhanced the quality of our existing hotel and other properties, as a result of which the Company's net asset value per share has grown from HK$9.9 per share in 2002 to HK$24.02 per share in 2017. We have developed and successfully opened several Peninsula Hotels which are recognised as being among the world's best, and have currently under development three new Peninsula Hotel projects in exceptional locations in London, Istanbul and Yangon (in Myanmar).

Over the very long life cycles of our hotel investments, it is to be expected that we will encounter, and have the staying power to overcome, many ups and downs and 2017 was no exception. We continued to face uncertainties in many of the markets in which we operate, including mixed although improving sentiment in our home market of Hong Kong, political uncertainties in a number of the countries in which we operate and tensions in the Middle East affecting our business originating from that region.

Through these uncertainties, we have remained steadfast in our commitment to service and quality and I am pleased that we have been able to achieve a satisfactory set of financial results for 2017 whilst maintaining this philosophy. The Company's combined EBITDA, including the Group's effective share of EBITDA of our associates and joint ventures, increased by 11% from the previous year to HK$1,583 million. The Company's net profit attributable to shareholders increased by 71% from the previous year to HK$1,155 million, inclusive of the revaluation gain on the Group's investment properties of HK$609 million (2016: HK$29 million). Our underlying profit increased by 24% from the previous year to HK$801 million.

Our focus for the next few years will be on the successful delivery and financing of our new hotel developments in London, Istanbul and Yangon. With the significant capital commitments that these projects entail, we continue to carefully monitor our Company's financial position and I am pleased that our gearing remains at 13%, which we believe to be comfortable taking into account the estimated project budgets of our new developments.

I am also pleased to report that, in line with our commitment to enhance our existing properties, we have completed a major transformation of The Peninsula Beijing by re-building the key public areas and effectively combining two guestrooms into one, thus lowering the guestroom key count from 525 to 230 and creating an "all-suite" hotel. The theme of this annual report focuses on this very major renovation with its title of "An Imperial Rebirth".

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

Hotels	Revenue	Variance	
	HK$m	In HK$	In Local Currency
Consolidated hotels			
The Peninsula Hong Kong	1,298	0%	0%
The Peninsula Beijing	244	78%	78%
The Peninsula New York	698	1%	1%
The Peninsula Chicago	568	4%	4%
The Peninsula Tokyo	826	3%	5%
The Peninsula Bangkok	253	8%	2%
The Peninsula Manila	235	-9%	-3%
Non-consolidated hotels			
The Peninsula Shanghai	603*	1%	2%
The Peninsula Beverly Hills	627	1%	1%
The Peninsula Paris	521	8%	4%

** Excluding proceeds from sale of apartments*

The Peninsula Hong Kong

The Peninsula Hong Kong		
Revenue	HK$1,298m	0%
Occupancy		+3pp
Average Room Rate		+1%
RevPAR		+5%

The tourism market in Hong Kong saw some recovery in 2017. Overnight visitor arrivals increased more than 5% year-on-year. We are optimistic that Hong Kong will continue to be an attractive destination for luxury travellers and we are committed to working with industry peers and government departments to support new ideas and initiatives for Hong Kong's tourism industry.

Our company is excited about the ongoing development of the Kowloon area, where our hotel is situated, including the Tsim Sha Tsui waterfront and the West Kowloon Cultural District. The latter is the largest cultural initiative of its kind in the world comprising 17 new cultural venues including a stunning Great Opera House; 'M+' museum of modern art; concert halls; and a 15,000-seat Arena with an Expo Centre, and 30,000 square metres of arts education facilities that will encourage home-grown artistic talent. A new Express Rail Link which will open in 2018 will connect Hong Kong to the Chinese mainland's National High-speed Railway Network and we believe this will bring more visitors to Hong Kong.

As the flagship property of the Group, we were honoured that **The Peninsula Hong Kong** received the accolade of "Best Hotel" in Hong Kong by *Travel + Leisure* 2017 World's Best Awards. The Peninsula Hong Kong's Cantonese restaurant *Spring Moon* retained its Michelin star in December 2017. These awards are a testament to our long-serving team of colleagues who combine the spirit of integrity, passion and commitment to provide the best experiences for our guests.

During the year, hotel occupancy increased and we were able to maintain our position in terms of market share with an improved average room rate. We continued to benefit from a well-balanced customer base and we have placed a stronger focus on marketing efforts targeting corporate business and groups to strengthen both occupancy and rates.

The Peninsula Office Tower continues to perform well and was 93% occupied throughout 2017, with a stable outlook. The Peninsula Arcade revenue declined as a result of the lethargic luxury retail rental market. However, many of our loyal tenants have been with us for decades, and we believe the long-term relationships we enjoy with them, coupled with our ability to offer access to The Peninsula Hotel guests and services, will help to maintain the attractiveness of this arcade. We are planning to launch a strategic Customer Relationship Management programme in 2018, in order to reinforce The Peninsula Arcade's luxury positioning and to engage new customers and drive traffic.

As part of the ongoing implementation of the Sustainable Luxury Vision 2020, we were delighted to be nominated globally for *The Ethical Corporation's* "Best Domestic Community Investment", for our Honing Skills in Hospitality Programme, shining a light on the challenges of ethnic minority youth in Hong Kong.

In December 2017 we were pleased to announce the sponsorship of China's TECHEETAH Formula-E racing team, which competed for the second time at the 2017 Hong Kong ePrix. Formula E represents a global vision for the future of sustainable high-speed motor racing.

The Peninsula Shanghai

The Peninsula Shanghai		
Revenue	RMB521m (HK$603m)	+2%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+1%
Proceeds from sale of apartments		RMB645m (HK$773m)

The Peninsula Shanghai reported a solid 2017 with increased average room rates and RevPAR. The hotel remains the RevPAR market leader in the city. We were delighted that The Peninsula Shanghai was awarded "Best Hotel in Shanghai" by *Travel + Leisure* 2017 World's Best Awards.

The domestic Chinese mainland market continued to be our largest revenue driver and the US and Hong Kong markets were also robust, with good demand from Japan, Taiwan and the UK. We are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels. The Peninsula Arcade occupancy was flat to the previous year with slightly lower revenue, as our tenants continued to come under pressure in line with the global luxury retail rental market. In April 2017 we announced that No.1 Waitanyuan, the former British Consulate building, would be fully managed and operated by The Peninsula Shanghai, diversifying its portfolio of services, facilities and event spaces to include one of Shanghai's most iconic period buildings.

We are pleased to report that *Yi Long Court* received two Michelin stars and *Sir Elly's* one Michelin star, becoming the only hotel in China with two in-house restaurants to have Michelin stars.

The Group owns a 50% interest in The Peninsula Shanghai Complex which comprises a hotel, a shopping arcade and a residential tower of 39 apartments. In 2013 the joint venture partners resolved to sell 19 apartment units of which 17 units have been sold. During the year, the joint venture partners decided to put the remaining 20 apartment units up for sale, of which 11 apartment units were sold by the end of 2017. Out of the 11 sold units, five apartments were sold to the Company which would be held for long-term investment purposes and rental income generation. Proceeds from the apartments sales were used to pay down the borrowings of the joint venture.

The Peninsula Beijing

The Peninsula Beijing		
Revenue	RMB210m (HK$244m)	+78%*
Room revenue	RMB70m (HK$81m)	+414%*
Available Rooms		230*
Occupancy		+27pp*
Average Room Rate		+63%*
RevPAR		+217%*
** Under renovation for part of the year*		

The Peninsula Beijing completed its extensive renovation in July 2017, transforming the property into an all-suite luxury hotel. The renovation was inspired by the Imperial architecture of ancient China and we have combined our traditional Peninsula hospitality with the best of Chinese tradition, culture and artisanship and contemporary standards of luxury, including our up-to-date modern technology. We preserved the original façade and roof of the hotel which is a tangible part of the heritage of Beijing, and the property has become an icon in the capital city. This complete transformation, "An Imperial Rebirth" is the theme of this annual report, and underpins our company's philosophy of continually improving our assets for the long term.

It took longer than anticipated to start seeing positive results from our marketing efforts and the hotel continues to implement aggressive marketing strategies, both for the domestic as well as the international markets. The renovation has been welcomed by domestic guests and long-term customers, and we are building up a rapport with select industry groups including the entertainment industry, as well as diplomatic and group business. JING restaurant has been redesigned to offer French fine dining cuisine, with a positive response from the market. The Peninsula Arcade, which served as the entry point for renowned brands into the China market when it first opened in the 1980s, reported a stable performance and we were pleased to attract a good mix of new luxury retail tenants.

During the renovation, sustainable guidelines including the Building Research Establishment Environmental Assessment Method (BREEAM) were incorporated from the beginning of project planning, and we achieved a "good" rating certification in early 2018. This included the implementation of energy efficient LEDs, sustainably sourced wood for most of the wood work and furniture, as well as avoiding harmful glues, paints, wall coverings and carpeting. This is an example of our Sustainable Luxury Vision 2020 commitment in action.

While offering a high-quality guest experience, we feel it is equally important to provide a comfortable and healthy back of house environment for our staff. Our staff dormitory was renovated into a most comfortable, full-featured hotel staff dormitory with a fully-equipped staff gym, a hairdresser and individual bathrooms. The staff restaurant features high quality staff dining and is a key factor in attracting new employees to the hotel.

The renovation of The Peninsula Beijing is an example of tradition meeting innovation, a trait for which our company is renowned. We are optimistic that this hotel will become the market leader in the city and has already become an icon of luxury hospitality in Beijing.

The Peninsula Tokyo

The Peninsula Tokyo		
Revenue	JPY11.8b (HK$826m)	+5%
Occupancy		+1pp
Average Room Rate		+2%
RevPAR		+4%

The Peninsula Tokyo celebrated its tenth anniversary in 2017 with a spectacular Gala in October as the highlight to a series of special offers and promotions throughout the year. We were delighted that our hotel was awarded "Best Hotel in Tokyo" by *Travel + Leisure* 2017 World's Best Awards and we achieved the Forbes Five Star accolade for our hotel and spa. The hotel reported an increase in revenue, occupancy and average room rates and a corresponding increase in RevPAR.

Across the city, Tokyo saw returning demand from China as well as a resurgence in domestic business. Weddings were particularly strong during the year as a result of aggressive marketing strategies from our events team in Tokyo. The Peninsula Tokyo introduced a new spa product line in June 2017 which was highly successful and led to good growth in spa revenues year on year. We had very strong suite occupancy due to a strong online marketing strategy and front desk recommendations.

Major workplace reform is taking place across Tokyo and we placed a heavy focus on improving work life balance for our employees with 97% annual leave taken in a country where 48% is the average and 41% the industry average. We implemented employee recognition programmes and strict overtime rules. More than 200 of our staff also volunteered to help donate *onigiri* to orphanages and domestic violence shelters.

In celebration of our tenth anniversary in 2017, The Peninsula Tokyo also sponsored "The Peninsula Tokyo Rally Nippon 2017 – A Peninsula Signature Event" which took place in October 2017 and provided an excellent opportunity to market the brand outside of Tokyo.

The Peninsula Bangkok

The Peninsula Bangkok		
Revenue	THB1,095m (HK$253m)	+2%
Occupancy		-1pp
Average Room Rate		+7%
RevPAR		+5%

The Peninsula Bangkok had a stable year in 2017, with an improved performance in average rates and RevPAR. However, the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016 continued to have an impact on our occupancy and catering business until the last quarter, due to the year-long mourning period which led to the cancellation of corporate events and banquets. Since October 2017 we have seen a rebound in group and corporate business, as well as a strong demand for wedding bookings. Thailand reported a good growth in arrivals mainly coming from China, Korea, Japan and the US due to the visa-free agreements with these countries.

We continued to enhance our Peninsula Academy programme to include sustainability elements related to local Thai nature conservation; for example, guests can participate in a tour of Thailand's first urban Nature Education Centre, Bang Pu, guided by award-winning naturalists. We have also established local cultural initiatives including visiting a local heritage temple which offers Peninsula guests sunrise yoga as part of our Wellness initiative.

We completed a soft goods refurbishment of 11 floors of the hotel to ensure a consistent product offering in 2018. We are positioning the hotel as an "urban luxury resort" concept, focusing on a resort experience with healthy options in spa, fitness and food.

Until August 2017, HSH owned 75% of The Peninsula Bangkok and Thai Country Club. In August 2017, our Thai partner exercised an option which was granted to them during a debt and equity restructuring in 2002, to buy back a 25% shareholding at the fixed price of US$25 million. Therefore, HSH and our Thai partner currently each own a 50% interest in our Thai businesses.

The Peninsula Manila

The Peninsula Manila		
Revenue	Php1,517m (HK$235m)	-3%
Occupancy		-2pp
Average Room Rate		-5%
RevPAR		-8%

The Peninsula Manila had a challenging 2017, with revenue and rates decreasing over the same period last year. Competition in Manila was intense, with a large increase in the supply of luxury hotel rooms in 2017 driving business away from the Metro Manila region as new CBDs emerge and compete for corporate business. We expect this will remain an issue in 2018.

Another challenge during the year included security unrest and terrorist threats in the south of the country. Guests from the traditionally strong markets of the US and Singapore were particularly affected as a result of travel advisories in the first half of 2017. To offset this decrease, we focused on the domestic market, and attracting regional groups from the Chinese mainland and Korea which continued to be robust. This trend improved in the second half particularly in November 2017, when the 31st Association of Southeast Asian Nations (ASEAN) Summit week was held in Manila, which contributed room nights and banqueting revenue.

The Peninsula New York

The Peninsula New York		
Revenue	US$89m (HK$698m)	+1%
Occupancy		0pp
Average Room Rate		+2%
RevPAR		+1%

The Peninsula New York experienced intense competition in 2017 as a result of increased supply in Manhattan, but we were able to report a slight increase in both revenue and average rates over the previous year.

Our traditionally robust segment of government and diplomatic business was negatively impacted due to political uncertainty in the Middle East. To offset this decline, we focused on generating business from Latin America, particularly Mexico, and the Chinese mainland market reported an increase in arrivals. Our 250 square metre Fifth Avenue suite, which opened in 2016, continued to drive revenue in its first year of operation and was well received by guests. Our food and beverage performance was flat and we implemented initiatives to drive business to Clement restaurant, including *Kitchen Table at Clement*. The hotel's rooftop bar, *Salon de Ning*, is consistently rated as one of the best bars in New York.

The Peninsula New York focused on promoting local art and culture through the introduction of "Frieze Frame," an exhibition of artworks, paintings, drawings, sculptures and photographs by 10 contemporary masters who were showing at Frieze New York, through the hotel's continued partnership with Circa 1881. We also introduced a new Peninsula Academy programme to experience the Intrepid Sea, Air and Space Museum from an insider's perspective, where guests could gain access to a variety of vessels on board the USS Intrepid that are not available to the general public.

The Peninsula New York continued to work closely with the local community and more than 30 of our staff contributed to a "Refurbishment Project" at The New York Center for Children, our local charity partner.

The Peninsula Chicago

The Peninsula Chicago		
Revenue	US$73m (HK$568m)	+4%
Occupancy		+1pp
Average Room Rate		+3%
RevPAR		+4%

The Peninsula Chicago reported a satisfactory year with a 4% increase in RevPAR, 4% increase in revenue and a RevPAR ranking of No. 1 for the year despite significant new supply in the city. We were delighted to receive the accolade of "Best Hotel in Chicago" by *Travel + Leisure's* 2017 World Best Awards, which is a testament to the popularity of the hotel following its extensive renovation in 2016. The Peninsula Spa revenue reported strong growth after we made a number of improvements to the service offering.

Chicago is highly dependent on business travellers and the convention industry experienced a downturn in 2017. However, the city reported a record 55 million leisure travellers in 2017, boosted by positive media reports and Chicago winning the accolades of "Best Big City" by *Conde Nast Traveler*, "Most Architecturally Aware City on Earth" by *Financial Times* and "Restaurant City of the Year" by *Bon Appetit Magazine*.

In line with celebrating the city's unique art and culture, The Peninsula Chicago once again participated in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. The offering of 24-hour check-in for web bookings and "Keys to the City," providing guests with special access to Chicago's top restaurants, tourist attractions and other initiatives have helped to drive revenue. Construction is underway for a new rooftop bar designed by Yabu Pushelberg that will offer views of Chicago's skyline and famous water tower. The new bar is scheduled to open in 2018.

The Peninsula Beverly Hills

The Peninsula Beverly Hills		
Revenue	US$80m (HK$627m)	+1%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+2%

We were delighted that **The Peninsula Beverly Hills** was once again voted "The Best Hotel in the US" by *Global Traveler* magazine in 2017. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993.

The hotel reported a slight increase in rates and revenue over the previous year and remained number one in RevPAR within its competitive set, although occupancy declined slightly. We believe this was partly due to the US Administration's travel bans on Middle East countries as well as political tension in the Middle East region which led to decreased business from this region. Our strategy was to attract business from other markets, including Mexico, Brazil and Australia, which showed positive growth. Increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years across the street from our hotel had a slight impact on occupancy, however, we have a loyal clientele with a high repeat guest ratio and we will continue to nurture our long-term relationships with our guests.

Our connections in the entertainment industry remains strong and we announced a creative collaboration with the British Fashion Council's Fashion Arts Foundation, *Reflections on Hollywood,* filmed on location at The Peninsula Beverly Hills and screened for the first time at BAFTA in June 2017.

Our sustainability initiatives continued with various initiatives including an innovative "waterless carwash" staffed by employees with special needs; co-sponsoring events with our local charity partner "A Place called Home" which provides a safe environment for underprivileged children in the LA community, and free parking for electric or "zero emission" cars.

The Peninsula Paris

The Peninsula Paris		
Revenue	EUR59m (HK$521m)	+4%
Occupancy		-3pp
Average Room Rate		+9%
RevPAR		+4%

In 2017 we were pleased to report that tourists were starting to return to Paris, and President Macron's election in the summer of 2017 brought a level of optimism and business confidence to France. The Peninsula Paris reported positive results with a 4% increase in revenue and a 9% increase in rates. Food and beverage revenue was strong, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers spectacular views from the Sacre-Coeur to the Eiffel Tower and has become extremely well established in the local market. However, the recent geopolitical developments in the Middle East have resulted in a significant decline of business from that region, although they are still one of our top contributing geographical segments, and we have been focusing on the traditional US market as well as Latin American, Russian and African markets to try to offset the loss of revenue from the Middle East.

We relaunched a new spa concept "When East meets West" which helps build a loyal base of return clients. The hotel also received the EarthCheck Silver award during 2017. We were honoured to achieve the highly sought-after "Palace" rating, bestowed by the French Tourism Development Agency, *ATOUT France*, to reward the hotel excellence in "promoting the French way of life on the international stage". We also achieved a Forbes Five-star ranking during 2017. We were delighted to be the selected partner for the highly prestigious event *le Bal*, the traditional annual debutantes' ball, which was held in November 2017.

Commercial Properties

Commercial Properties	Revenue	Variance	
	HK$m	In HK$	In Local Currency
The Repulse Bay Complex	637	+4%	+4%
The Peak Tower	201	+10%	+10%
St. John's Building	53	+2%	+2%
The Landmark	39	+3%	+4%
1-5 Grosvenor Place	13	-62%	-59%

Our largest commercial property, **The Repulse Bay Complex**, reported a good year in 2017 with increased revenue. We consider these operating results to be pleasing in the light of softer demand in Hong Kong, where the luxury residential leasing market is experiencing a downward trend, multinational companies are cutting housing allowances and more expatriates are being transferred to local packages.

The Repulse Bay Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was fully occupied for most of the year, with tenants recognising the value of the spectacular location and benefiting from robust traffic at weekends as city residents flocked to the south side to escape the city. Food and beverage revenue experienced double-digit growth following the introduction of promotional celebration packages and seasonal campaigns such as a summer value card which have proved popular with our residents. The Repulse Bay offers a beautiful location for weddings overlooking the ocean and our weddings and banqueting business remained stable in 2017. We opened a new *Breeze Bar* with stunning ocean views in early 2018 and we are confident this will bring additional revenue in the coming year. We are exploring collaborations together with The Peninsula Hong Kong to drive cross-marketing revenue.

The Peak Tower was fully leased for most of the year in 2017 and revenue increased more than 10%. The Peak Tower generates its revenue from commercial leasing, and revenue from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels with 17% higher revenue than the previous year, due to new ticketing strategies with the Peak Tram. We are working with our tenants to promote traffic and have created new marketing campaigns and innovative photography areas free of charge. In November, we sponsored Mexican artist Jaime Ruiz to create an original 6 x 5 metre mural on the wall of the Peak Tower to raise awareness about unsustainable consumption of seafood products in South China.

St John's Building, located at the lower terminus of the Peak Tram, offers a prime location for office space, and the property was fully let for most of the year in 2017.

The Landmark, a 16-storey residential and office property, is located on a prime river-waterfront site in the central business district of Ho Chi Minh City, Vietnam. The complex has 65 serviced apartments, a fully equipped Health Club, as well as 100,000 square feet of high quality office space for leasing. Revenue increased 4% year-on-year as a result of increased demand for office space. The Landmark maintains its popularity and leadership in a competitive market, and continues to attract awards for its management and facilities. We were delighted to receive the accolade of *Best Services* in Vietnam in 2017.

1-5 Grosvenor Place in London, the project site of The Peninsula London hotel and residences, was acquired during 2013. We obtained vacant possession of the office buildings on the site in April 2017 and completed demolition during the year, in preparation for the construction of The Peninsula London. This explains the decline in revenue for this property.

The renovation of **21 avenue Kléber** was completed in September 2017. The property offers a convenient location immediately adjacent to The Peninsula Paris on avenue Kléber, in a chic neighbourhood a short walk from the Arc de Triomphe. The building has been restored in keeping with its heritage, preserving the spacious terraces and a large courtyard while opening up and modernising the internal space into contemporary offices. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. We have successfully leased the entire office and one of the two retail spaces to tenants commencing in 2018.

Clubs and Services

Clubs and Services	Revenue HK$m	Variance In HK$	In Local Currency
The Peak Tram	128	+7%	+7%
The Thai Country Club	61	+9%	+4%
Quail Lodge & Golf Club	160	+10%	+10%
Peninsula Clubs & Consultancy Services	6	-91%	-91%
Peninsula Merchandising	240	+11%	+11%
Tai Pan Laundry	55	+10%	+10%

The Peak Tram is one of Hong Kong's most popular tourist attractions and is approaching 130 years of operation under our group in 2018. Revenue increased although patronage declined slightly for the full year 2017.

We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period, which paves the way for a project to increase the capacity of the trams and create much-improved waiting areas for our customers. The Peak Tram is considered a "must-see" attraction for most visitors to Hong Kong and while it is a unique experience, we recognise the long queues to board during peak hours can be a source of frustration for visitors and we are working to improve their experience and comfort. To further enhance passengers' experience and reduce waiting time, we are investing in a new ticketing system and a full upgrade of the Peak Tram system and facilities. Extensive planning, design and preparation has already been carried out with the support of numerous consultants and the Hong Kong Government. Full details of the upgrade plan, which involves an investment of around HK$680m will be released in 2018, subject to approval by the Hong Kong Government.

The Thai Country Club was delighted to host the Thailand Open in May 2017 which led to significant recognition for the club which won "Best Golf Club Experience in the Asia Pacific" at the *Asian Golf Awards* in 2017. The Club is located near to Bangkok and recorded an increase in revenue for the full year despite Thailand experiencing a soft market, during the one-year mourning period following the sad passing away of His Majesty King Bhumibol Adulyadej. Corporate events and tour groups were cancelled until October 2017 although we are starting to see a rebound in this market since the end of the mourning period.

Quail Lodge & Golf Club had a stronger year with revenue increasing by 10%. This was due to a successful marketing strategy, online travel agency (OTA) promotions, as well as improved golf membership sales and golf rounds. The wedding market was strong in 2017 and our food and beverage revenue from *Edgar's, Covey's* and banqueting improved thanks to increased business from the Lodge and an improved food and beverage offering to guests and the public.

The Quail Motorcycle Gathering, a Peninsula Signature event, welcomed 2,000 visitors in May 2017 and continues to grow from strength to strength. This event was followed in August by the highly successful *The Quail: A Motorsports Gathering*, which occurs during Monterey Car Week and has become one of the world's leading concours events for classic car aficionados, attracting more than 5,000 visitors. Also in August, to coincide with *The Quail*, the second *The Peninsula Classics Best of the Best Award* – an event bringing together the "2017 Best of Show Winners" from six of the top concours events around the globe to compete for the title of the most exceptional car in the world. This brought the Peninsula brand to the attention of leading car aficionados and collectors.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's, which was reopened as "The Refinery" at the end of 2017. As of 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end the Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport. This decision was taken with a strategic long-term view of both companies' business interests. The decline in revenue in 2017 was due to the termination of the Lounges management, although there were also commensurate cost savings.

Revenue at **Peninsula Merchandising** was 11% higher than the same period last year, driven by higher sales and brand awareness following the launch of the new Peninsula Boutique at Hong Kong International Airport. The Peninsula Boutique is investing in its marketing and won the *MARKies Bronze Award* for "Best Idea" (Web Design) in 2017. Peninsula Merchandising sales are driven by the very popular Peninsula Mooncakes which are sold in autumn and are gaining popularity around the world beyond the traditional market of Hong Kong. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which is expected to lead to a long-term increase in revenue as well as a broader earnings base.

Tai Pan Laundry increased revenue by 10% to HK$55 million, mainly due to more contracts and an improved pricing strategy.

Projects

The Peninsula London

In 2013, our Group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. In 2016 HSH assumed 100% ownership of the project for an additional cash consideration of £107.5 million. Grosvenor will remain as the freeholder under the 150-year lease.

The total development cost of the project is expected to be around £650 million. This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch, and will feature a luxury 189-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021.

The last remaining office tenants moved out in April 2017 and demolition was completed by the end of 2017, with a groundbreaking ceremony for The Peninsula London held on 2 November 2017.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a conditional shareholders' agreement 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 was responsible for 50% or approximately €150 million.

Demolition on the project site began in June 2016 and despite unforeseen site conditions and challenges with the heritage building, good progress was made in 2017, with an expected completion date in mid 2020. There will be approximately 180 rooms, a ballroom with sweeping views of the Bosphorus, indoor and outdoor swimming pools, spa and a verdant garden 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. Our partners have a long track record of investment in Turkey and share the same values of integrity and long-term commitment as HSH. We believe in the long-term future of Istanbul as one of the world's prominent tourism destinations.

The Peninsula Yangon

The Company entered into a conditional agreement with Yoma Strategic Holdings in January 2014 to acquire a 70% majority interest for a proposed hotel development on the site of the former headquarters of the Myanmar Railway Company in central Yangon, Myanmar. The heritage property will be restored to become The Peninsula Yangon and will be adjacent to a mixed-use development called Yoma Central, previously known as the Landmark Development. We will also receive fees on the sale of The Peninsula Residences Yangon, luxury residential apartments within the Yoma Central development, and will manage the residences post sale.

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

The Group's overall investment is expected to be around US$126 million, including the value of the leasehold interest and estimated development costs. The groundbreaking ceremony was held on 16 February 2017. We look forward to continuing to work with our partners to complete this project by 2021.

Human Resources

Attracting and developing our talent remains a key focus of our company. We are committed to creating a culture of engaged employees across the Group, and a particular focus is to attract and retain talent, as well as widening our succession planning in the light of our development. The travel and tourism sector often suffers from high turnover of staff, however, we are pleased to report a low voluntary turnover rate among our staff compared with the industry. Having a well-trained and engaged workforce is critical to our work culture and to deliver quality service to our guests.

As of 31 December 2017, there were 7,534 full time employees in the Group.

Sustainable Luxury Vision 2020

As a company with 150 years of history, HSH is committed to delivering the highest standards of luxury in a sustainable way, this is reflected in our Sustainable Luxury Vision 2020, launched in 2013.

In 2017, we saw a good outcome of our continued energy and water efficiency efforts and we continued to see good progress in achieving over 80% of our commitments, although we have encountered challenges. Since the implementation of our Sustainable Luxury Vision 2020 strategy, we have become more aware of the systemic and multi-dimensional nature of sustainability issues. With a more nuanced understanding, we are reassessing our approach, recognising that addressing these challenges requires concerted efforts and collaborative solutions with other stakeholders. We are focusing our efforts in three key areas of "Our People, Our Guests, and Our Cities". More details can be read in the Corporate Responsibility and Sustainability Report which is available online.

Outlook

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

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

In terms of outlook for the coming year, we continue to experience a stable and improving luxury hospitality market in Hong Kong, as well as solid demand for our luxury residential lettings. Demand continues to be good for overall tourism as reflected in the performance of the Peak Tram. We are also seeing some improvements in the luxury retail sector although the overall market continues to adjust from the previous "boom" years.

Outside Hong Kong, we are experiencing stable, albeit competitive, markets in the US, China and Japan. We are seeking to increase our market share at our recently renovated properties The Peninsula Chicago and The Peninsula Beijing and we are hopeful of a continued recovery for The Peninsula Paris both from a return of high-end Middle Eastern business and general stability following the uncertainties of the last few years. Unfortunately, relatively low rates for our hotels in Bangkok and Manila remain an issue.

We continue to focus our efforts on creating personalised bespoke services and experiences for our guests, as well as managing our margins both from driving revenues and containing costs. We have invested significantly in our customer data base management in order to provide better information for our marketing and operational teams to personalise our offerings to guests.

Looking to the longer term, we agree with the assessment of the World Travel and Tourism Council (WTTC) that the global travel and tourism industry is expected to grow at above global GDP rates for the next decade. We firmly believe that affluent travellers will continue to seek and appreciate highly personalised experiences, attention to detail and a genuine service culture and it is with this believe that we have the confidence to continue developing a small number of Peninsula Hotels as an owner operator. We expect that the new hotels in London, Istanbul and Yangon will further enhance our brand presence when they open in 2020-2021.

Overall, our Company remains in a strong financial position with a highly motivated and dedicated team of management and staff who are committed to our long-term vision. With the quality of our operating properties and the exciting new projects under development, we remain confident and positive about the future, whilst being ready and able to ride out the shorter-term fluctuations in the markets in which we operate.

Clement K.M. Kwok
16 March 2018

The financial information sets out in this results announcement has been reviewed by the Company's Audit Committee, comprising a majority of Independent Non-Executive Directors, one of whom chairs the Committee, and has been agreed by the Company's auditor, KPMG, Certified Public Accountants. The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been compared by KPMG to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

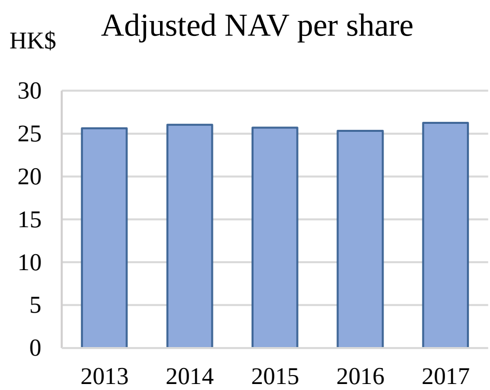
FINANCIAL REVIEW

The Group's adjusted net assets 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 31 December 2017, the details of which are set out on page 27. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$41,725 million as indicated in the table below.

Adjusted NAV
HK$41,725m ↑5%

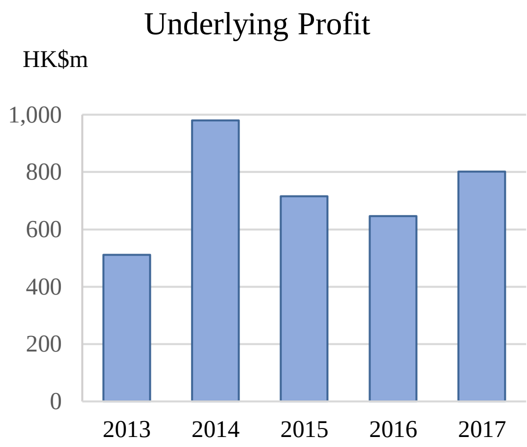


HK$m		**2017**		2016
Net assets attributable to shareholders per the audited statement of financial position		**38,175**		36,359
Adjusting the value of hotels and golf courses to fair value	**3,876**		3,815	
Less: Related deferred tax and non-controlling interests	**(326)**		(463)	
		3,550		3,352
Adjusted net assets attributable to shareholders		**41,725**		39,711
Audited net assets per share (HK$)		**24.02**		23.20
Adjusted net assets per share (HK$)		**26.26**		25.34

The Group's underlying profit

Underlying Profit
HK$801m ↑24%

Our operating results are mainly derived from the operation of hotels and leasing of commercial properties. 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 the fair value of investment properties and the related deferred tax movements, in our statement of profit or loss. To reflect the true performance of the Group, we have provided calculations of the underlying profit. These are determined by excluding the post-tax effects of the property revaluation movements and other non-operating items.



The Group's underlying profit for the year ended 31 December 2017 amounted to HK$801 million, an increase of 24% compared to 2016, mainly due to: (a) the increased contribution from the hotels division following the completion of the renovation at The Peninsula Beijing although the commercial revenue generated from our retail arcades was under pressure as the retail market in Hong Kong and Mainland China remained challenging; and (b) a higher share of realised gain on apartments sold by the Group's joint venture in Shanghai.

HK$m	**2017**	2016	2017 vs 2016
Profit attributable to shareholders	**1,155**	675	
Less: Unrealised revaluation gain on investment properties of the Group, net of tax and non-controlling interests	**(628)**	(87)	
Add: Share of unrealised loss in respect of provision for PRC land appreciation tax and other transaction costs arising from the reclassification of apartments held for rental (investment properties) as apartments held for sale and unrealised revaluation loss on the commercial arcade of The Peninsula Shanghai (PSH)	**125**	19	
Less: Effect of decrease in tax rates on deferred tax liabilities arising from revaluation gains on investment properties	**(1)**	(1)	
	651	606	7%
Add: Share of cumulative revaluation gains on apartments sold by PSH during the year which were previously accounted for as investment properties, net of the related tax and transaction costs*	**150**	40	
Underlying profit	**801**	646	24%

* *Underlying profit is calculated by excluding the post-tax effects of unrealised property revaluation movements and other non-operating items. In addition, to reflect the commercial reality of these transactions, the share of cumulative revaluation gains (net of the related tax) in respect of the apartments sold by the Group's joint venture in Shanghai, which were previously accounted for as investment properties, were added back to arrive at the underlying profit for the year. The comparative underlying profit has been adjusted to conform to the current year's presentation*

Statement of profit or loss

The Group's consolidated statement of profit or loss for the year ended 31 December 2017 is set out on page 35. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentary set out on pages 20 to 25 of this Financial Review.

HK$m	**2017**	2016	2017 vs 2016
Revenue	**5,782**	5,631	3%
Operating costs	**(4,360)**	(4,343)	-
EBITDA	**1,422**	1,288	10%
Depreciation and amortisation	**(503)**	(464)	8%
Net financing charges	**(87)**	(96)	(9%)
Share of results of The Peninsula Shanghai*	**(97)**	20	n/a
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(24)**	(25)	(4%)
Increase in fair value of investment properties	**609**	29	2,000%
Taxation[Δ]	**(168)**	(85)	98%
Profit for the year	**1,152**	667	73%
Non-controlling interests	**3**	8	(63%)
Profit attributable to shareholders	**1,155**	675	71%

* *Being the Group's share of The Peninsula Shanghai's (PSH) operating profit after interest of HK$28 million (2016: HK$3 million), net of (i) an unrealised loss in respect of provision for PRC land appreciation tax and other transaction costs arising from the reclassification of 20 apartments from investment properties to apartments held for sale, and (ii) an unrealised revaluation loss on the hotel's commercial arcade, amounting to HK$125 million in total (2016: HK$19 million)*

During 2017, a total of 11 apartments were sold at market price, raising total proceeds of HK$773 million (2016: 4 apartments with total proceeds of HK$229 million). Given the net realisable value of the apartments sold in 2017 was approximately equal to the proceeds received, no accounting gain on sale was recognised in the Group's statement of profit or loss (2016: a share of gain of HK$36 million was realised by the Group)

Further details of PSH's operating results and non-operating items for 2017 are set out on page 25 of this Financial Review

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

Δ *The amount of taxation includes deferred tax liabilities arising from the increase in fair value of the Group's investment properties*

Revenue

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

Consolidated Revenue
HK$5,782m ↑3%

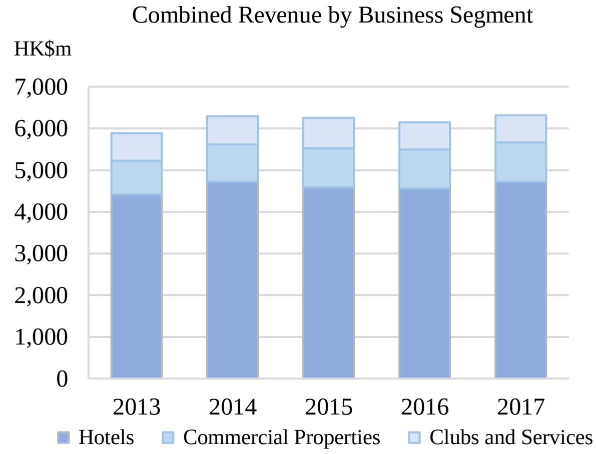
Hotels
HK$4,189m ↑4%

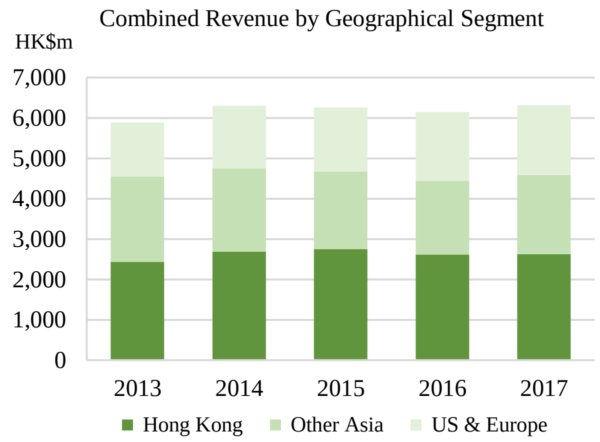
Commercial Properties
HK$943m ↑1%

Clubs and Services
HK$650m ↓1%

The Group's consolidated revenue in 2017 increased by 3% to HK$5,782 million. Total revenue, including the Group's effective share of revenue of associates and a joint venture amounted to HK$6,313 million, representing an increase of 3% over 2016.

A breakdown of the Group's total revenue, including its effective share of revenue of associates and a joint venture by business segment and geographical segment is set out in the tables on the following page.





Revenue by business segment

HK$m	**2017**			2016			2017 vs 2016
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**4,189**	**531 ***	**4,720**	4,040	519 *	4,559	4%
Commercial Properties	**943**	**-**	**943**	935	-	935	1%
Clubs and Services	**650**	**-**	**650**	656	-	656	(1%)
	5,782	**531**	**6,313**	5,631	519	6,150	3%

Revenue by geographical segment

HK$m	**2017**			2016			2017 vs 2016
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**2,626**	**-**	**2,626**	2,615	-	2,615	-
Other Asia	**1,656**	**302 ***	**1,958**	1,526	299 *	1,825	7%
US and Europe	**1,500**	**229**	**1,729**	1,490	220	1,710	1%
	5,782	**531**	**6,313**	5,631	519	6,150	3%

* *Excluding the Group's share of revenue in respect of the sale of apartments by the joint venture in Shanghai*

The hotels division is the main contributor to the Group's combined revenue, accounting for 75% (2016: 74%) of total revenue. The operating performance of the Group's hotel businesses is cyclical by nature. Following the completion of the renovation at The Peninsula Beijing and the return of full room inventory in August 2017, the hotel reported a revenue growth of HK$107 million or 78% over last year. However, this revenue growth was partly offset by the decrease in rental income of the commercial arcade at The Peninsula Hong Kong and the revenue shortfall suffered by The Peninsula Manila.

The commercial properties division reported a steady growth in revenue mainly due to the increase in occupancy achieved by The Repulse Bay Complex and a higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

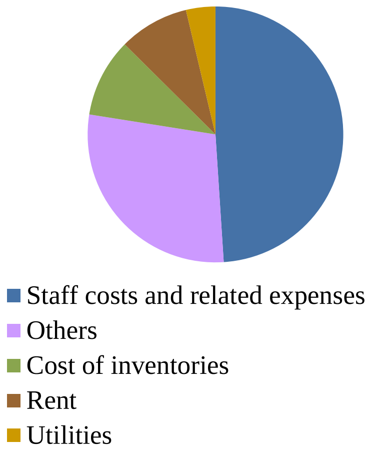
For the clubs and services division, total revenue decreased slightly against last year as the increase in mooncake sales achieved by Peninsula Merchandising and the higher income generated from The Peak Tram were offset by the full year impact of the loss of income from Peninsula Clubs and Consultancy Services following the termination of the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport in May 2016.

Details of the operating performances of the Group's individual operations are set out on pages 4 to 13 of the CEO's Strategic Review.

Operating costs

Operating Costs
HK$4,360m → flat

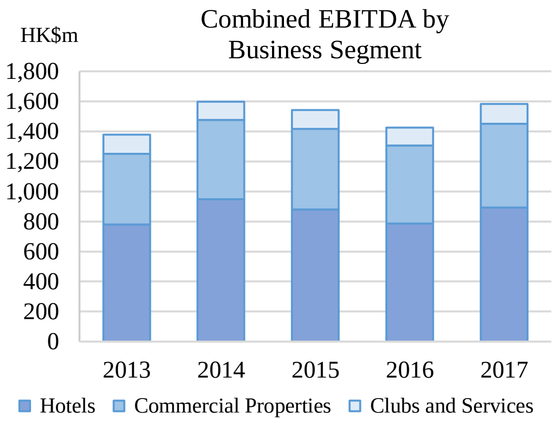
In 2017, despite the increase in payroll and other operating expenses incurred by The Peninsula Beijing following the phased completion of its renovation during the year, our operating costs (excluding depreciation and amortisation) only increased marginally by HK$17 million to HK$4,360 million (2016: HK$4,343 million) due to our continuous efforts to contain costs and increase in efficiency.



Given the nature of operating high-end luxury hotels, staff costs continued to be the largest portion of our operating costs. Staff costs and related expenses for the year increased by 1% to HK$2,135 million, representing 49% (2016: 49%) of the Group's operating costs and 37% (2016: 37%) of the Group's consolidated revenue.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation), including the Group's effective share of EBITDA of associates and a joint venture, increased by 11% to HK$1,583 million. The tables below and on the following page set out the breakdown of the Group's EBITDA by business segment and by geographical segment.



EBITDA by business segment

HK$m	**2017**			2016			2017 vs 2016
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**732**	**161 ***	**893**	649	138 *	787	13%
Commercial Properties	**558**	**-**	**558**	518	-	518	8%
Clubs and Services	**132**	**-**	**132**	121	-	121	9%
	1,422	**161**	**1,583**	1,288	138	1,426	11%

** Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai*

EBITDA by geographical segment

HK$m	**2017**			2016			2017 vs 2016
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**1,169**	**-**	**1,169**	1,095	-	1,095	7%
Other Asia	**167**	**118 ***	**285**	94	101 *	195	46%
US and Europe	**86**	**43**	**129**	99	37	136	(5%)
	1,422	**161**	**1,583**	1,288	138	1,426	11%

** Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai*

EBITDA margin	**2017**			2016		
	Group's subsidiaries	**Associates and joint venture (effective share)**	**Combined total**	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	**17%**	**30%** *	**19%**	16%	27% *	17%
Commercial Properties	**59%**	**-**	**59%**	55%	-	55%
Clubs and Services	**20%**	**-**	**20%**	18%	-	18%
Overall EBITDA margin	**25%**	**30%**	**25%**	23%	27%	23%
By region						
Hong Kong	**45%**	**-**	**45%**	42%	-	42%
Other Asia	**10%**	**39%** *	**15%**	6%	34% *	11%
US and Europe	**6%**	**19%**	**7%**	7%	17%	8%

** Excluding the Group's share of EBITDA in respect of the sale of apartments by the joint venture in Shanghai*

In 2017, the combined EBITDA margin of the hotels division increased by two percentage points to 19%, mainly due to the improved margin achieved by The Peninsula Beijing following its return of full room inventory in August 2017 and the increase in profitability achieved by The Peninsula Shanghai.

For the commercial properties division, although 1-5 Grosvenor Place was completely vacated in April 2017 for redevelopment, the EBITDA margin of the division increased by four percentage points mainly due to the increased occupancy achieved by The Repulse Bay Complex and higher admission fee income achieved by Sky Terrace 428 at The Peak Tower.

The clubs and services division also reported an increase in margin by two percentage points mainly due to the higher contribution from Peninsula Merchandising for its mooncake sales although part of this margin increase was offset by the loss of income resulting from the termination of the management contracts for the Cathay Pacific Lounges in May 2016.

Depreciation and amortisation

The Group's hotels (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less depreciation and impairment, if any. The depreciation and amortisation charge of the Group amounted to HK$503 million (2016: HK$464 million). The increase was mainly due to the additional depreciation at The Peninsula Chicago and The Peninsula Beijing following their renovations which were completed in April 2016 and August 2017 respectively. To monitor the Group's spending of capital expenditure, a rolling 5-year capital expenditure plan is adopted which will be reviewed regularly to monitor planned replacement of furniture, fixtures and equipment, purchase of new items and major upgrade or enhancement projects.

Increase in fair value of investment properties

The investment properties of the Group were revalued as at 31 December 2017 by independent firms of valuers based on an income capitalisation approach. The increase in revaluation surplus was a reflection of the general market conditions. The net surplus in 2017 was principally attributable to the increase in the appraised market value of The Repulse Bay, The Peninsula Office Tower, The Peak Tower and St. John's Building, net of the decrease in appraised market value of the commercial arcade at The Peninsula Beijing and The Landmark, Vietnam due to the shortening of the remaining lease term of these properties.

Share of results of The Peninsula Shanghai

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. The Peninsula Shanghai is the market leader in terms of average room rate and RevPAR in its competitor set and the operating results for the hotel and arcade combined reflected an increase over last year. PSW also earns leasing income from the residential apartments it has not been sold as well as sales proceeds when apartments are sold. During the year, a total of 11 apartments were sold generating total proceeds of HK$773 million. Five of the 11 apartments sold by PSW were acquired by the Group at an arm's length price for the purpose of generating long-term rental income. At the conclusion of 2017, PSW owns a remaining 11 apartments which are held for sale.

Inclusive of hotel and arcade operations, and residential leasing and sales, PSW generated an operating EBITDA of HK$235 million (2016: HK$273 million) and sustained a net loss of HK$195 million (2016: net profit of HK$40 million). PSW's results were significantly affected by the recognition of a total unrealised loss of HK$250 million due to: (a) the provision of land appreciation tax and other transaction costs arising from the reclassification of 20 apartments from investment properties to apartments held for sale during the year; and (b) the unrealised loss on revaluation of the shopping arcade.

It is worth noting that any unrealised accumulated appreciation in fair value of the apartments will become realised gains upon disposal. Accordingly, adjustments should be made to the Group's share of PSW's results to arrive at the underlying profit realised by the Group when the apartments are sold. Further details of the adjustments for 2017 and 2016 are set out on page 18 of this Financial Review.

Details of the operating performance of The Peninsula Shanghai are set out in the CEO's Strategic Review section on pages 5 and 6.

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

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these two hotels for 2017 amounted to HK$24 million (2016: HK$25 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 9 to 10.

Statement of financial position

The Group's financial position as at 31 December 2017 remained strong and net assets attributable to shareholders amounted to HK$38,175 million, representing a per share value of HK$24.02 compared to HK$23.20 in 2016. The consolidated statement of financial position of the Group as at 31 December 2017 is presented on page 37 and the key components of the Group's assets and liabilities are set out in the following table.

HK$m	**2017**	2016	2017 vs 2016
Fixed assets	**43,355**	40,712	6%
Other long-term assets	**2,356**	2,223	6%
Cash at banks and in hand	**1,922**	2,087	(8%)
Other assets	**887**	848	5%
	48,520	45,870	6%
Interest-bearing borrowings	**(7,443)**	(6,998)	6%
Other liabilities	**(2,375)**	(2,298)	3%
	(9,818)	(9,296)	6%
Net assets	**38,702**	36,574	6%
Represented by			
Shareholders' funds	**38,175**	36,359	5%
Non-controlling interests	**527**	215	145%
Total equity	**38,702**	36,574	6%

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. During the year, the Group acquired five apartment units from its joint venture in Shanghai at a total investment cost, including deed tax and other transaction costs, of HK$423 million. The Group intends to hold these apartments as long-term assets for rental.

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. 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 31 December 2017. A summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 31 December 2017 is set out in the table on the following page.

		2017		2016	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties *					
The Peninsula Hong Kong	100%	**12,142**	**9,931**	12,031	9,882
The Peninsula New York	100%	**2,366**	**1,710**	2,378	1,757
The Peninsula Beijing	76.6% **	**1,814**	**1,777**	1,716	1,485
The Peninsula Tokyo	100%	**1,640**	**1,468**	1,567	1,446
The Peninsula Chicago	100%	**1,331**	**1,225**	1,331	1,268
The Peninsula Bangkok	50%	**670**	**660**	606	590
The Peninsula Manila	77.4%	**126**	**124**	139	138
The Peninsula Shanghai Complex#	50%	**3,207**	**2,808**	4,556	4,256
The Peninsula Paris#	20%	**5,861**	**5,534**	5,220	5,017
The Peninsula Beverly Hills#	20%	**2,640**	**485**	2,640	479
		31,797	**25,722**	32,184	26,318
Commercial properties					
The Repulse Bay Complex	100%	**17,362**	**17,362**	16,930	16,930
The Peak Tower	100%	**1,422**	**1,422**	1,362	1,362
St. John's Building	100%	**1,142**	**1,142**	1,027	1,027
Apartments in Shanghai	100%	**423**	**423**	-	-
21 avenue Kléber	100%	**741**	**741**	621	621
1-5 Grosvenor Place△△	100%	**-**	**-**	2,583	2,583
The Landmark	70% △	**62**	**62**	68	68
		21,152	**21,152**	22,591	22,591
Other properties					
Thai Country Club golf course	50%	**239**	**269**	211	242
Quail Lodge resort, golf course and vacant land	100%	**298**	**282**	307	286
Vacant land in Thailand	50%	**431**	**431**	390	390
Others	100%	**374**	**220**	344	219
		1,342	**1,202**	1,252	1,137
Properties under development					
The Peninsula London△△	100%	**3,640**	**3,640**	-	-
The Peninsula Yangon	70%	**279**	**279**	-	-
The Peninsula Istanbul#	50%	**479**	**479**	132	132
		4,398	**4,398**	132	132
Total market / book value		**58,689**	**52,474**	56,159	50,178

* *Including the shopping arcades and offices within the hotels*

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

△ *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*

△△ *The Group had a 50% interest in 1-5 Grosvenor Place when it was first acquired in 2013. The Group acquired the 50% remaining interest in the property by changing the partnership and lease arrangements with Grosvenor in 2016. Vacant possession of the building was obtained in April 2017 for demolition work to commence*

\# *These properties are held by associates/joint ventures*

Interest in Thai subsidiaries

Since 2002, the Group had held a 75% interest in the holding company of our Thai subsidiaries, which in turn owns 100% direct interest in The Peninsula Bangkok and Thai Country Club.

On 29 August 2017, the Thai Partner exercised an option to buy back a 25% interest in the Thai holding company. This option was given to the Thai Partner pursuant to a restructuring of the debt and equity of the Thai holding company back in 2002.

Following the completion of the exercise of this option, the economic interests in the Thai subsidiaries became 50:50 between the Group and the Thai Partner.

Other long-term assets

The other long-term assets as at 31 December 2017 of HK$2,356 million (2016: HK$2,223 million) principally comprise the Group's 50% interest in The Peninsula Shanghai, the Group's 20% interest in The Peninsula Paris (PPR) and the related hotel operating right in respect of PPR and the Group's 50% interest in The Peninsula Istanbul which is under development.

Cash at banks and in hand and interest-bearing borrowings

As at 31 December 2017, the Group's cash at banks and in hand and interest-bearing borrowings amounted to HK$1,922 million (2016: HK$2,087 million) and HK$7,443 million (2016: HK$6,998 million) respectively. The increase in interest-bearing borrowings was mainly due to the capital expenditure incurred on existing assets, ongoing projects under development and the acquisition of five apartment units from the Group's joint venture in Shanghai. A breakdown of the Group's capital expenditure for the year ended 31 December 2017 is set out on page 29.

Cash flows

The consolidated statement of cash flows of the Group for the year ended 31 December 2017 is set out on page 39. The following table summarises the key cash movements for the year ended 31 December 2017.

HK$m	**2017**	2016
EBITDA	**1,422**	1,288
Net change in working capital	**(53)**	24
Tax payment	**(153)**	(136)
Net cash generated from operating activities	**1,216**	1,176
Capital expenditure on existing assets	**(601)**	(1,000)
Net cash inflow after normal capital expenditure	**615**	176
Acquisition of additional interest in 1-5 Grosvenor Place	**-**	(1,288)
Acquisition of five apartment units from the joint venture in Shanghai	**(423)**	-
Capital expenditure on new projects	**(630)**	(131)
Net cash outflow before dividends and other payments	**(438)**	(1,243)

The after-tax net cash generated from operating activities for the year amounted to HK$1,216 million (2016: HK$1,176 million), of which HK$601 million (2016: HK$1,000 million) was applied to fund capital expenditure on existing assets.

The breakdown of the Group's spending on its existing assets is analysed below.

HK$m	**2017**	2016
Hotels		
The Peninsula Beijing	**250**	566
The Peninsula Chicago (including the new rooftop bar)	**31**	120
Others	**137**	170
Commercial properties		
21 avenue Kléber	**68**	51
Others	**57**	54
Clubs and services	**58**	39
	601	1,000

The breakdown of the Group's spending on new projects is analysed below.

HK$m	**2017**	2016
The Peninsula London	**449**	131
The Peninsula Yangon	**181**	-
	630	131

Capital and Treasury Management

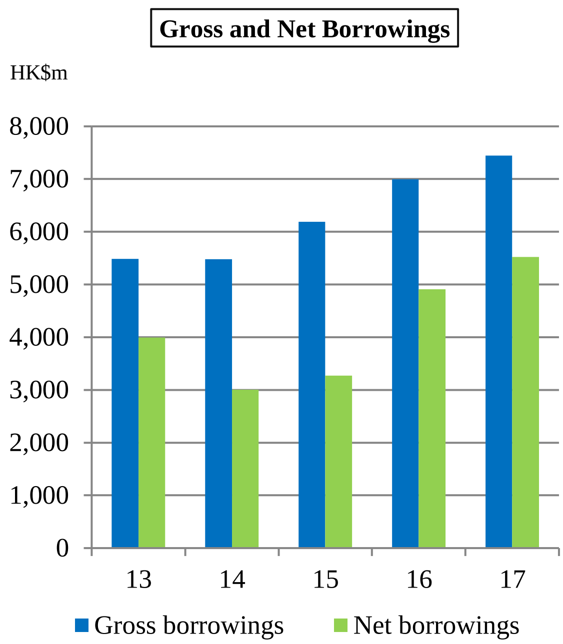
The Group is exposed to liquidity, foreign exchange, interest rate and credit risks in the normal course of business and have policies and procedures in place to manage such risks.

The Group manages treasury activities centrally at its corporate office in Hong Kong. The Group also regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

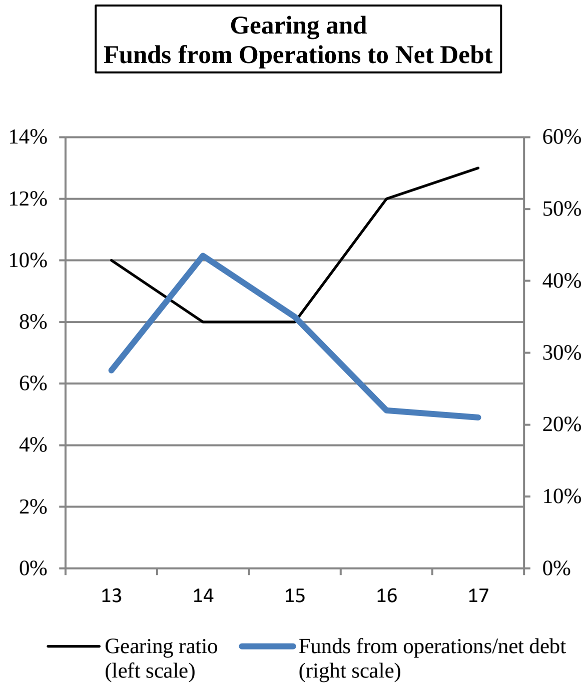
In addition, the Group maintains sufficient cash reserves and adequate committed borrowing facilities from major financial institutions to ensure funds are available to meet its financial obligations and to finance its growth and development.

Liquidity/Financing

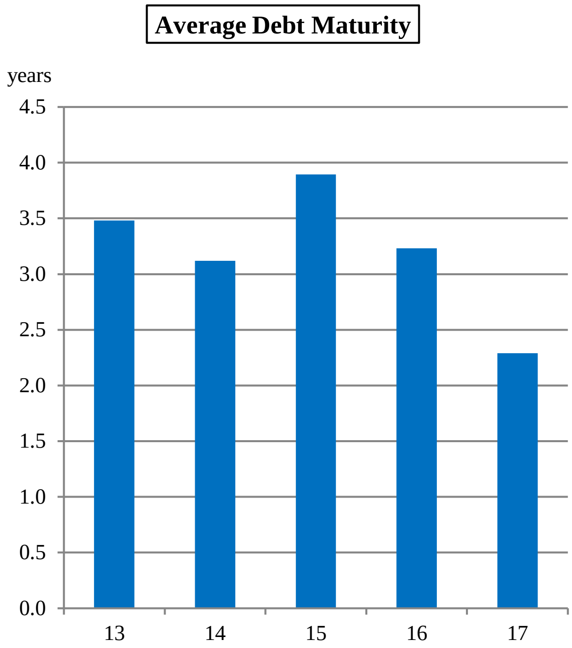
The Group monitors its capital structure on the basis of its gearing ratio, which is expressed as the percentage of net borrowings (defined as interest-bearing borrowings less cash at banks and in hand) to the total of net borrowings and equity attributable to shareholders of the Company.



In 2017, gross borrowings increased to HK$7,443 million (2016: HK$6,998 million) mainly due to the payment for the construction costs of Peninsula London. Consolidated net debt increased to HK$5,521 million as compared to HK$4,911 million in 2016, after taking into account cash of HK$1,922 million (2016: HK$2,087 million). The Group's net gearing increased to 13%, whilst the funds from operations (EBITDA less tax paid and less net interest paid) to net debt ratio decreased from 22% to 21%. These ratios continue to reflect a healthy financial position for the Group.



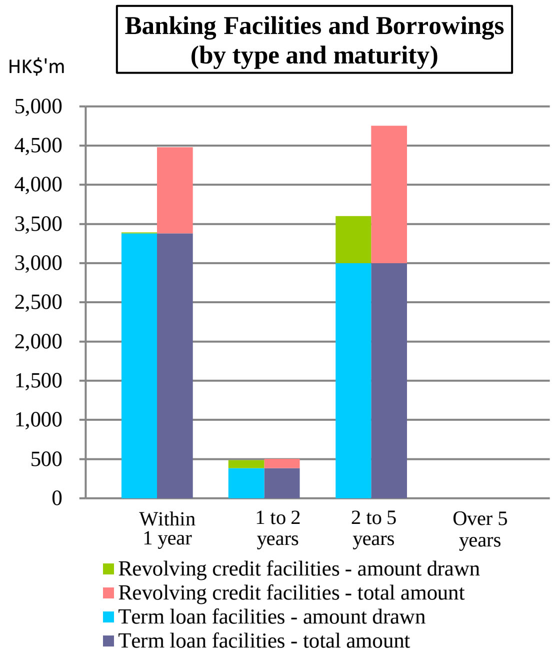
The average debt maturity decreased from 3.2 years to 2.3 years.



During the year, the Company has obtained a new standby credit facility of RMB70 million to meet the working capital needs of a subsidiary in China.

A total of HK$3.4 billion of loans is maturing in 2018, mostly in the final quarter of 2018. These loans are primarily denominated in HK dollars, Japanese Yen and Euro. The Group intends to refinance these loan facilities upon their maturities by evaluating the loan market and debt capital market at the time. In February 2018, the Group utilised some of its cash balance to early repay HK$500 million of the above maturing loans.

Furthermore in March 2018, the Group obtained a GBP650 million 5-year term loan facility from a consortia of five banks. The drawdown of this loan will be staggered to fund progress payments for the construction costs of The Peninsula London project. The loan is unsecured and bears interest at LIBOR plus a fixed margin. This loan was arranged early in 2018 such that we do not have concentrated financing risk in the second half of the year.



We continue to monitor our overall debt and cashflow positions closely and believe that the best defense against any unforeseen volatility in business levels is to maintain prudent financial ratios.

The consolidated and non-consolidated borrowings as at 31 December 2017 are summarised as follows:

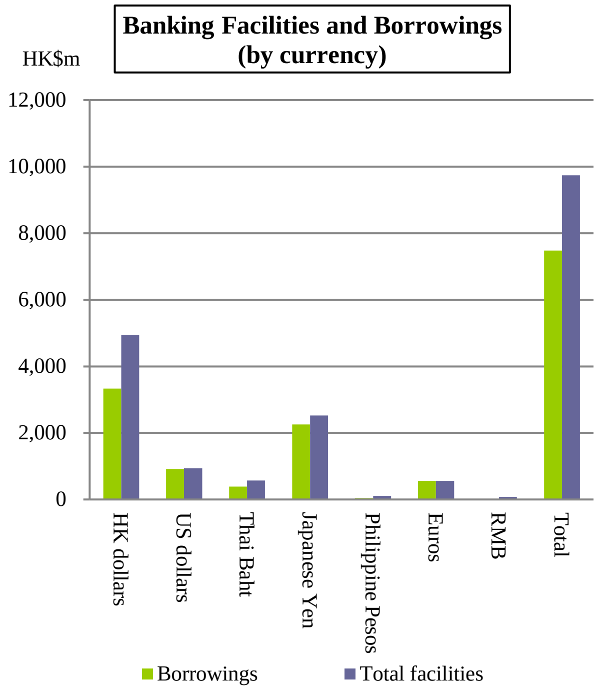
	2017					2016
HK$m	**Hong Kong**	**Other Asia**	**United States of America**	**Europe**	**Total**	Total
Consolidated gross borrowings	**3,306**	**2,663**	**915**	**559**	**7,443**	6,998
Non-consolidated gross borrowings attributable to the Group*:						
The Peninsula Shanghai (50%)	**-**	**721**	**-**	**-**	**721**	989
The Peninsula Beverly Hills (20%)	**-**	**-**	**209**	**-**	**209**	214
The Peninsula Paris (20%)	**-**	**-**	**-**	**410**	**410**	357
Non-consolidated borrowings	**-**	**721**	**209**	**410**	**1,340**	1,560
Consolidated and non-consolidated gross borrowings	**3,306**	**3,384**	**1,124**	**969**	**8,783**	8,558

** Represents HSH's attributable share of borrowings*

Foreign Exchange

The Group reports its financial results in Hong Kong dollars and does not hedge US dollar exposures in the light of the HK-US dollar peg. The Group mostly uses cross currency swaps, foreign exchange swaps or forward exchange contracts to hedge foreign exchange exposures.

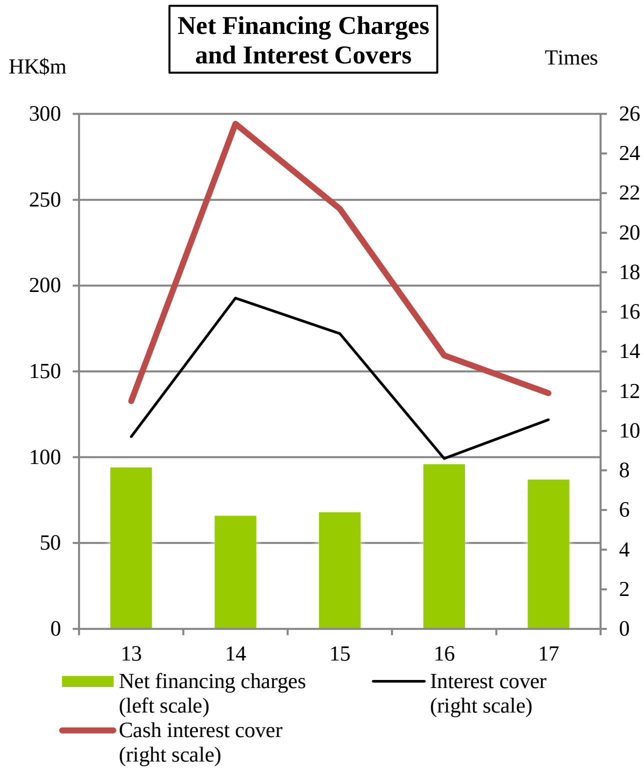
All of the Group's borrowings are denominated in the functional currency of the operations to which they relate. As at 31 December 2017, Hong Kong dollar borrowings represented 44% (2016: 44%) of total borrowings. Other balances were mainly in US dollars, Japanese yen and other local currencies of the Group's entities.



Interest Rate Risk

The Group has an interest rate risk management policy which focuses on reducing the Group's exposure to changes in interest rates by maintaining a prudent mix of fixed and floating rate liabilities. In addition to raising funds directly on a fixed rate basis, the Group also uses interest rate swaps or cross currency interest rate swaps in managing its long-term interest rate exposure.

Financing charges on borrowings after interest capitalised of HK$48 million (2016: HK$3 million) in 2017 amounted to HK$109 million (2016: HK$133 million). After interest income of HK$22 million (2016: HK$37 million), a net charge of HK$87 million (2016: HK$96 million) was recognised in the statement of profit or loss. Interest cover (operating profit divided by net financing charges) increased to 10.6 times (2016: 8.6 times) in 2017, whereas cash interest cover (EBITDA divided by net interest paid) decreased to 11.9 times (2016: 13.8 times). As at 31 December 2017, the Group's fixed to floating interest rate ratio decreased to 65% (2016: 67%). The weighted average gross interest rate for the year increased slightly from 2.1% to 2.2%.

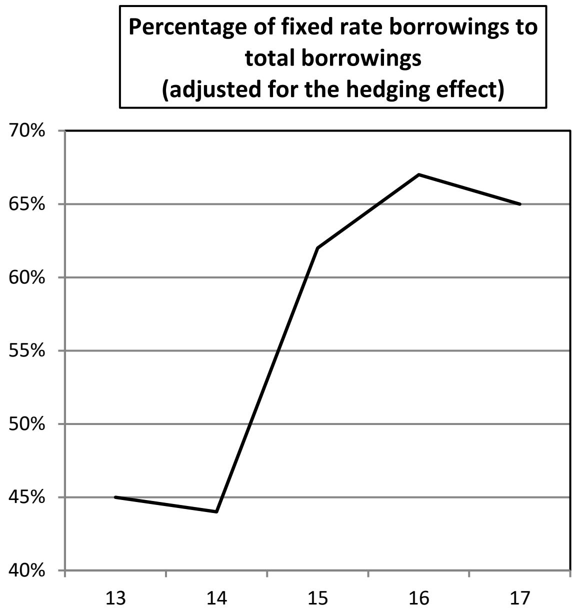


Credit Risk

The Group manages its exposure to non-performance of counterparties by transacting with those who have a credit rating of at least investment grade when depositing surplus funds. However, in developing countries, it may be necessary to deal with banks of lower credit rating.

Derivatives are used solely for hedging purposes and not for speculation and the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade, even in developing countries, because of the longer-term effect.

As at 31 December 2017, bank deposits of HK$1,900 million (2016: HK$2,075 million) and derivatives with notional amount of HK$1,719 million (2016: HK$1,850 million) were transacted with financial institutions with credit ratings of at least investment grade.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)

	Note	Year ended 31 December 2017	2016
Revenue	2	**5,782**	5,631
Cost of inventories		**(433)**	(428)
Staff costs and related expenses		**(2,135)**	(2,108)
Rent and utilities		**(548)**	(527)
Other operating expenses		**(1,244)**	(1,280)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)		**1,422**	1,288
Depreciation and amortisation		**(503)**	(464)
Operating profit		**919**	824
Interest income		**22**	37
Financing charges		**(109)**	(133)
Net financing charges		**(87)**	(96)
Profit after net financing charges		**832**	728
Share of result of a joint venture	8(c)	**(97)**	20
Share of results of associates	9(e)	**(24)**	(25)
Increase in fair value of investment properties	7(b)	**609**	29
Profit before taxation		**1,320**	752
Taxation			
Current tax	3	**(172)**	(139)
Deferred tax	3	**4**	54
Profit for the year		**1,152**	667
Profit attributable to:			
Shareholders of the Company		**1,155**	675
Non-controlling interests		**(3)**	(8)
Profit for the year		**1,152**	667
Earnings per share, basic and diluted (HK$)	4	**0.73**	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$m)

	Year ended 31 December 2017	2016
Profit for the year	**1,152**	667
Other comprehensive income for the year, net of tax:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries	**511**	(572)
- financial statements of joint ventures	**89**	(63)
- loans to an associate	**84**	(21)
- hotel operating rights	**62**	(16)
	746	(672)
Cash flow hedges:		
- effective portion of changes in fair values	**(8)**	(2)
- transfer from equity to profit or loss	**20**	22
	758	(652)
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations	**(1)**	-
Other comprehensive income	**757**	(652)
Total comprehensive income for the year	**1,909**	15
Total comprehensive income attributable to:		
Shareholders of the Company	**1,891**	28
Non-controlling interests	**18**	(13)
Total comprehensive income for the year	**1,909**	15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)

	Note	At 31 December 2017	2016
Non-current assets			
Investment properties		**36,249**	33,896
Other properties, plant and equipment		**7,106**	6,816
	7	**43,355**	40,712
Interest in joint ventures	8	**1,055**	1,019
Interest in associates	9	**699**	642
Hotel operating rights	10	**564**	515
Deferred tax assets		**38**	47
		45,711	42,935
Current assets			
Inventories		**77**	82
Trade and other receivables	11	**750**	655
Amount due from a joint venture		**60**	111
Cash at banks and in hand	12(a)	**1,922**	2,087
		2,809	2,935
Current liabilities			
Trade and other payables	13	**(1,424)**	(1,359)
Interest-bearing borrowings	14	**(3,391)**	(2)
Derivative financial instruments		**(4)**	(7)
Current taxation		**(41)**	(26)
		(4,860)	(1,394)
Net current (liabilities)/assets		**(2,051)**	1,541
Total assets less current liabilities		**43,660**	44,476
Non-current liabilities			
Interest-bearing borrowings	14	**(4,052)**	(6,996)
Trade and other payables	13	**(230)**	(229)
Net defined benefit retirement obligations		**(17)**	(16)
Derivative financial instruments		**-**	(9)
Deferred tax liabilities		**(659)**	(652)
		(4,958)	(7,902)
Net assets		**38,702**	36,574
Capital and reserves			
Share capital	15	**5,224**	5,005
Reserves		**32,951**	31,354
Total equity attributable to shareholders of the Company		**38,175**	36,359
Non-controlling interests		**527**	215
Total equity		**38,702**	36,574

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (HK$m)

		Year ended 31 December Attributable to shareholders of the Company						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2016		4,808	(47)	(63)	31,729	36,427	233	36,660
Changes in equity for 2016:								
Profit for the year		-	-	-	675	675	(8)	667
Other comprehensive income		-	20	(667)	-	(647)	(5)	(652)
Total comprehensive income for the year		-	20	(667)	675	28	(13)	15
Dividends approved in respect of the previous year	5	155	-	-	(231)	(76)	-	(76)
Dividends approved in respect of the current year	5	42	-	-	(62)	(20)	-	(20)
Dividend paid to non-controlling interests		-	-	-	-	-	(5)	(5)
Balance at 31 December 2016		5,005	(27)	(730)	32,111	36,359	215	36,574
Changes in equity for 2017:								
Profit for the year		**-**	**-**	**-**	**1,155**	**1,155**	**(3)**	**1,152**
Other comprehensive income		**-**	**12**	**724**	**-**	**736**	**21**	**757**
Total comprehensive income for the year		**-**	**12**	**724**	**1,155**	**1,891**	**18**	**1,909**
Dividends approved in respect of the previous year	**5**	**165**	**-**	**-**	**(235)**	**(70)**	**-**	**(70)**
Dividends approved in respect of the current year	**5**	**54**	**-**	**-**	**(63)**	**(9)**	**-**	**(9)**
Dividend paid to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Capital contribution from a non-controlling shareholder		**-**	**-**	**-**	**-**	**-**	**125**	**125**
Disposal of interest in subsidiaries to a non-controlling shareholder		**-**	**-**	**70**	**(66)**	**4**	**174**	**178**
Balance at 31 December 2017		**5,224**	**(15)**	**64**	**32,902**	**38,175**	**527**	**38,702**

CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)

	Note	Year ended 31 December 2017	2016
Operating activities			
Profit after net financing charges		**832**	728
Adjustments for:			
Depreciation	7(a)	**489**	451
Amortisation of hotel operating rights	10	**14**	13
Interest income		**(22)**	(37)
Financing charges		**109**	133
Operating profit before changes in working capital		**1,422**	1,288
Changes in working capital		**(53)**	24
Cash generated from operations		**1,369**	1,312
Net tax (paid)/refunded:			
Hong Kong profits tax paid		**(142)**	(137)
Overseas tax (paid)/refunded		**(11)**	1
Net cash generated from operating activities		**1,216**	1,176
Investing activities			
Payment for the purchase of property, plant and equipment and investment properties		**(1,654)**	(1,131)
Payment for the acquisition of additional interest in 1-5 Grosvenor Place		**-**	(1,288)
Cash injected from a non-controlling shareholder		**22**	-
Dividend from an associate		**5**	5
Capital injection into a joint venture		**(44)**	(161)
Net loan repayment from a joint venture/associate		**56**	58
Net cash used in investing activities		**(1,615)**	(2,517)
Financing activities			
Drawdown of term loans		**-**	800
Net increase/(decease) in revolving loans		**235**	(53)
Net (placement)/withdrawal of interest-bearing bank deposits with maturity of more than three months		**(125)**	2,016
Interest paid and other financing charges		**(140)**	(138)
Interest received		**21**	45
Disposal of interest in subsidiaries to a non-controlling shareholder		**178**	-
Dividends paid to shareholders of the Company		**(79)**	(96)
Dividends paid to holders of non-controlling interests		**(5)**	(5)
Net cash generated from financing activities		**85**	2,569
Net (decrease)/increase in cash and cash equivalents		**(314)**	1,228
Cash and cash equivalents at 1 January		**1,955**	768
Effect of changes in foreign exchange rates		**19**	(41)
Cash and cash equivalents at 31 December	12(a)	**1,660**	1,955

Notes to the Financial Statements

1. Statement of compliance

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by the way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

These Financial Statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. These developments do not have material impact on the Group's Financial Statements other than certain additional disclosures of the Group's Consolidated Statement of Cash Flows.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting year.

2. Revenue (HK$m)

The Company is an investment holding company; its subsidiary companies, joint ventures and associates are engaged in the ownership, management and operation of hotels, commercial properties and clubs and services.

2. Revenue (HK$m) *continued*

Revenue represents the gross amount invoiced for services, goods and facilities including management fees and rental income. The amount of each significant category of revenue recognised during the year is as follows:

	2017	2016
Hotels		
- Rooms	**1,912**	1,812
- Food and beverage	**1,246**	1,173
- Shopping arcades and offices	**643**	691
- Others	**388**	364
	4,189	4,040
Commercial properties		
- Residential properties	**489**	480
- Offices	**90**	121
- Shopping arcades	**364**	334
	943	935
Clubs and Services		
- Clubs and consultancy services	**6**	68
- Peak Tram operation	**128**	120
- Others	**516**	468
	650	656
	5,782	5,631

3. Income tax in the consolidated statement of profit or loss (HK$m)

	2017	2016
Current tax - Hong Kong profits tax		
Provision for the year	**160**	142
Over-provision in respect of prior years	**(1)**	(5)
	159	137
Current tax - Overseas		
Net charge for the year	**13**	2
	172	139
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(16)**	(21)
Increase/(decrease) in net deferred tax liabilities relating to other temporary differences	**13**	(32)
Effect of decrease in tax rates on deferred tax balances	**(1)**	(1)
	(4)	(54)
Total	**168**	85

The provision for Hong Kong profits tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

4. Earnings per share

(a) Earnings per share - basic

	2017	2016
Profit attributable to shareholders of the Company (HK$m)	**1,155**	675
Weighted average number of shares in issue (million shares)	**1,578**	1,554
Earnings per share (HK$)	**0.73**	0.43

	2017 (million shares)	*2016 (million shares)*
Issued shares at 1 January	***1,567***	*1,543*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2016 final dividend and 2017 interim dividend	***11***	*11*
Weighted average number of shares at 31 December	***1,578***	*1,554*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2017 and 2016 and hence the diluted earnings per share is the same as the basic earnings per share.

5. Dividends (HK$m)

(a) Dividends payable to shareholders of the Company attributable to the year

	2017	2016
Interim dividend declared and paid of 4 HK cents per share (2016: 4 HK cents per share)	**63**	62
Final dividend proposed after the end of the reporting period of 16 HK cents per share (2016: 15 HK cents per share)	**255**	235
	318	297

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

5. Dividends (HK$m) *continued*

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

	2017	2016
Final dividend in respect of the previous financial year, approved and paid during the year, of 15 HK cents per share (2016: 15 HK cents per share)	**235**	231

6. 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 leasing of commercial and office premises (other than those in hotel properties) and residential apartments, 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.

(a) Segment results

The results of the Group's reportable segments for the years ended 31 December 2017 and 2016 are set out as follows:

	Hotels		**Commercial Properties**		**Clubs and Services**		**Consolidated**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Reportable segment revenue*	**4,189**	4,040	**943**	935	**650**	656	**5,782**	5,631
Reportable segment operating profits before interest, taxation, depreciation and amortisation (EBITDA)	**732**	649	**558**	518	**132**	121	**1,422**	1,288
Depreciation and amortisation	**(457)**	(418)	**(10)**	(11)	**(36)**	(35)	**(503)**	(464)
Segment operating profit	**275**	231	**548**	507	**96**	86	**919**	824

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

* *Analysis of segment revenue is disclosed in note 2.*

6. Segment reporting (HK$m) *continued*

(b) Segment assets

Segment assets include all tangible and current assets and hotel operating rights held directly by the respective segments. The Group's segment assets and unallocated assets as at 31 December 2017 and 2016 are set out as follows:

	Note	2017	2016
Reportable segment assets			
Hotels		**22,250**	17,868
Commercial properties		**21,417**	23,087
Clubs and services		**1,079**	1,009
		44,746	41,964
Unallocated assets			
Interest in joint ventures	8	**1,055**	1,019
Interest in associates	9	**699**	642
Deferred tax assets		**38**	47
Amount due from a joint venture		**60**	111
Cash at banks and in hand	12(a)	**1,922**	2,087
Consolidated total assets		**48,520**	45,870

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's total specified non-current assets (excluding derivative financial instruments and deferred tax assets). The geographical location of revenue is analysed based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment, the location of the operation to which they are allocated in the case of hotel operating rights and the location of operations in the case of interests in joint ventures and associates.

	Revenue from external customers		Specified non-current assets	
	2017	2016	2017	2016
Hong Kong	**2,626**	2,615	**30,255**	29,579
Other Asia *	**1,656**	1,526	**6,298**	5,224
United States of America and Europe	**1,500**	1,490	**9,120**	8,085
	5,782	5,631	**45,673**	42,888

* *Other Asia includes Mainland China, Japan, Thailand, The Philippines, Vietnam and Myanmar.*

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

(a) Movements of investment properties and other properties, plant and equipment

	Land	Hotel and other buildings held for own use	Plant, machinery and equipment	Construction in progress	Sub-total	Investment properties	Investment property held for redevelopment	Total
Cost or valuation:								
At 1 January 2016	826	7,508	4,279	434	13,047	31,145	1,638	45,830
Exchange adjustments	2	(17)	(3)	(38)	(56)	(78)	(344)	(478)
Additions	-	19	120	941	1,080	111	1,288	2,479
Disposals	-	(6)	(262)	-	(268)	-	-	(268)
Transfer	-	461	284	(852)	(107)	107	-	-
Fair value adjustment	-	-	-	-	-	28	1	29
At 31 December 2016	828	7,965	4,418	485	13,696	31,313	2,583	47,592
Representing:								
Cost	828	7,965	4,418	485	13,696	-	-	13,696
Valuation - 2016	-	-	-	-	-	31,313	2,583	33,896
	828	7,965	4,418	485	13,696	31,313	2,583	47,592
At 1 January 2017	**828**	**7,965**	**4,418**	**485**	**13,696**	**31,313**	**2,583**	**47,592**
Exchange adjustments	**54**	**278**	**93**	**14**	**439**	**191**	**293**	**923**
Additions	**-**	**45**	**91**	**681**	**817**	**496**	**514**	**1,827**
Disposals	**-**	**-**	**(36)**	**-**	**(36)**	**-**	**-**	**(36)**
Transfer	**-**	**319**	**172**	**(741)**	**(250)**	**-**	**250**	**-**
Fair value adjustment	**-**	**-**	**-**	**-**	**-**	**609**	**-**	**609**
At 31 December 2017	**882**	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Representing:								
Cost	**882**	**8,607**	**4,738**	**439**	**14,666**	**-**	**-**	**14,666**
Valuation - 2017	**-**	**-**	**-**	**-**	**-**	**32,609**	**3,640**	**36,249**
	882	**8,607**	**4,738**	**439**	**14,666**	**32,609**	**3,640**	**50,915**
Accumulated depreciation and impairment losses:								
At 1 January 2016	323	3,461	2,949	-	6,733	-	-	6,733
Exchange adjustments	1	(29)	(8)	-	(36)	-	-	(36)
Charge for the year	-	162	289	-	451	-	-	451
Written back on disposals	-	(6)	(262)	-	(268)	-	-	(268)
At 31 December 2016	324	3,588	2,968	-	6,880	-	-	6,880
At 1 January 2017	**324**	**3,588**	**2,968**	**-**	**6,880**	**-**	**-**	**6,880**
Exchange adjustments	**31**	**131**	**64**	**-**	**226**	**-**	**-**	**226**
Charge for the year	**-**	**182**	**307**	**-**	**489**	**-**	**-**	**489**
Written back on disposals	**-**	**-**	**(35)**	**-**	**(35)**	**-**	**-**	**(35)**
At 31 December 2017	**355**	**3,901**	**3,304**	**-**	**7,560**	**-**	**-**	**7,560**
Net book value:								
At 31 December 2017	**527**	**4,706**	**1,434**	**439**	**7,106**	**32,609**	**3,640**	**43,355**
At 31 December 2016	504	4,377	1,450	485	6,816	31,313	2,583	40,712

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

(a) Movements of investment properties and other properties, plant and equipment *continued*

The additions in 2017 mainly related to the cost of acquisition of 5 apartment units from the Group's Shanghai joint venture, the development costs incurred for the projects in London and Yangon and the renovation costs incurred by The Peninsula Beijing and 21 avenue Kléber.

The Group assessed the recoverable amounts of its other properties, plant and equipment at the reporting date in accordance with the accounting policy. Based on the assessment, the directors considered that no provision for or reversal of impairment was required as at 31 December 2017 and 2016.

(b) All investment properties of the Group were revalued as at 31 December 2017. The changes in fair value of the investment properties during the year 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 experience in the location and category of the property being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at each reporting date. Details of the valuers are as follows:

Description of investment properties	Name of valuer	Qualification of the staff of the valuer conducting the valuation
Hong Kong		
Retail shops, offices and residential apartments	Savills Valuation and Professional Services Limited (Savills)	Members of the Hong Kong Institute of Surveyors
Other Asia *		
Retail shops, offices, residential apartments and vacant land	Savills	Members of the Hong Kong Institute of Surveyors
	Colliers International Consultancy & Valuation (Singapore) Pte. Limited (Colliers)	Members of the Royal Institution of Chartered Surveyors
United States of America		
Retail shops and vacant land	Colliers	Members of the Royal Institution of Chartered Surveyors
Europe		
Retail shops, offices, residential apartments and property under development	Colliers	Members of the Royal Institution of Chartered Surveyors

** Other Asia includes Mainland China, Japan, Thailand, The Philippines and Vietnam.*

8. Interest in joint ventures (HK$m)

	2017	2016
Share of net assets	**534**	498
Loans to a joint venture	**521**	521
	1,055	1,019

(a) Details of the joint ventures, 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
The Peninsula Shanghai Waitan Hotel Company Limited (PSW)	Incorporated	PRC	US$117,500,000	50%	Hotel investment and apartments held for sale
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)*	Incorporated	Turkey	TRY171,700,000	50%	Hotel investment

* *PIT was incorporated on 10 February 2016 and the Group's interest in this joint venture is held indirectly by the Company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The Group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul. As at 31 December 2017, capital injected into PIT amounted to HK$205 million (2016: HK$161 million). The net assets of PIT at 31 December 2017 mainly comprised of property under development and cash at bank and in hand of HK$479 million (2016: HK$132 million) and HK$9 million (2016: HK$25 million) respectively.*

(b) The Peninsula Shanghai Waitan Hotel Company Limited has pledged its properties inclusive of the land use rights as security for a loan facility amounting to RMB2,500 million (HK$2,991 million) (2016: RMB2,500 million (HK$2,787 million)). As at 31 December 2017, the loan drawn down amounted to RMB1,205 million (HK$1,442 million) (2016: RMB1,774 million (HK$1,977 million)). The net carrying amount of these pledged assets amounted to RMB2,905 million (HK$3,475 million) (2016: RMB3,857 million (HK$4,300 million)).

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

(c) Set out below is a summary of the financial information on The Peninsula Shanghai Waitan Hotel Company Limited, of which the Group has a 50% share:

	2017	2016
Non-current assets*	**2,808**	4,256
Cash at bank and in hand	**154**	127
Apartments held for sale and other current assets	**738**	163
Current liabilities	**(341)**	(349)
Non-current liabilities	**(2,748)**	(3,515)
Net assets	**611**	682
Proceeds from sale of apartments *	**773**	229
Hotel revenue and rental income	**603**	598
	1,376	827
Cost of apartments sold **	**(773)**	(157)
Hotel cost of inventories and operating expenses	**(368)**	(397)
	(1,141)	(554)
EBITDA	**235**	273
Depreciation	**(85)**	(81)
Net financing charges	**(95)**	(114)
Profit before non-operating items	**55**	78
Non-operating items, net of tax Δ	**(250)**	(38)
(Loss)/profit for the year	**(195)**	40
The Group's share of result of PSW	**(97)**	20

* *In 2017, the company reclassified its remaining 20 apartments held for rental from investment properties to apartments held for sale, of which 11 apartment units were sold during the year (2016: 4 apartment units).*

** *The cost of apartments sold included cumulative revaluation gains, net of tax, of HK$300 million (2016: HK$80 million) which were realised upon disposal during the year.*

Δ *The non-operating items in 2017 mainly represented the unrealised loss in respect of the provision of PRC land appreciation tax and other transaction costs resulting from the reclassification of the remaining 20 apartments held for rental from investment properties to apartments held for sale and the unrealised loss on revaluation of the hotel's commercial arcade, net of tax (2016: unrealised loss on revaluation of the hotel's commercial arcade and apartments held for rental, net of tax).*

9. Interest in associates (HK$m)

	2017	2016
Interest in associates	**699**	642

(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 long-term unsecured loans to 19 Holding of HK$467 million (2016: HK$616 million). These loans were made pro rata to the Group's shareholding in 19 Holding and bear interest rates related to the rates published by the French tax authorities.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR220 million (HK$2,053 million) (2016: EUR220 million (HK$1,802 million)). As at 31 December 2017, the loan drawn down amounted to EUR220 million (HK$2,053 million) (2016: EUR220 million (HK$1,802 million)). As at 31 December 2017, the net carrying amount of these pledged assets amounted to EUR593 million (HK$5,531 million) (2016: EUR613 million (HK$5,017 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) (2016: US$145 million (HK$1,131 million)). As at 31 December 2017, the loan drawn down amounted to US$134 million (HK$1,044 million) (2016: US$137 million (HK$1,069 million). The net carrying amount of the pledged assets amounted to US$62 million (HK$485 million) (2016: US$61 million (HK$476 million)).

9. 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:

	2017	2016
EBITDA	**214**	184
Depreciation	**(243)**	(228)
Interest	**(91)**	(81)
Net loss from continuing operations	**(120)**	(125)
Other comprehensive income	**-**	-
Total comprehensive income	**(120)**	(125)
The Group's share of results of the associates	**(24)**	(25)

10. Hotel operating rights (HK$m)

	2017	2016
Cost		
At 1 January	**657**	674
Exchange adjustments	**66**	(17)
At 31 December	**723**	657
Accumulated amortisation		
At 1 January	**(142)**	(130)
Exchange adjustments	**(3)**	1
Amortisation for the year	**(14)**	(13)
At 31 December	**(159)**	(142)
Net book value	**564**	515

The amortisation charge for the year is included in "Depreciation and amortisation" in the consolidated statement of profit or loss.

Hotel operating rights represent the cost attributable to securing the Group's rights to operate The Peninsula Beverly Hills and The Peninsula Paris.

11. Trade and other receivables (HK$m)

	2017	2016
Trade debtors	**285**	271
Rental deposits, payments in advance and other receivables	**461**	378
Tax recoverable	**4**	6
	750	655

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

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$111 million (2016: HK$139 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

The ageing analysis of trade debtors is as follows:

	2017	2016
Current	**253**	255
Less than one month past due	**25**	10
One to three months past due	**6**	5
More than three months but less than 12 months past due	**1**	1
Amounts past due	**32**	16
	285	271

No impairment is considered necessary for any of the trade debtors including those that are past due as they relate to a wide range of independent customers that have a good track record with the Group, with no recent history of default and are considered by the management to be fully recoverable.

12. Cash and cash equivalents and other cash flow information (HK$m)

(a) Cash at banks and in hand

	2017	2016
Interest-bearing bank deposits	**1,658**	1,902
Cash at banks and in hand	**264**	185
Total cash at banks and in hand	**1,922**	2,087
Less: Bank deposits with maturity of more than three months	**(255)**	(130)
Bank overdrafts	**(7)**	(2)
Cash and cash equivalents in the consolidated statement of cash flows	**1,660**	1,955

Cash at banks and in hand at the end of the reporting period include amounts of HK$218 million (2016: HK$314 million) held by overseas subsidiaries which are subject to regulatory and foreign exchange restrictions.

12. Cash and cash equivalents and other cash flow information (HK$m) *continued*

(b) Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings	Derivative financial instruments	Interest payable	Total
As at 1 January 2017	6,998	16	7	7,021
Net increasing in revolving loans	235	-	-	235
Exchange difference	194	-	1	195
Financing charge	16	-	93	109
Capitalised borrowing costs	-	-	48	48
Effective portion of changes in fair values	-	10	-	10
Transfer from equity to profit or loss	-	(22)	-	(22)
Interest paid and other financing charges	-	-	(140)	(140)
As at 31 December 2017	7,443	4	9	7,456

13. Trade and other payables (HK$m)

	2017	2016
Trade creditors	**140**	148
Interest payable	**9**	7
Accruals for property, plant and equipment	**172**	145
Tenants' deposits	**360**	381
Guest deposits and gift vouchers	**155**	157
Golf membership deposits	**89**	76
Other payables	**729**	674
Financial liabilities measured at amortised cost	**1,654**	1,588
Less: Non-current portion of trade and other payables	**(230)**	(229)
Current portion of trade and other payables	**1,424**	1,359

As at 31 December 2017, trade and other payables of the Group expected to be settled or recognised as income after more than one year amounted to HK$321 million (2016: HK$310 million). The other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The Directors consider that the carrying amount of all trade and other payables approximates their fair value.

The ageing analysis of trade creditors is as follows:

	2017	2016
Less than three months	**130**	144
Three to six months	**4**	2
More than six months	**6**	2
	140	148

14. Interest-bearing borrowings (HK$m)

	2017	2016
Total facilities available:		
Term loans and revolving credits	**9,310**	9,116
Uncommitted facilities, including bank overdrafts	**429**	323
	9,739	9,439
Utilised at 31 December:		
Term loans and revolving credits	**7,466**	7,047
Uncommitted facilities, including bank overdrafts	**12**	2
	7,478	7,049
Less: Unamortised financing charges	**(35)**	(51)
	7,443	6,998
Represented by:		
Long-term bank loans, repayable within one year	**3,379**	-
Short-term bank loans and overdrafts, repayable on demand	**12**	2
	3,391	2
Long-term bank loans, repayable:		
Between one and two years	**488**	3,291
Between two and five years	**3,599**	2,423
Over five years	**-**	1,333
	4,087	7,047
Less: Unamortised financing charges	**(35)**	(51)
Non-current portion of long-term bank loans	**4,052**	6,996
Total interest-bearing borrowings	**7,443**	6,998

All of the interest-bearing borrowings are unsecured. The non-current portion of long-term bank loans is not expected to be settled within one year whereas the current portion of the loans is maturing in 2018. The Group intends to refinance these loan facilities upon their maturities.

On 6 March 2018, the Company, through a wholly owned subsidiary, obtained a GBP650 million (HK$6.8 billion) 5-year term loan facility from a group of five financial institutions. The loan is unsecured and bears interest at LIBOR plus a fixed margin. Drawdown of the loan will be staggered into phases to fund the progress payments of the construction costs of The Peninsula London project.

14. Interest-bearing borrowings (HK$m) *continued*

All of the Group's banking facilities are subject to the fulfilment of covenants relating to some of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

15. Share capital

	2017		2016	
	No. of shares (million)	**HK$m**	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid:				
At 1 January	**1,567**	**5,005**	1,543	4,808
Shares issued under scrip dividend scheme *(note)*	**22**	**219**	24	197
At 31 December	**1,589**	**5,224**	1,567	5,005

In accordance with Section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

All ordinary shares issued during 2017 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.

Note
During 2017, the Company issued and allotted new shares which were fully paid under the scrip dividend scheme as follows:

	Number of shares (million)	Scrip price HK$	Increase in share capital HK$m
2016 final scrip dividend	18	9.180	165
2017 interim scrip dividend	4	13.060	54
	22		219

16. Commitments (HK$m)

(a) Capital commitments outstanding as at 31 December 2017 not provided for in the Financial Statements were as follows:

	2017			2016		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**1,616**	**7,363**	**8,979**	849	7,782	8,631
The Group's share of capital commitments of joint ventures and associates	**525**	**649**	**1,174**	517	598	1,115
	2,141	**8,012**	**10,153**	1,366	8,380	9,746

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.

Furthermore, the Group has a 50% interest in a proposed joint development of a luxury hotel property within the Salıpazarı Port Project Area in Istanbul, Turkey and the Group's share of development cost in respect of this project is included in the share of capital commitments of joint ventures.

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings are as follows:

	Receivable		**Payable**	
	2017	2016	**2017**	2016
Within one year	**(866)**	(939)	**150**	142
After one year but within five years	**(1,086)**	(1,004)	**522**	471
After five years	**(812)**	(920)	**13,349**	12,699
	(2,764)	(2,863)	**14,021**	13,312

The Group's future minimum lease payments under non-cancellable operating leases after five years mainly relate to the undiscounted lease liabilities in respect of its hotels in Tokyo and New York with remaining lease terms of 68 years and 61 years respectively as well as the undiscounted fixed rent payable for 140 years from January 2022 in respect of the development project in London.

In addition, the Group is the lessee in respect of a number of other properties under operating leases. These leases typically run for an initial period of two to four years, with an option to renew the lease upon expiry when all terms are renegotiated. None of these leases include contingent rentals.

17. Non-adjusting post reporting period events

After the end of the reporting period, the Directors proposed a final dividend, the details of which are disclosed in note 5.

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, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the Company. The Governance section in the 2017 Annual Report outlines the Company's approach to governance and its initiatives and activities.

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the Company's Corporate Governance Code (HSH Code). The Board of Directors recognises and applies all the principles underlying the CG Code to the HSH Code. The HSH Code has already encompassed all code provisions and recommended best practices of the CG Code, save for the recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as disclosed in the Corporate Governance Report.

Throughout the year, the Company has complied with all the code provisions in the CG Code.

Corporate Responsibility and Sustainability

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

The 2017 Corporate Responsibility and Sustainability Report (CRS Report) discusses in detail our progress towards Vision 2020 and specific material issues that contribute to the sustainable development of the Group. The CRS Report discloses the Group's corporate responsibility and sustainability performance which complies with the "comply or explain" provisions in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules (ESG Guide) as well as contains the standard disclosures on core level of the Global Reporting Initiative Sustainability Reporting Standards. KPMG was commissioned to provide assurance on the reported data and an independent opinion of the CRS Report's alignment with the ESG Guide. The CRS Report is available on the Company's and the Stock Exchange's websites together with the 2017 Annual Report.

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 year.

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 year. 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.

Final dividend

The Board has recommended a final dividend of 16 HK cents per share (2016: 15 HK cents per share) for the year ended 31 December 2017. Subject to the approval by shareholders at the forthcoming Annual General Meeting (AGM), such dividend will be payable on 22 June 2018 to shareholders whose names appear on the register of members on 17 May 2018.

The proposed final dividend will be offered with a scrip alternative for shareholders to elect to receive such final 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 23 May 2018.

Closure of register of members

<u>For shareholders' entitlement to attend, speak and vote at the AGM</u>:

Latest time to lodge transfer documents	4:30pm on 3 May 2018
Closure of register of members	4 May to 9 May 2018 (both days inclusive)
Record date	9 May 2018
AGM	9 May 2018

<u>For shareholders' entitlement to receive the final dividend</u>:

Latest time to lodge transfer documents	4:30pm on 14 May 2018
Closure of register of members	15 May to 17 May 2018 (both days inclusive)
Record date	17 May 2018
Deadline for return of scrip dividend election forms	4:30pm on 12 June 2018
Final dividend payment date	22 June 2018

During the closure of register of members, no transfers of shares will be registered. In order to qualify for the right to attend, speak and vote at the AGM and for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before the above latest time to lodge transfer documents.

AGM and Annual Report

The AGM will be held at The Peninsula Hong Kong on 9 May 2018 at 12 noon. The Notice of AGM and 2017 Annual Report will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 6 April 2018.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 16 March 2018

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

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Andrew Clifford Winawer Brandler

Executive Directors

Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Operating Officer
Peter Camille Borer

Chief Financial Officer
Matthew James Lawson

Non-Executive Directors

William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer
James Lindsay Lewis
Philip Lawrence Kadoorie

Independent Non-Executive Directors

Dr the Hon. Sir David Kwok Po Li
Patrick Blackwell Paul
Pierre Roger Boppe
Dr William Kwok Lun Fung
Dr Rosanna Yick Ming Wong
Dr Kim Lesley Winser
Ada Koon Hang Tse