SHANGRI-LA ASIA LIMITED
香格里拉(亞洲)有限公司

(Incorporated in Bermuda with Limited Liability)
Stock code: 69

2018
INTERIM REPORT

CORPORATE INFORMATION

As at 23 August 2018

BOARD OF DIRECTORS

Executive Director(s)

Ms KUOK Hui Kwong *(Chairman)*
Mr LIM Beng Chee *(Chief Executive Officer)*
Mr LUI Man Shing

Non-executive Director(s)

Mr HO Kian Guan (alternate – Mr HO Chung Tao)

Independent Non-executive Director(s)

Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur
Dr LEE Kai-Fu
Mr YAP Chee Keong

EXECUTIVE COMMITTEE

Ms KUOK Hui Kwong *(chairman)*
Mr LIM Beng Chee
Mr LUI Man Shing

NOMINATION COMMITTEE

Ms KUOK Hui Kwong *(chairman)*
Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur

REMUNERATION COMMITTEE

Mr Alexander Reid HAMILTON *(chairman)*
Ms KUOK Hui Kwong
Professor LI Kwok Cheung Arthur

AUDIT & RISK COMMITTEE

Mr YAP Chee Keong *(chairman)*
Mr HO Kian Guan
Mr Alexander Reid HAMILTON
Professor LI Kwok Cheung Arthur

COMPANY SECRETARY

Ms TEO Ching Leun

SENIOR MANAGEMENT

Ms KUOK Hui Kwong *(Chairman)*
Mr LIM Beng Chee *(Chief Executive Officer)*
Mr Sven Oliver BONKE
(President & Chief Operating Officer)
Mr TOH Hup Hock *(Chief Financial Officer)*

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

28/F Kerry Centre
683 King's Road
Quarry Bay
Hong Kong

REGISTERED ADDRESS

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

STOCK CODES

Hong Kong stock exchange – 00069
Singapore stock exchange – S07
American Depositary Receipt – SHALY

WEBSITES

Corporate – www.ir.shangri-la.com
Business – www.shangri-la.com

INVESTOR RELATIONS CONTACT

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Hong Kong

KEY DATES

Record date for 2018 interim dividend

26 September 2018

Payment of 2018 interim dividend

5 October 2018

FINANCIAL HIGHLIGHTS

The board of directors ("**Board**") of Shangri-La Asia Limited ("**Company**") wishes to announce the unaudited interim results of the Company and its subsidiaries ("**Group**"), and associates for the six months ended 30 June 2018. These results have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and by the audit & risk committee of the Board. The review report of the auditor is set out on page 4.

For the six months ended 30 June 2018, consolidated profit attributable to equity holders of the Company before non-operating items increased by US$35.5 million (79.1%) as compared to the same period last year. Consolidated profit attributable to equity holders of the Company after accounting for non-operating items recorded a profit of US$152.9 million, an increase of 147.8%, compared to US$61.7 million for the same period last year.

The Board has declared an interim dividend of **HK8 cents** per share for 2018 (2017: HK6 cents per share) payable on Friday, 5 October 2018, to shareholders whose names appear on the registers of members of the Company on Wednesday, 26 September 2018.

The following table summarises the highlights of our financial results:

	Six months ended 30 June		
	2018 US$ Million	2017 US$ Million	% change
Sales	**1,175.5**	989.8	18.8%
EBITDA(Note 1) of the Company and its subsidiaries	**301.5**	246.7	22.2%
Effective share of EBITDA(Note 2) of the Company, subsidiaries and associates	**452.3**	364.7	24.0%
Profit attributable to equity holders of the Company			
– Operating items	**80.4**	44.9	79.1%
– Non-operating items	**72.5**	16.8	331.5%
Total	**152.9**	61.7	147.8%
Earnings per share (US cents per share)	**4.276**	1.729	147.3%

	As at 30 June 2018 US$ Million	31 December 2017 US$ Million	% change
Net assets attributable to the Company's equity holders	**6,569.7**	6,602.6	–0.5%
Net assets per share attributable to the Company's equity holders (US$)	**1.83**	1.84	–0.5%
Effective share of net borrowings(Note 3) of the Company, subsidiaries and associates	**4,313.0**	4,335.8	–0.5%

Notes:

1. EBITDA, which is a non-IFRS financial measure, is defined as the earnings before finance costs, tax, depreciation and amortisation and non-recurring items such as gain/loss on disposal of fixed assets and interest in investee companies; fair value gains/losses on investment properties and financial assets; and impairment losses on fixed assets.

2. Effective share of EBITDA is the aggregate total of the Company's EBITDA and the Group's share of EBITDA of subsidiaries and associates based on percentage of equity interests.

3. Effective share of net borrowings (balance of bank loans less cash and short-term fund placements) is the aggregate total of the Company's net borrowings and the Group's share of net borrowings of subsidiaries and associates based on percentage of equity interests.

- Sales were US$1,175.5 million for the six months ended 30 June 2018, an increase of 18.8%, compared to US$989.8 million for the six months ended 30 June 2017.

- EBITDA of the Company and its subsidiaries was US$301.5 million for the six months ended 30 June 2018, an increase of 22.2%, compared to US$246.7 million for the six months ended 30 June 2017.

- Effective share of EBITDA of the Company, subsidiaries and associates was US$452.3 million for the six months ended 30 June 2018, an increase of 24.0%, compared to US$364.7 million for the six months ended 30 June 2017.

- Consolidated profit attributable to equity holders of the Company was US$152.9 million for the six months ended 30 June 2018, an increase of 147.8%, compared to US$61.7 million for the for the six months ended 30 June 2017.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF SHANGRI-LA ASIA LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 5 to 40, which comprises the condensed consolidated interim statement of financial position of Shangri-La Asia Limited (the "**Company**") and its subsidiaries (together, the "**Group**") as at 30 June 2018 and the condensed consolidated interim income statements, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 August 2018

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(All amounts in US dollar thousands)

	Note	As at 30 June 2018 Unaudited	31 December 2017 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	**5,908,732**	6,281,592
Investment properties	6	**1,487,803**	1,448,853
Leasehold land and land use rights	6	**485,872**	498,417
Intangible assets	6	**89,104**	89,947
Interest in associates		**3,957,646**	3,870,057
Deferred income tax assets		**7,717**	8,138
Financial assets at fair value through other comprehensive income	7	**4,118**	–
Financial assets at fair value through profit or loss	7	**10,328**	–
Available-for-sale financial assets	7	**–**	13,343
Derivative financial instruments	14	**13,920**	5,067
Other receivables	8	**14,549**	14,254
		11,979,789	12,229,668
Current assets			
Inventories		**36,075**	38,028
Properties for sale		**197,605**	46,208
Accounts receivable, prepayments and deposits	9	**308,361**	323,648
Amounts due from associates		**109,126**	90,450
Derivative financial instruments	14	**5,284**	1,738
Amounts due from non-controlling shareholders	15	**–**	37
Financial assets at fair value through profit or loss	7	**24,870**	–
Financial assets held for trading	7	**–**	23,534
Short-term fund placements		**39,489**	–
Cash and bank balances		**971,848**	921,862
		1,692,658	1,445,505
Total assets		**13,672,447**	13,675,173
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	**3,201,471**	3,198,420
Other reserves	12	**972,849**	1,117,763
Retained earnings		**2,395,375**	2,286,373
		6,569,695	6,602,556
Non-controlling interests		**416,510**	439,440
Total equity		**6,986,205**	7,041,996

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(All amounts in US dollar thousands)

	Note	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
LIABILITIES			
Non-current liabilities			
Bank loans	*13*	**4,679,625**	4,949,844
Deferred income tax liabilities		**331,459**	329,257
		5,011,084	5,279,101
Current liabilities			
Accounts payable and accruals	*16*	**589,240**	876,384
Deposits received on sales of properties		**–**	199,313
Contract liabilities		**381,151**	–
Amounts due to non-controlling shareholders	*15*	**47,054**	27,942
Current income tax liabilities		**24,641**	15,118
Bank loans	*13*	**633,072**	234,831
Derivative financial instruments	*14*	**–**	488
		1,675,158	1,354,076
Total liabilities		**6,686,242**	6,633,177
Total equity and liabilities		**13,672,447**	13,675,173

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in US dollar thousands unless otherwise stated)

	Note	Six months ended 30 June 2018 Unaudited	2017 Unaudited
Sales	5	**1,175,543**	989,755
Cost of sales	17	**(514,311)**	(427,083)
Gross profit		**661,232**	562,672
Other gains – net	18	**3,899**	2,404
Marketing costs	17	**(47,941)**	(41,129)
Administrative expenses	17	**(119,734)**	(102,704)
Other operating expenses	17	**(374,823)**	(355,288)
Operating profit		**122,633**	65,955
Finance costs – net			
– Interest expense	19	**(76,247)**	(65,536)
– Foreign exchange (losses)/gains	19	**(7,072)**	3,482
Share of profit of associates	20	**173,058**	97,202
Profit before income tax		**212,372**	101,103
Income tax expense	21	**(59,753)**	(47,353)
Profit for the period		**152,619**	53,750
Profit/(Loss) attributable to:			
Equity holders of the Company		**152,858**	61,700
Non-controlling interests		**(239)**	(7,950)
		152,619	53,750
Earnings per share for profit attributable to the equity holders of the Company during the period *(expressed in US cents per share)*			
– basic	22	**4.276**	1.729
– diluted	22	**4.274**	1.729
Dividends	23	**36,903**	27,641

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Profit for the period	**152,619**	53,750
Other comprehensive (loss)/income:		
Items that may be reclassified subsequently to profit or loss		
Fair value changes of interest-rate swap contracts – hedging	**12,887**	(1,312)
Fair value changes of available-for-sale financial assets	**–**	592
Currency translation differences – subsidiaries	**(85,122)**	134,386
Currency translation differences – associates	**(66,848)**	84,074
Other comprehensive (loss)/income for the period	**(139,083)**	217,740
Total comprehensive income for the period	**13,536**	271,490
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**15,701**	266,672
Non-controlling interests	**(2,165)**	4,818
	13,536	271,490

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in US dollar thousands)

	Unaudited					
	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
Balance at 1 January 2017	3,191,801	606,320	2,192,707	5,990,828	421,606	6,412,434
Fair value changes of interest-rate swap contracts – hedging	–	(1,312)	–	(1,312)	–	(1,312)
Fair value changes of available-for-sale financial assets	–	592	–	592	–	592
Currency translation differences	–	205,692	–	205,692	12,768	218,460
Other comprehensive income recognised directly in equity	–	204,972	–	204,972	12,768	217,740
Profit/(Loss) for the period	–	–	61,700	61,700	(7,950)	53,750
Total comprehensive income for the six months ended 30 June 2017	–	204,972	61,700	266,672	4,818	271,490
Exercise of share options – allotment of shares	711	–	–	711	–	711
Exercise of share options – transfer from share option reserve to share premium	188	(188)	–	–	–	–
Transfer of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary and an associate	–	393	–	393	–	393
Payment of 2016 final dividend	–	–	(36,847)	(36,847)	–	(36,847)
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(18,988)	(18,988)
Equity injected by non-controlling shareholders	–	–	–	–	488	488
	899	205	(36,847)	(35,743)	(18,500)	(54,243)
Balance at 30 June 2017	3,192,700	811,497	2,217,560	6,221,757	407,924	6,629,681

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in US dollar thousands)

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018, as previously reported	3,198,420	1,117,763	2,286,373	6,602,556	439,440	7,041,996
Change in accounting policy – HKFRS 9	–	(6,842)	6,842	–	–	–
Balance at 1 January 2018, as restated	3,198,420	1,110,921	2,293,215	6,602,556	439,440	7,041,996
Fair value changes of interest-rate swap contracts – hedging	–	12,887	–	12,887	–	12,887
Currency translation differences	–	(150,044)	–	(150,044)	(1,926)	(151,970)
Other comprehensive loss recognised directly in equity	–	(137,157)	–	(137,157)	(1,926)	(139,083)
Profit/(Loss) for the period	–	–	152,858	152,858	(239)	152,619
Total comprehensive (loss)/income for the six months ended 30 June 2018	–	(137,157)	152,858	15,701	(2,165)	13,536
Exercise of share options – allotment of shares	2,172	–	–	2,172	–	2,172
Exercise of share options – transfer from share option reserve to share premium	915	(915)	–	–	–	–
Shares purchase for share award scheme	(2,889)	–	–	(2,889)	–	(2,889)
Granting of shares under share award scheme	–	2,895	–	2,895	–	2,895
Vesting of shares under share award scheme	2,853	(2,895)	42	–	–	–
Payment of 2017 final dividend	–	–	(50,740)	(50,740)	–	(50,740)
Dividend paid and payable to non-controlling shareholders	–	–	–	–	(17,721)	(17,721)
Equity injected by non-controlling shareholders	–	–	–	–	765	765
Net change in equity loans due to non-controlling shareholders	–	–	–	–	(3,809)	(3,809)
	3,051	(915)	(50,698)	(48,562)	(20,765)	(69,327)
Balance at 30 June 2018	3,201,471	972,849	2,395,375	6,569,695	416,510	6,986,205

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

(All amounts in US dollar thousands)

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash flows from operating activities	**118,204**	88,403
Cash flows from investing activities		
– purchases of property, plant and equipment, investment properties and land use rights	**(119,469)**	(196,113)
– proceeds from disposal of property, plant and equipment	**53**	268
– decrease in short-term bank deposits with more than 3 months maturity	**21,372**	23,687
– capital contribution and net movement of loans to associates	**(18,292)**	5,833
– dividends received from associates	**9,496**	42,922
– proceeds from disposal of equity interest in an associate	**–**	53,300
– other investing cash flow – net	**15,459**	7,138
Net cash used in investing activities	**(91,381)**	(62,965)
Cash flows from financing activities		
– dividend paid	**(55,053)**	(50,684)
– net proceeds from issuance of ordinary shares	**2,172**	711
– purchases of shares for share award scheme	**(2,889)**	–
– net increase in bank loans	**147,280**	596,229
– redemption of fixed rate bonds	**–**	(600,000)
– short term advance to a third party	**–**	(3,500)
– net increase in loans and capital from non-controlling shareholders	**1,477**	1,649
Net cash generated from/(used in) financing activities	**92,987**	(55,595)
Net increase/(decrease) in cash and cash equivalents	**119,810**	(30,157)
Cash and cash equivalents at 1 January	**797,278**	777,577
Exchange (losses)/gains on cash and cash equivalents	**(8,963)**	7,899
Cash and cash equivalents at 30 June	**908,125**	755,319
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	**569,680**	452,530
Short-term bank deposits	**402,168**	445,743
Cash and bank balances	**971,848**	898,273
Short-term fund placements *(Note)*	**39,489**	–
Less: Short-term bank deposits with more than 3 months maturity	**(103,212)**	(142,954)
Cash and cash equivalents	**908,125**	755,319

Note: Short-term fund placements represent investment in highly liquid money market instruments. This investment is readily convertible to cash and has insignificant risk of changes in value.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(All amounts in US dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

The Group owns/leases and operates hotels and associated properties; and provides hotel management and related services. The Group also owns investment properties for property rentals and engages in property sales business.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited with secondary listing on the Singapore Exchange Securities Trading Limited.

These condensed consolidated interim financial statements were approved by the Board for issue on 23 August 2018. These condensed consolidated interim financial statements have been reviewed by the Company's auditor in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"). The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017, except for the adoption of:

i) the accounting policy for share award scheme following the implementation of such scheme in the current period; and

ii) the new or revised accounting standards, amendments and interpretations which are relevant to the Group's operation and are mandatory for the financial year ending 31 December 2018

Save as disclosed in Note 3, the adoption of other new or revised standards, amendments and interpretations had no material impact on the Group's financial statements.

3. NEW ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES

i) New accounting policy for the share award scheme

The Group operates the share award scheme under which awarded shares of the Company can be granted to the employees of the Group and the Company's directors as part of their remuneration package.

When shares are acquired for the share award scheme from the market, the total consideration of shares acquired is deducted from the share capital.

Upon granting of shares, share-based compensation expenses is charged to the income statement and the amount of which is determined by reference to the fair value of the awarded shares granted, taking into account all non-vesting conditions associated with the grants on grant date. The total expense is recognised on a straight-line basis over the relevant vesting periods (or on the grant date if the shares vest immediately), with a corresponding credit to the share award reserve under equity. For those awarded shares which are amortised over the vesting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to share-based compensation expense in the current period, with a corresponding adjustment to the share award reserve.

Upon vesting of shares, the related total consideration of the vested awarded shares when acquired are credited to the share capital, with a corresponding decrease in share award reserve for awarded shares.

ii) Changes in accounting policies

A number of new or amended accounting standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following accounting standards:

– HKFRS 9 Financial Instruments; and

– HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards are disclosed below.

a) HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact of adoption

The adoption of HKFRS 9 does not have material impact to the Group, except for the club debentures which were reclassified from available-for-sale ("**AFS**") financial assets measured at fair value through other comprehensive income ("**FVOCI**") as previously reported to financial assets at fair value through profit or loss ("**FVPL**"). The cumulative fair value gains of US$6,842,000 were transferred from the AFS financial assets reserve to retained earnings on 1 January 2018. For the six months ended 30 June 2018, net fair value gains of US$1,136,000 relating to these club debentures were recognised in profit or loss.

3. NEW ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

ii) Changes in accounting policies (continued)

a) HKFRS 9 Financial Instruments (continued)

Impact of adoption (continued)

The other financial assets held by the Group include:

– equity and loan instruments which were reclassified from AFS financial assets measured at FVOCI to financial assets at FVOCI; and

– equity investments of listed securities which were previously measured at FVPL would continue to be measured on the same basis under HKFRS 9

Accordingly, the adoption of HKFRS 9 would only affect the change of classification of the financial assets in the statement of financial position and would not affect the measurement of these financial assets of the Group. However, gains or losses realised on the sale of financial assets at FVOCI in the future will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities.

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group's interest-rate swap contracts aimed at hedging the Group's bank borrowing interests would continue to qualify as effective hedges upon the adoption of HKFRS 9 and there was no impact on the Group's accounting for the interest-rate swap contracts.

The Group adopted the simplified version of the expected credit loss model on trade receivables, which involves assessing lifetime expected credit losses on all balances. To estimate the required impairment provision, management will assess historical collection rates of each operating entity and will consider adjustments for future expectations. There was no material impact on the financial statements from the application of the expected credit loss model on trade receivables.

The Group has applied the transitional provisions set out in HKFRS 9 without restating comparative information.

b) HKFRS 15 Revenue from Contracts with Customers

The HKFRS 15 replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

(All amounts in US dollar thousands unless otherwise stated)

3. NEW ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

ii) Changes in accounting policies (continued)

b) HKFRS 15 Revenue from Contracts with Customers (continued)

Impact of adoption

Certain operating expenses charged by the Group to its managed hotels on a net basis as reimbursement previously would be recognised on a gross basis (i.e. income and expense of the same amount will be recognised) on adoption of the new standard as the Group is regarded as having controls over these operating activities. As a result, for the six months ended 30 June 2018, both the sales and operating expenses of the Group's consolidated income statement were increased by US$14,286,000 while the consolidated retained earnings at 1 January 2018 were unaffected.

The Group recognises contract liabilities when a customer pays consideration, or is contractually required to pay consideration, before the Group recognises the related revenue. These contract liabilities, including receipts in advance from customers, unredeemed loyalty points liabilities and refund liabilities, are required to be separately presented following the adoption of HKFRS 15.

The Group has adopted the modified retrospective approach set out in HKFRS 15 without restating comparative information.

c) Impact on the condensed consolidated financial statements

The following table shows the reclassifications and adjustments recognised for each individual line item in the condensed consolidated statement of financial position on 1 January 2018. Line items that were not affected by the changes are not shown.

Condensed consolidated statement of financial position (extract)	31 Dec 2017 as previously reported	Impact from adoption of		1 Jan 2018 as restated
		HKFRS 9	HKFRS 15	
Assets				
AFS financial assets measured at FVOCI (non-current)	13,343	(13,343)	–	–
Financial assets at FVPL (non-current)	–	9,198	–	9,198
Financial assets at FVOCI (non-current)	–	4,145	–	4,145
Financial assets held for trading measured at FVPL (current)	23,534	(23,534)	–	–
Financial assets at FVPL (current)	–	23,534	–	23,534
Liabilities				
Accounts payable and accruals	876,384	–	(150,505)	725,879
Deposits received on sales of properties	199,313	–	(199,313)	–
Contract liabilities	–	–	349,818	349,818
Equity				
Other reserves	1,117,763	(6,842)	–	1,110,921
Retained earnings	2,286,373	6,842	–	2,293,215

(All amounts in US dollar thousands unless otherwise stated)

3. NEW ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

ii) Changes in accounting policies (continued)

c) Impact on the condensed consolidated financial statements (continued)

The following tables show the impact on each individual line item of the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 and the condensed consolidated statement of financial position as of 30 June 2018 following the adoption of the HKFRS 9 and HKFRS 15. Line items that were not affected by the changes are not shown.

Condensed consolidated income statement (extract)	For the six months ended 30 Jun 2018			
	Before adoption of new standards	Impact from adoption of		As reported
		HKFRS 9	HKFRS 15	
Sales	1,161,257	–	14,286	1,175,543
Other gains – net	2,763	1,136	–	3,899
Other operating expenses	(360,537)	–	(14,286)	(374,823)
Operating profit	121,497	1,136	–	122,633
Profit before income tax	211,236	1,136	–	212,372
Profit for the period	151,483	1,136	–	152,619
Profit attributable to the Company's equity holders	151,722	1,136	–	152,858

Condensed consolidated statement of comprehensive income (extract)	For the six months ended 30 Jun 2018			
	Before adoption of new standards	Impact from adoption of		As reported
		HKFRS 9	HKFRS 15	
Profit for the period	151,483	1,136	–	152,619
Other comprehensive income:				
Fair value changes of AFS financial assets measured at FVOCI	1,136	(1,136)	–	–
Other comprehensive loss for the period	(137,947)	(1,136)	–	(139,083)
Total comprehensive income for the period	13,536	–	–	13,536

(All amounts in US dollar thousands unless otherwise stated)

3. NEW ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

ii) Changes in accounting policies (continued)

c) Impact on the condensed consolidated financial statements (continued)

Condensed consolidated statement of financial position (extract)	As at 30 Jun 2018 Before adoption of new standards	Impact from adoption of HKFRS 9	 HKFRS 15	 As reported
Assets				
AFS financial assets measured at FVOCI (non-current)	14,446	(14,446)	–	–
Financial assets at FVPL (non-current)	–	10,328	–	10,328
Financial assets at FVOCI (non-current)	–	4,118	–	4,118
Financial assets held for trading measured at FVPL (current)	24,870	(24,870)	–	–
Financial assets at FVPL (current)	–	24,870	–	24,870
Liabilities				
Accounts payable and accruals	729,175	–	(139,935)	589,240
Deposits received on sales of properties	241,216	–	(241,216)	–
Contract liabilities	–	–	381,151	381,151
Equity				
Other reserves	973,985	(1,136)	–	972,849
Retained earnings	2,394,239	1,136	–	2,395,375

The adoption of HKFRS 9 and HKFRS 15 has insignificant impact to the earnings per share and has no impact on the net cash flow from operating, investing and financing activities on the condensed consolidated statement of cash flows for the six months ended 30 June 2018 and 2017.

(All amounts in US dollar thousands unless otherwise stated)

4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5. SALES AND SEGMENT INFORMATION

The Group owns/leases and operates hotels and associated properties; and provides hotel management and related services. The Group also owns investment properties for property rentals and engages in property sales business. Sales recognised in the consolidated financial statements during the period are as follows:

	Six months ended 30 June	
	2018	2017
Sales		
Hotel ownership		
Revenue from rooms	**560,733**	472,435
Food and beverage sales	**458,438**	385,601
Rendering of ancillary services	**61,735**	54,588
Hotel management and related service fees	**49,620**	31,677
Property rentals	**40,378**	35,393
Property sales	**4,639**	10,061
	1,175,543	989,755

5. SALES AND SEGMENT INFORMATION (CONTINUED)

The Group is managed on a worldwide basis in the following four main segments:

i. Hotel ownership (including hotels under lease)

- Hong Kong
- Mainland China
- Singapore
- Malaysia
- The Philippines
- Japan
- Thailand
- France
- Australia
- United Kingdom
- Mongolia
- Sri Lanka
- Other countries (including Fiji, Myanmar, Maldives, Indonesia, Turkey and Mauritius)

ii. Hotel management services

iii. Property rentals (ownership and leasing of office, commercial and serviced apartments/residences)

- Mainland China
- Singapore
- Malaysia
- Mongolia
- Other countries (including Australia and Myanmar)

iv. Property sales

The Group is also engaged in other businesses including wines trading. These other businesses did not have a material impact on the Group's results.

The chief operating decision-maker assesses the performance of the operating segments based on a measure of the share of profit after tax and non-controlling interests. This measurement basis excludes the effects of pre-opening expenses of projects, corporate expenses and other non-operating items such as fair value gains or losses on investment properties, fair value adjustments on monetary items and impairments for any isolated non-recurring event.

(All amounts in US dollar thousands unless otherwise stated)

5. SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement

For the six months ended 30 June 2018 and 2017 *(US$ million)*

	2018		2017	
	Sales (Note b)	**Profit/(Loss) after tax (Note a)**	Sales *(Note b)*	Profit/(Loss) after tax *(Note a)*
Hotel ownership				
Hong Kong	**177.7**	**29.8**	130.3	25.6
Mainland China	**415.5**	**9.8**	361.4	0.1
Singapore	**113.8**	**16.2**	78.3	4.7
Malaysia	**64.2**	**8.2**	54.3	3.8
The Philippines	**88.5**	**7.6**	94.5	6.0
Japan	**33.3**	**1.6**	30.9	0.7
Thailand	**39.5**	**8.0**	31.8	5.1
France	**23.8**	**(7.3)**	19.0	(9.0)
Australia	**47.4**	**0.8**	47.2	1.9
United Kingdom	**22.6**	**(10.7)**	22.2	(8.4)
Mongolia	**5.8**	**(4.8)**	5.4	(2.3)
Sri Lanka	**18.8**	**(8.3)**	4.4	(5.2)
Other countries	**30.0**	**(7.3)**	32.9	(5.6)
	1,080.9	**43.6**	912.6	17.4
Hotel management services	**113.1**	**9.2**	73.2	14.1
Sub-total hotel operation	**1,194.0**	**52.8**	985.8	31.5
Property rentals				
Mainland China	**10.4**	**75.2**	8.3	60.0
Singapore	**6.9**	**4.7**	6.8	4.1
Malaysia	**3.1**	**0.9**	2.9	0.6
Mongolia	**7.8**	**(2.1)**	5.6	(1.3)
Other countries	**12.2**	**1.7**	11.8	1.8
	40.4	**80.4**	35.4	65.2
Property sales	**4.6**	**11.9**	10.1	15.2
Other businesses	**–**	**0.1**	–	(0.5)
Total	**1,239.0**	**145.2**	1,031.3	111.4
Less: Hotel management – Inter-segment sales	**(63.5)**		(41.5)	
Total external sales	**1,175.5**		989.8	
Corporate finance costs (net)		**(45.1)**		(41.3)
Land cost amortisation and pre-opening expenses for projects		**(2.6)**		(15.7)
Corporate expenses		**(15.3)**		(12.7)
Exchange (losses)/gains of corporate investment holding companies		**(1.8)**		3.2
Consolidated profit attributable to equity holders of the Company before non-operating items		**80.4**		44.9

5. SALES AND SEGMENT INFORMATION (CONTINUED)

Segment income statement (continued)

For the six months ended 30 June 2018 and 2017 *(US$ million)*

	2018		2017	
	Sales (Note b)	**Profit/(Loss) after tax (Note a)**	Sales *(Note b)*	Profit/(Loss) after tax *(Note a)*
Consolidated profit attributable to equity holders of the Company before non-operating items		**80.4**		44.9
Non-operating items				
Share of net fair value gains on investment properties		**70.0**		8.5
Gain on disposal of interests in a subsidiary and an associate		**–**		14.9
Discarding of property, plant and equipment due to major renovation of hotels		**–**		(9.8)
Net gains on financial assets at fair value through profit or loss		**2.4**		3.7
Fair value adjustments on loans from non-controlling shareholders and security deposit on leased premises		**0.1**		(0.5)
Consolidated profit attributable to equity holders of the Company		**152.9**		61.7

Notes:

a. Profit/(Loss) after tax includes net of tax results from both associates and subsidiaries after share of non-controlling interests.

b. Sales exclude sales of associates.

(All amounts in US dollar thousands unless otherwise stated)

6. CAPITAL EXPENDITURE

	Property, plant and equipment	Investment properties	Leasehold land and land use rights	Intangible assets
Opening net book amount as at 1 January 2018	**6,281,592**	**1,448,853**	**498,417**	**89,947**
Additions	**31,456**	**64,580**	**1,430**	**–**
Fair value losses *(Note 18)*	**–**	**(9,112)**	**–**	**–**
Exchange differences	**(91,339)**	**(16,157)**	**(6,246)**	**(208)**
Disposals	**(678)**	**(361)**	**–**	**–**
Depreciation/amortisation charge *(Note 17)*	**(172,242)**	**–**	**(7,729)**	**(635)**
Transfer to properties for sale	**(140,057)**	**–**	**–**	**–**
Closing net book amount as at 30 June 2018	**5,908,732**	**1,487,803**	**485,872**	**89,104**
Opening net book amount as at 1 January 2017	6,002,690	1,328,352	499,341	90,367
Additions	204,033	4,494	–	–
Fair value losses *(Note 18)*	–	(25,522)	–	–
Exchange differences	114,236	27,712	11,207	501
Disposals	(11,387)	(15)	–	–
Depreciation/amortisation charge *(Note 17)*	(152,220)	–	(7,323)	(704)
Closing net book amount as at 30 June 2017	6,157,352	1,335,021	503,225	90,164

Investment properties were stated at fair value (including those properties being constructed for future use as investment properties for which fair value becomes reliably determinable). All changes in the fair value of investment properties were recorded in the income statement.

(All amounts in US dollar thousands unless otherwise stated)

7. FINANCIAL ASSETS

	As at	
	30 June 2018	31 December 2017
Non-current		
Financial assets at fair value through other comprehensive income		
– equity and loan instruments	**4,118**	–
Financial assets at fair value through profit or loss		
– club debentures	**10,328**	–
Available-for-sale financial assets		
– equity and loan instruments	**–**	4,145
– club debentures	**–**	9,198
	14,446	13,343
Current		
Financial assets at fair value through profit or loss		
– shares listed in Hong Kong	**24,870**	–
Financial assets held for trading		
– shares listed in Hong Kong	**–**	23,534

There were no additions or disposals of financial assets during the six months ended 30 June 2018 and 2017. The fair values of these financial assets are not materially different from their carrying values. The maximum exposure to credit risk at the reporting date is the fair value of the financial asset mentioned above.

8. OTHER RECEIVABLES

	As at	
	30 June 2018	31 December 2017
Security deposit on leased premises	**14,549**	14,254

An interest-free security deposit amounting to JPY1,751,000,000 (equivalent to US$15,818,000) (31 December 2017: JPY1,751,000,000 (equivalent to US$15,541,000)) was paid to the lessor of the leased premises and will only be recoverable after expiry of the lease. The effective interest rate applied to calculate the fair value upon initial recognition of the deposit is 0.556% per annum.

The fair values of these other receivables are not materially different from their carrying values. The maximum exposure to credit risk at the reporting date is the fair value of other receivables mentioned above.

(All amounts in US dollar thousands unless otherwise stated)

9. ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	As at	
	30 June 2018	31 December 2017
Trade receivables – net	**110,128**	116,679
Other receivables	**99,711**	110,110
Prepayments and other deposits	**95,022**	93,359
Short term advance to a third party *(Note (c))*	**3,500**	3,500
	308,361	323,648

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

(a) The fair values of the trade and other receivables are not materially different from their carrying values. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

(b) A significant part of the Group's sales are by credit cards or against payment of deposits. The remaining amounts are with general credit term of 30 days. The Group has a defined credit policy. The ageing analysis of the trade receivables based on invoice date after provision for impairment is as follows:

	As at	
	30 June 2018	31 December 2017
0 – 3 months	**90,868**	92,998
4 – 6 months	**5,592**	15,998
Over 6 months	**13,668**	7,683
	110,128	116,679

(c) A short term advance of US$3,500,000 bearing interest at a fixed rate of 6.25% per annum originally matured in June 2018 was provided to the purchaser under the sale and purchase transaction in relation to the disposal of equity interest in an associate incorporated in the Republic of Indonesia last year. During the current period, the maturity date of the advance was extended to December 2018 at the same terms. The maximum exposure to credit risk at the reporting date is the carrying value of the advance.

10. SHARE CAPITAL

	Number of shares ('000)	Amount: Ordinary shares	Amount: Share premium	Amount: Total
Authorised – Ordinary shares of HK$1 each				
At 31 December 2017 and 30 June 2018	**5,000,000**	**646,496**	**–**	**646,496**
Issued and fully paid – Ordinary shares of HK$1 each				
At 1 January 2017	3,580,024	462,195	2,729,606	3,191,801
Exercise of share options				
– allotment of shares	455	59	652	711
– transfer from share option reserve	–	–	188	188
At 30 June 2017	3,580,479	462,254	2,730,446	3,192,700
Exercise of share options				
– allotment of shares	3,581	461	5,134	5,595
– transfer from share option reserve	–	–	125	125
At 31 December 2017 and 1 January 2018	**3,584,060**	**462,715**	**2,735,705**	**3,198,420**
Exercise of share options				
– allotment of shares	**1,390**	**179**	**1,993**	**2,172**
– transfer from share option reserve	**–**	**–**	**915**	**915**
At 30 June 2018	**3,585,450**	**462,894**	**2,738,613**	**3,201,507**
Shares held for share award scheme				
At 31 December 2017 and 1 January 2018	**–**	**–**	**–**	**–**
Shares purchase for share award scheme	**(1,436)**	**(185)**	**(2,704)**	**(2,889)**
Vesting of shares under share award scheme	**1,418**	**183**	**2,670**	**2,853**
At 30 June 2018	**(18)**	**(2)**	**(34)**	**(36)**
Net balance as at 30 June 2018	**3,585,432**	**462,892**	**2,738,579**	**3,201,471**
Net balance as at 31 December 2017	3,584,060	462,715	2,735,705	3,198,420

10. SHARE CAPITAL (CONTINUED)

As at 30 June 2018, 10,501,055 (31 December 2017: 10,501,055) ordinary shares in the Company were held by a subsidiary which was acquired in late 1999. The cost of these shares was recognised in equity as in prior years.

During the six months ended 30 June 2018, the share award scheme of the Group acquired 1,436,000 ordinary shares in the Company through purchases on the open market and 1,418,000 shares were transferred to the awardees upon vesting of the awarded shares. The remaining 18,000 shares were held in trust under the share award scheme as at 30 June 2018. Details of the share award scheme were disclosed in Note 11 to this condensed consolidated interim financial statements.

Share options

The shareholders of the Company approved the adoption of a new share option scheme on 28 May 2012 ("**Share Option Scheme**"). The options granted on 23 August 2013 under the Share Option Scheme are immediately exercisable on the grant date and have a contractual option term of ten years with 22 August 2023 being the last exercisable date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of the Share Option Scheme are set out under the section headed "Share Option Scheme" of the Company's 2017 annual report.

Certain share options granted to option holders of the Company were exercised and the following new shares were issued:

	Number of option shares issued at HK$12.11 per option share	Total consideration *US$'000*
In year 2018		
January	**40,000**	**63**
February	**506,000**	**790**
March	**549,000**	**858**
April	**75,000**	**117**
June	**220,000**	**344**
For the six months ended 30 June 2018	**1,390,000**	**2,172**
For the six months ended 30 June 2017	455,000	711
For the year ended 31 December 2017	4,036,000	6,306

The weighted average closing price of the shares immediately before the dates on which the options were exercised for the six months ended 30 June 2018 was HK$17.45 (six months ended 30 June 2017: HK$13.33).

(All amounts in US dollar thousands unless otherwise stated)

10. SHARE CAPITAL (CONTINUED)

Share options (continued)

Movements of the number of outstanding option shares with exercise price of HK$12.11 per option share and their related weighted average exercise prices are as follows:

	For the six months ended 30 June 2018		For the year ended 31 December 2017	
	Weighted average exercise price in HK$ per option share	**Number of outstanding option shares**	Weighted average exercise price in HK$ per option share	Number of outstanding option shares
At 1 January	**12.11**	**9,813,000**	12.11	14,603,000
Exercised	**12.11**	**(1,390,000)**	12.11	(4,036,000)
Lapsed	**–**	**–**	12.11	(754,000)
At 30 June/31 December	**12.11**	**8,423,000**	12.11	9,813,000

No new option was granted during the six months ended 30 June 2018 and 2017.

Options on 75,000 shares have been exercised subsequent to 30 June 2018 and up to the approval date of the financial statements.

11. SHARE AWARD SCHEME

The Group operates the share award scheme as part of the benefits for its employees and the Company's directors which allows shares of the Company to be granted to the awardees. The awarded shares can either be purchased on the open market or newly issued by the Company.

During the six months ended 30 June 2018, a total of 1,418,000 shares with an average fair value of HK$15.82 per share were granted to the qualified awardees and these shares were immediately vested. A total of 18,000 shares were held in trust under the share award scheme as at 30 June 2018. Subsequent to 30 June 2018, the Group has acquired a further of 22,000 shares on the open market and such 40,000 shares were awarded to qualified awardees which were immediately vested resulting in a nil balance of shares being held by the share award scheme at the approval date of the financial statements.

Further details of the share award scheme are set out under the section headed "Share Award Scheme" of the Company's 2017 annual report.

(All amounts in US dollar thousands unless otherwise stated)

12. OTHER RESERVES

	Share option reserve	Share award reserve	Hedging reserve	Capital redemption reserve	Exchange fluctuation reserve	Capital reserve	Available-for-sale financial assets reserve	Other reserve	Contributed surplus	Total
Balance at 1 January 2017	7,815	–	(2,413)	10,666	(407,557)	601,490	5,210	1,368	389,741	606,320
Currency translation differences	–	–	–	–	205,692	–	–	–	–	205,692
Transfer of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary and an associate	–	–	–	–	393	–	–	–	–	393
Exercise of share options – transfer to share premium	(188)	–	–	–	–	–	–	–	–	(188)
Fair value changes of interest-rate swap contracts	–	–	(1,312)	–	–	–	–	–	–	(1,312)
Fair value changes of available-for-sale financial assets	–	–	–	–	–	–	592	–	–	592
Balance at 30 June 2017	7,627	–	(3,725)	10,666	(201,472)	601,490	5,802	1,368	389,741	811,497
Currency translation differences	–	–	–	–	295,309	–	–	–	–	295,309
Exercise of share options – transfer to share premium	(125)	–	–	–	–	–	–	–	–	(125)
Fair value changes of interest-rate swap contracts	–	–	10,042	–	–	–	–	–	–	10,042
Fair value changes of available-for-sale financial assets	–	–	–	–	–	–	1,040	–	–	1,040
Balance at 31 December 2017	**7,502**	**-**	**6,317**	**10,666**	**93,837**	**601,490**	**6,842**	**1,368**	**389,741**	**1,117,763**
Change in accounting policy – HKFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**(6,842)**	**-**	**-**	**(6,842)**
Balance at 1 January 2018, as restated	**7,502**	**-**	**6,317**	**10,666**	**93,837**	**601,490**	**-**	**1,368**	**389,741**	**1,110,921**
Currency translation differences	**-**	**-**	**-**	**-**	**(150,044)**	**-**	**-**	**-**	**-**	**(150,044)**
Exercise of share options – transfer to share premium	**(915)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(915)**
Fair value changes of interest-rate swap contracts	**-**	**-**	**12,887**	**-**	**-**	**-**	**-**	**-**	**-**	**12,887**
Granting of shares under share award scheme	**-**	**2,895**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,895**
Vesting of shares under share award scheme	**-**	**(2,895)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,895)**
Balance at 30 June 2018	**6,587**	**-**	**19,204**	**10,666**	**(56,207)**	**601,490**	**-**	**1,368**	**389,741**	**972,849**

(All amounts in US dollar thousands unless otherwise stated)

13. BANK LOANS

	As at 30 June 2018	As at 31 December 2017
Bank loans – secured *(Note 24 (c))*	**117,502**	129,264
Bank loans – unsecured	**5,195,195**	5,055,411
Total	**5,312,697**	5,184,675
Less: Non-current portion	**(4,679,625)**	(4,949,844)
Current portion	**633,072**	234,831

The maturity of bank loans is as follows:

	As at 30 June 2018	As at 31 December 2017
Within 1 year	**633,072**	234,831
Between 1 and 2 years	**1,062,421**	1,014,804
Between 2 and 5 years	**3,534,510**	3,895,162
Repayable within 5 years	**5,230,003**	5,144,797
Over 5 years	**82,694**	39,878
Total	**5,312,697**	5,184,675

The effective interest rates at the date of the statement of financial position are as follows:

	30 June 2018							
	HK$	**RMB**	**GBP**	**US$**	**JPY**	**Euros**	**SGD**	**AUD**
Bank loans	**2.75%**	**4.83%**	**1.65%**	**2.99%**	**0.60%**	**0.97%**	**2.11%**	**3.14%**

	31 December 2017							
	HK$	RMB	GBP	US$	JPY	Euros	SGD	AUD
Bank loans	2.17%	4.84%	1.58%	2.50%	0.60%	0.98%	1.61%	2.93%

(All amounts in US dollar thousands unless otherwise stated)

13. BANK LOANS (CONTINUED)

The carrying amounts of the bank loans approximate their fair values and are denominated in the following currencies:

	As at	
	30 June 2018	31 December 2017
Hong Kong dollars	**1,790,684**	1,717,135
Renminbi	**449,971**	452,943
United States dollars	**2,560,437**	2,471,940
Euros	**233,969**	243,887
Japanese yen	**45,168**	44,379
Singapore dollars	**84,923**	98,295
Australian dollars	**88,116**	95,334
British pounds	**59,429**	60,762
	5,312,697	5,184,675

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2018	31 December 2017
Floating rate		
– expiring within one year	**21,953**	62,581
– expiring beyond one year	**942,432**	1,088,607
Fixed rate		
– expiring within one year	**–**	765
– expiring beyond one year	**39,051**	49,868
	1,003,436	1,201,821

(All amounts in US dollar thousands unless otherwise stated)

14. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2018	As at 31 December 2017
Interest-rate swap contracts – hedging		
– included in non-current assets	**13,920**	5,067
– included in current assets	**5,284**	1,738
	19,204	6,805
Interest-rate swap contracts – hedging		
– included in current liabilities	**–**	488

The Group has endeavored to hedge its medium term interest rate risk by entering into fixed HIBOR and LIBOR interest-rate swap contracts and all interest-rate swap contracts qualify for hedge accounting.

All the interest-rate swap contracts were initially recognised at fair value on the date the contract was entered and are subsequently re-measured at fair value at each date of statement of financial position. The recorded fair value could be an asset or liability depending on the prevailing financial market conditions and the anticipated interest rate environment.

The notional principal amounts of the outstanding HIBOR and LIBOR interest-rate swap contracts at 30 June 2018 are as follows:

- HK$1,600,000,000 (31 December 2017: HK$1,600,000,000) with fixed interest rates vary from 1.395% to 1.635% per annum (31 December 2017: 1.395% to 1.635% per annum);

- US$806,000,000 (31 December 2017: US$806,000,000) with fixed interest rates vary from 1.420% to 1.850% per annum (31 December 2017: 1.420% to 1.850% per annum).

15. AMOUNTS DUE TO/(FROM) NON-CONTROLLING SHAREHOLDERS

Amounts due to/(from) non-controlling shareholders (current portion) are unsecured and with the following terms:

	As at 30 June 2018	As at 31 December 2017
– interest-free with no fixed repayment terms	**47,054**	27,942
– interest-free with no fixed repayment terms	**–**	(37)
	47,054	27,905

The fair values of the amounts due to/(from) non-controlling shareholders are not materially different from their carrying values.

(All amounts in US dollar thousands unless otherwise stated)

16. ACCOUNTS PAYABLE AND ACCRUALS

	As at	
	30 June 2018	31 December 2017
Trade payables	**96,760**	119,984
Construction cost payable, other payables and accrued expenses	**492,480**	756,400
	589,240	876,384

The ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2018	31 December 2017
0 – 3 months	**80,233**	98,405
4 – 6 months	**5,617**	9,804
Over 6 months	**10,910**	11,775
	96,760	119,984

17. EXPENSES BY NATURE

Expenses included in cost of sales, marketing costs, administrative expenses and other operating expenses are analysed as follows:

	For the six months ended	
	30 June 2018	30 June 2017
Depreciation of property, plant and equipment (net of amount capitalised of US$8,000 (2017: US$34,000)) *(Note 6)*	**172,234**	152,186
Amortisation of leasehold land and land use rights (net of amount capitalised of Nil (2017: US$196,000)) *(Note 6)*	**7,729**	7,127
Amortisation of trademark; and website and system development *(Note 6)*	**635**	704
Employee benefit expenses excluding directors' emoluments	**377,325**	318,403
Cost of sales of properties	**3,942**	10,068
Cost of inventories sold or consumed in operation	**143,938**	133,596
Loss on disposal of property, plant and equipment and partial replacement of investment properties	**913**	1,352
Discarding of property, plant and equipment and investment properties due to renovation	**74**	9,782
Pre-opening expenses	**1,606**	9,978

(All amounts in US dollar thousands unless otherwise stated)

18. OTHER GAINS – NET

	For the six months ended	
	30 June 2018	30 June 2017
Net realised and unrealised gains on financial asset at fair value through profit or loss – equity securities	**1,336**	3,694
Fair value gains of financial asset at fair value through profit or loss – club debentures	**1,136**	–
Net fair value losses of investment properties *(Note 6)*	**(9,112)**	(25,522)
Gain on disposal of interests in a subsidiary and an associate	**–**	14,886
Interest income	**9,391**	7,569
Dividend income	**1,148**	958
Others	**–**	819
	3,899	2,404

19. FINANCE COSTS – NET

	For the six months ended	
	30 June 2018	30 June 2017
Interest expense		
– bank loans	**77,304**	64,458
– interest-rate swap contracts – hedging	**626**	3,014
– fixed rate bonds	**–**	8,189
– other loans	**1,591**	2,059
	79,521	77,720
Less: amount capitalised	**(3,274)**	(12,184)
	76,247	65,536
Net foreign exchange losses/(gains)	**7,072**	(3,482)
	83,319	62,054

The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 2.96% per annum for the period (2017: 2.84% per annum).

(All amounts in US dollar thousands unless otherwise stated)

20. SHARE OF PROFIT OF ASSOCIATES

	For the six months ended	
	30 June 2018	30 June 2017
Share of profit before tax of associates before share of net fair value gains of investment properties	**140,330**	108,058
Share of net fair value gains of investment properties	**98,760**	27,792
Share of profit before tax of associates	**239,090**	135,850
Share of associates' taxation before provision for deferred tax liabilities on net fair value gains of investment properties	**(41,571)**	(31,700)
Share of provision for deferred tax liabilities on net fair value gains of investment properties	**(24,461)**	(6,948)
Share of associates' taxation	**(66,032)**	(38,648)
Share of profit of associates	**173,058**	97,202

21. INCOME TAX EXPENSE

Income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings. Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Taxation outside Hong Kong includes withholding tax paid and payable on dividends and tax provided at the prevailing rates on the estimated assessable profits of group companies operating outside Hong Kong.

	For the six months ended	
	30 June 2018	30 June 2017
Current income tax		
– Hong Kong profits tax	**9,135**	1,462
– overseas taxation	**46,629**	42,335
Deferred income tax	**3,989**	3,556
	59,753	47,353

22. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjustment of those issued ordinary shares of the Company held by a subsidiary and the share award scheme.

	For the six months ended	
	30 June 2018	30 June 2017
Profit attributable to equity holders of the Company *(US$'000)*	**152,858**	61,700
Weighted average number of ordinary shares in issue *(thousands)*	**3,574,385**	3,569,541
Basic earnings per share *(US cents per share)*	**4.276**	1.729

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has the potential dilutive effect on the outstanding share options. A calculation is done to determine the number of shares that would be issued at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is increased by the number of shares that would have been issued assuming the exercise of the share options.

The dilution effect on the earnings per share for the six months ended 30 June 2018 and 2017 are as follows:

	For the six months ended	
	30 June 2018	30 June 2017
Profit attributable to equity holders of the Company *(US$'000)*	**152,858**	61,700
Weighted average number of ordinary shares in issue *(thousands)*	**3,574,385**	3,569,541
Adjustments *(thousands)*	**2,383**	–
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**3,576,768**	3,569,541
Diluted earnings per share *(US cents per share)*	**4.274**	1.729

(All amounts in US dollar thousands unless otherwise stated)

23. DIVIDENDS

	For the six months ended	
	30 June 2018	30 June 2017
Interim dividend of **HK8 cents** (2017: HK6 cents) per ordinary share	**36,903**	27,641

Notes:

(a) At a meeting held on 21 March 2018, the Board proposed a final dividend of HK11 cents per ordinary share for the year ended 31 December 2017, which was paid on 14 June 2018, and has been reflected as a charge against retained earnings for the six months ended 30 June 2018.

(b) At a meeting held on 23 August 2018, the Board declared an interim dividend of HK8 cents per ordinary share for the year ending 31 December 2018. This declared dividend is not reflected as a dividend payable in these financial statements but reflected as an appropriation of retained earnings for the year ending 31 December 2018. The declared interim dividend of US$36,903,000 for the six months ended 30 June 2018 is calculated based on 3,585,525,056 shares of the Company in issue as at 23 August 2018 after elimination on consolidation the amount of US$108,000 for the 10,501,055 ordinary shares in the Company held by a subsidiary of the Company (Note 10).

24. FINANCIAL GUARANTEES, CONTINGENCIES AND CHARGES OVER ASSETS

(a) Financial guarantees

The Group executed proportionate guarantees in favour of banks for securing banking facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees for these associates as at 30 June 2018 amounts to US$159,331,000 (31 December 2017: US$178,664,000).

Guarantees are stated at their respective contracted amounts. The Board is of the opinion that it is not probable that the above guarantees will be called upon.

(b) Contingent liabilities

As at 30 June 2018, the Group executed guarantee for securing standby documentary credit granted by a bank in favour of a building contractor relating to the execution of construction works for a hotel building owned by a subsidiary with the amount of US$7,557,000 (31 December 2017: US$7,652,000).

(c) Charges over assets

As at 30 June 2018, bank borrowings of two subsidiaries amounting to US$117,502,000 (31 December 2017: US$129,264,000) are secured by legal mortgage over the property owned by these subsidiaries with an aggregate net book value of US$336,126,000 (31 December 2017: US$356,293,000).

(All amounts in US dollar thousands unless otherwise stated)

25. COMMITMENTS

The Group's commitment for capital expenditure at the date of the consolidated statement of financial position but not yet incurred is as follows:

	As at	
	30 June 2018	31 December 2017
Existing properties – property, plant and equipment and investment properties		
– contracted but not provided for	**42,995**	75,088
– authorised but not contracted for	**46,025**	43,143
Development projects		
– contracted but not provided for	**162,181**	176,106
– authorised but not contracted for	**317,502**	368,225
	568,703	662,562

26. RELATED PARTY TRANSACTIONS

Kerry Holdings Limited ("**KHL**"), a substantial shareholder and a related party of the Company, has significant influence over the Company.

The following transactions were carried out with related parties:

	For the six months ended	
	30 June 2018	30 June 2017
(a) Transactions with subsidiaries of KHL (other than subsidiaries of the Company)		
Receipt of hotel management and related services fees and royalty fees	**7,181**	6,465
Reimbursement of office expenses and payment of administration and related expenses	**1,561**	909
Payment of office rental, management fees and rates	**3,552**	3,655
Purchase of wines	**1,512**	1,437

	For the six months ended	
	30 June 2018	30 June 2017
(b) Transactions with associates of the Group (other than the subsidiaries of KHL included under item(a) above)		
Receipt of hotel management and related services fees and royalty fees	**11,649**	10,600
Receipt of laundry services fees	**249**	267

(All amounts in US dollar thousands unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONTINUED)

		As at	
		30 June 2018	31 December 2017
(c)	**Financial assistance provided to subsidiaries of KHL (other than subsidiaries of the Company)**		
	Balance of loan to associates of the Group	**161,229**	161,372
	Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group	**113,254**	114,682

		As at	
		30 June 2018	31 December 2017
(d)	**Financial assistance provided to associates of the Group (excluding item (c) above)**		
	Balance of loan to associates of the Group	**77,071**	77,821
	Balance of guarantees executed in favour of banks for securing bank loans/facilities granted to associates of the Group	**46,131**	63,982

There are no material changes to the terms of the above transactions during the period.

		For the six months ended	
		30 June 2018	30 June 2017
(e)	**Key management compensation**		
	Fees, salaries and other short-term employee benefits of executive directors	**3,510**	3,330
	Post employment benefits of executive directors	**23**	53
		3,533	3,383

27. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group measures financial assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1	–	Quoted market prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3	–	Fair value measured using significant unobservable inputs

The definitions, the valuation technique and inputs used in the fair value measurements for financial assets and liabilities under Level 1 and Level 2 are consistent with those used in the Group's annual financial statements for the year ended 31 December 2017.

(All amounts in US dollar thousands unless otherwise stated)

27. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018.

	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments				
– interest-rate swap contracts	–	19,204	–	19,204
Financial assets at fair value through other comprehensive income				
– equity and loan instruments	–	–	4,118	4,118
Financial assets at fair value through profit or loss				
– club debentures	10,328	–	–	10,328
– listed shares	24,870	–	–	24,870
	35,198	19,204	4,118	58,520

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017. Details regarding the restatement as a result of a change in accounting policy are set out in Notes 3(a) and 3(c) to this condensed consolidated interim financial statements.

	Level 1	Level 2	Total
Assets			
Derivative financial instruments			
– interest-rate swap contracts	–	6,805	6,805
Available-for-sale financial assets			
– club debentures	9,198	–	9,198
Financial assets held for trading			
– listed shares	23,534	–	23,534
	32,732	6,805	39,537
Liabilities			
Derivative financial instruments			
– interest-rate swap contracts	–	488	488

The financial assets at fair value through other comprehensive income – equity and loan instruments of US$4,118,000 grouped under level 3 as at 30 June 2018 was previously classified as available-for-sale financial assets in the statement of financial position as at 31 December 2017.

(All amounts in US dollar thousands unless otherwise stated)

27. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The following table presents the changes in level 3 instruments of the Group for the six months ended 30 June 2018:

	Financial assets at fair value through other comprehensive income – equity and loan instruments
At 31 December 2017	–
Transfer from available-for-sale financial assets *(Note 7)*	4,145
Exchange differences	(27)
At 30 June 2018	4,118

The fair value of financial assets that are grouped under level 3 is determined by using valuation techniques principally based on discounted cash flow analysis with reference to inputs of cash flow payback and other specific input relevant to the financial assets. Changing unobservable inputs used in level 3 valuation to reasonable alternative assumptions would not have significant impact on the Group's profit or loss.

Other than the transfer of equity and loan instruments from available-for-sale financial assets, during the six months ended 30 June 2018, there was no transfer between the levels of the fair value hierarchy of the Group's financial assets and liabilities.

1. OPERATIONS REVIEW

(Performance compared to the corresponding period last year)

The principal activities of the Group remain the same as 2017. The Group's business is organised into four main segments:

(i) **Hotel ownership** (including hotels under lease)

(ii) **Hotel management services** for Group-owned hotels and for hotels owned by third parties

(iii) **Property rentals** from ownership and leasing of office properties, commercial properties and serviced apartments/residences

(iv) **Property sales**

The Group also engaged in wine trading in Hong Kong and Mainland China but such business did not have a material impact on the Group's consolidated results for the six months ended 30 June 2018.

The Group continues to develop hotels, investment properties for rental purpose and properties for sales for the above-mentioned main business segments.

The Group currently owns and/or manages hotels under the following brands:

- **Shangri-La Hotels and Resorts**
- **Kerry Hotels**
- **Hotel Jen**
- **Traders Hotels**

1. OPERATIONS REVIEW (CONTINUED)

The following table summarises the number of hotels and rooms of the Group as at 30 June 2018:

	Owned/Leased		Managed		Total Operating Hotels		Hotels Under Development	
	Hotels	Rooms *in '000*	Hotels	Rooms *in '000*	Hotels	Rooms *in '000*	Owned Hotels	Hotels Under Management Contracts
SHANGRI-LA HOTELS and RESORTS	71	30.9	15	4.7	86	35.6	4	8
KERRY HOTELS	3	1.6	–	–	3	1.6	–	–
HOTEL JEN By Shangri-La	8	3.0	2	0.6	10	3.6	–	1
TRADERS HOTELS	–	–	3	1.2	3	1.2	1	–
Other (Note 1)	1	0.6	–	–	1	0.6	–	–
Total	**83**	**36.1**	**20**	**6.5**	**103**	**42.6**	**5**	**9**

Notes:

1) Other hotel refers to the Portman Ritz-Carlton Hotel, Shanghai (the Group has 30% equity interest).

2) No new hotel opened for business during the six months ended 30 June 2018.

1. OPERATIONS REVIEW (CONTINUED)

The following table summarises the total Gross Floor Area ("**GFA**") of the operating investment properties owned by subsidiaries and associates:

	Total GFA of operating investment properties at 30 June 2018		
(in square metres)	Office spaces	Commercial spaces	Serviced apartments
Mainland China	886,747	578,777	317,181
Singapore	3,291	22,933	24,735
Malaysia	45,175	8,530	17,356
Mongolia	41,355	21,238	19,585
Other countries	38,150	23,177	56,834
Total	1,014,718	654,655	435,691

(a) Segment Results

Details of the segment information are provided in Note 5 to the condensed consolidated interim financial statements included in this Interim Report.

(i) Hotel Ownership

For the six months ended 30 June 2018, on an unconsolidated basis, room revenues accounted for around 51% of the total revenues from hotel operation while food and beverage revenues accounted for around 43%.

Consolidated sales were US$1,175.5 million for the six months ended 30 June 2018, an increase of 18.8%, compared to US$989.8 million for the same period last year.

The consolidated revenue from rooms for the six months ended 30 June 2018 was US$560.7 million, an increase of 18.7%, compared to US$472.4 million for the same period last year. The consolidated sales from food and beverage for the six months ended 30 June 2018 were US$458.4 million, an increase of 18.9%, compared to US$385.6 million for the same period last year. These increases were driven by:

- the opening of the new hotels in 2017
- the reopening for business of all the renovated guestrooms in the Tower Wing of Shangri-La Hotel, Singapore in May 2017
- the completion of the major renovation of Shangri-La Hotel, Kuala Lumpur in February 2017 and Hotel Jen Penang by end of June 2017
- the 14% increment in room yields ("**RevPAR**") following the further improvement of the market condition in most cities where the Group's hotels operated.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(i) Hotel Ownership (continued)

The key performance indicators of the Group-owned hotels (including hotels under lease) on an unconsolidated basis for the six months ended 30 June 2018 and 2017 are as follows:

	2018 Weighted Average			2017 Weighted Average		
Country	**Occupancy *(%)***	**Room Rate *(US$)***	**RevPAR *(US$)***	Occupancy *(%)*	Room Rate *(US$)*	RevPAR *(US$)*
The People's Republic of China						
Hong Kong (Note)	**83**	**287**	**238**	71	291	208
Mainland China (Note)	**65**	**132**	**87**	63	122	77
Singapore	**77**	**222**	**172**	62	199	124
Malaysia	**75**	**138**	**103**	69	119	82
The Philippines	**68**	**186**	**127**	68	184	126
Japan	**85**	**594**	**506**	85	544	463
Thailand	**71**	**169**	**120**	67	146	98
Australia	**81**	**232**	**187**	88	212	187
France	**59**	**1,271**	**751**	54	1,035	558
United Kingdom	**73**	**527**	**384**	77	477	367
Mongolia	**23**	**215**	**50**	22	211	47
Sri Lanka (Note)	**40**	**165**	**67**	37	148	55
Other countries	**47**	**204**	**96**	50	183	92
Weighted Average	**67**	**172**	**115**	64	157	101

Note:

The key performance indicators for 2018 included all six months revenues of the following newly opened hotels:

- Songbei Shangri-La, Harbin in Mainland China (opened for business on 10 January 2017)
- Kerry Hotel, Hong Kong (opened for business on 28 April 2017)
- Hotel Jen Beijing in Mainland China (opened for business on 22 May 2017)
- Shangri-La Hotel, Xiamen in Mainland China (opened for business on 21 August 2017)
- Shangri-La Hotel, Colombo in Sri Lanka (opened for business on 16 November 2017)
- Shangri-La Hotel, Jinan in Mainland China (opened for business on 13 December 2017)

Overall, the weighted average occupancy of the Group-owned hotels and the weighted Average Room Rate ("**ADR**") increased by 3 percentage points and 9%, respectively. As a result, the weighted Average RevPAR increased by 14% for the six months ended 30 June 2018, compared to the same period last year.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(i) Hotel Ownership (continued)

Comments on performance of hotels by geography:

The People's Republic of China

Hong Kong

Market condition in Hong Kong continues to improve. The two Shangri-La hotels registered an increase in RevPAR of 12%, led by improvements in both occupancies and ADR. Hotel Jen Hong Kong recorded an increase in weighted average occupancy, ADR and RevPAR of 14 percentage points, 8% and 30%, respectively. Performance of Kerry Hotel, Hong Kong improved significantly, registered an increase in RevPAR of 167%, led by an increase in weighted average occupancy and ADR of 42 percentage points and 29%, respectively.

The overall net profit of the Hong Kong hotel ownership segment for the six months ended 30 June 2018 increased by US$4.2 million (or 16%) to US$29.8 million.

Mainland China

Most of the hotels in Mainland China registered an increase in RevPar, led mainly by improvements in room rates. Overall weighted average RevPAR registered a growth of 12% following a 9% increment in weighted average ADR.

Performance of the hotels in Tier 1 cities (especially in Beijing) and Tier 2 cities continued to improve. Some of the hotels in Tier 3 and Tier 4 cities also continued to experience improved results. As a result, the net profit of the Mainland China hotel segment for the six months ended 30 June 2018 increased to US$9.8 million, compared to a marginal net profit of US$0.1 million in the same period last year.

Singapore

The overall weighted average RevPAR of the four hotels in Singapore registered a remarkable increase of 39%, largely supported by the 95% increment in the RevPAR of Shangri-La Hotel, Singapore. All the guestrooms in the Tower Wing of the hotel were closed down for major renovation till mid May 2017. The other three hotels also registered an increase in weighted average RevPAR ranging from 9% to 20% during the current period.

Net profit of the Singapore hotel ownership segment increased by US$11.5 million to US$16.2 million for the six months ended 30 June 2018.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(i) Hotel Ownership (continued)

The Philippines

Performance of the Philippines hotel ownership segment was largely affected by the government order to totally close down the Boracay Island for a period of six months commencing 26 April 2018 for environmental rehabilitation. RevPAR of Shangri-La's Boracay Resort & Spa decreased by 28% in the current period. This negative impact has largely offset the 38% RevPAR increment of Shangri-La at the Fort, Manila. As a result, the hotels and resorts in the country only recorded a marginal increase in weighted average RevPAR of 1%.

Benefited from the US$1.2 million reduction in share of net loss of Shangri-La at the Fort, Manila, net profit of the Philippines hotel segment increased by US$1.6 million to US$7.6 million in the current period.

Malaysia

Major renovation of Shangri-La Hotel, Kuala Lumpur's banqueting facilities and all-day dining restaurant were completed by end of February 2017. The phased renovation of Hotel Jen Penang's guestrooms and major renovation of Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu (including function rooms, grand ball room and guestrooms/suites in Tanjung Wing) were completed by end of June 2017. Business of these hotels was largely benefited from the upgraded facilities. This, together with the 11% appreciation of the exchange rate of Malaysia Ringgit against US dollar during the current period, resulted in a favourable impact on the financial performance of the hotels. Shangri-La Hotel, Kuala Lumpur, Shangri-La's Tanjung Aru Resort & Spa, Kota Kinabalu and Hotel Jen Penang recorded a large increase in RevPAR of 15%, 55% and 79%, respectively. The weighted average RevPAR of the Malaysia hotel ownership segment increased by 26% in the current period.

The overall net profit of the hotels and resorts in Malaysia increased by US$4.4 million to US$8.2 million for the six months ended 30 June 2018.

Thailand

Shangri-La Hotel, Bangkok continues to be benefited from the increase of foreign arrivals to the city. The hotel recorded an increase in weighted average occupancy, room ADR and RevPAR of 6 percentage points, 15% and 26%, respectively. Shangri-La Hotel, Chiang Mai also recorded an increase in RevPAR of 15%, mainly supported by an increase in room rate of 16%.

The net profit of the two hotels in Thailand increased by US$2.9 million to US$8.0 million in the current period.

Japan

Tokyo continues to be a hot spot for business and tourism. Shangri-La Hotel, Tokyo recorded a further increase in RevPAR of 9% during the current period. The net profit of the hotel increased by US$0.9 million to US$1.6 million in the current period.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(i) Hotel Ownership (continued)

Australia

Performance of Shangri-La Hotel, The Marina, Cairns was adversely affected by the commencement of the phased guestroom renovation in April 2018. RevPAR of the hotel was down by 20% in the current period. The weighted average RevPAR of the three hotels in the country remained at the same level as compared to the same period last year.

Net profit of the Australia hotel ownership segment decreased by US$1.1 million to US$0.8 million in the current period.

France

With the increased arrivals to the city and benefited from the 12% appreciation of the exchange rate of Euros against US dollar, Shangri-La Hotel, Paris recorded an increase in occupancy and ADR of 5 percentage points and 23%, respectively. RevPAR of the hotel registered a large increase of 35%. Net loss of the hotel decreased by US$1.7 million to US$7.3 million in the current period.

The United Kingdom

Shangri-La Hotel, At The Shard, London recorded an increase in RevPAR of 5% in US dollar terms as a result of the appreciation of British pound against US dollar by 9% over the same period last year. Net loss of the hotel increased by US$2.3 million to US$10.7 million in the current period.

Mongolia

The country's economy improved slightly but remained weak. While Shangri-La Hotel, Ulaanbaatar recorded an increase in RevPAR of 8% in the current period, net loss of the hotel however increased by US$2.5 million to US$4.8 million mainly due to an increase in interest expenses following the increase in interest rate of its bank borrowings.

Sri Lanka

Shangri-La's Hambantota Golf Resort & Spa, Sri Lanka recorded an increase in RevPAR of 10%. Performance of Shangri-La Hotel, Colombo improved and registered an occupancy rate of 39% in the current period. The hotel opened for business on 16 November 2017.

Net loss of the Sri Lanka hotel ownership segment increased by US$3.1 million to US$8.3 million for the six months ended 30 June 2018 as compared to the same period last year after accounting for the loss of Shangri-La Hotel, Colombo in the current period of US$2.7 million due to high depreciation charge during initial start-up stage of the hotel.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(i) Hotel Ownership (continued)

Other Countries

While Shangri-La's Villingili Resort & Spa, Maldives registered an increase in RevPAR of 11%, Hotel Jen Male, Maldives recorded a decrease in occupancy rate, ADR and RevPAR of 5 percentage points, 3% and 14%, respectively. Net loss of the two hotels increased slightly by US$0.4 million to US$3.6 million in the current period.

The performance of Sule Shangri-La, Yangon in Myanmar continued to be affected by weak demand growth and increasing hotel supply in the market. The hotel recorded a decrease in occupancy rate and ADR of 3 percentage points and 18%, respectively. Net loss of the hotel increased by US$0.7 million to US$1.0 million in the current period.

The resort in Fiji registered a decrease in RevPAR of 16% in the current period due to its on-going major renovation of the guestrooms in Ocean Wing and other facilities. Net loss of the resort increased by US$0.9 million to US$1.7 million in the current period.

There was no material change in the financial results of the hotels in Jakarta, Mauritius and Turkey in the current period as compared to the same period last year.

(ii) Hotel Management Services

As at 30 June 2018, the Group's wholly owned subsidiary, SLIM International Limited and its subsidiaries ("**SLIM**") managed a total of 102 hotels and resorts:

- 79 Group-owned hotels (Portman Ritz-Carlton Hotel, Shanghai is the only exception)
- 3 hotels under lease agreements
- 20 hotels owned by third parties

The 20 operating hotels owned by third parties are located in the following cities:

- Canada: Toronto and Vancouver
- The Philippines: Manila
- Oman: Muscat (2 hotels)
- Qatar: Doha
- UAE: Abu Dhabi (2 hotels) and Dubai
- Malaysia: Johor and Kuala Lumpur
- India: New Delhi and Bengaluru
- Taiwan: Taipei and Tainan
- Mainland China: Changzhou (2 hotels), Haikou, Suzhou and Yiwu

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(ii) Hotel Management Services (continued)

For the six months ended 30 June 2018, overall weighted average RevPAR of the hotels under third-party hotel management agreements registered an increase of 7% in US dollar terms as compared to the same period last year. Consolidated revenues (after elimination of revenue earned from fellow subsidiaries) of SLIM recorded a total increment of 57%, including an increment of 45% for the revenue recorded in the current period due to changes of the accounting standards (details of the impact to the financial statements of the current period are provided in Note 3 to the condensed consolidated interim financial statements included in this report). The net profit contribution from the hotel management segment however decreased by US$4.9 million for the six months ended 30 June 2018, largely due to recruitment of additional executives and staffs for business development.

During the current period, SLIM signed a new management agreement with a third party for the management and operation of a luxury hotel and waterfront villas located in Bahrain Marina, an iconic waterfront complex currently under development in Manama, the capital of Bahrain. As at 30 June 2018, SLIM had management agreements on hand for nine new hotel projects which were owned by third parties.

(iii) Property Rentals

The revenues from subsidiaries' property rentals for the six months ended 30 June 2018 were US$40.4 million, an increase of 14.1%, compared to US$35.4 million for the same period last year.

The property rentals segment continued to be the Group's main source of operating profits in the current period. The Group's major investment properties are located principally in Shanghai and Beijing and are owned by associates.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(iii) Property Rentals (continued)

The key performance indicators of the Group's key investment properties for the six months ended 30 June 2018 as compared with the same period last year:

	Group's Equity Interest	Office Spaces Occupancy	Office Spaces Rental Rate	Commercial Spaces Occupancy	Commercial Spaces Rental Rate	Serviced Apartments Occupancy	Serviced Apartments Rental Rate
		(in % point)	*(in %)*	*(in % point)*	*(in %)*	*(in % point)*	*(in %)*
Mainland China							
China World Trade Center							
– Phase I	40.32-50%	+1	+11%	+4	+8%	–46	+8%
– Phase II	43.23%	–1	+7%	+16	0%	N/A	N/A
– Phase IIIA	40.32%	–1	+26%	+3	+7%	N/A	N/A
– Phase IIIB	40.32%	+20	+10%	+13	+9%	N/A	N/A
Century Towers, Beijing	50%	N/A	N/A	N/A	N/A	0	+8%
Beijing Kerry Centre	23.75%	+1	+9%	–2	+15%	0	+17%
Shanghai Centre	30%	–1	+2%	+2	–2%	+3	+4%
Kerry Parkside Shanghai Pudong	23.2%	0	+14%	+1	+16%	+9	+8%
Jing An Kerry Centre – Phase I	24.75%	0	+19%	–3	+10%	–2	+12%
Jing An Kerry Centre – Phase II	49%	+1	+12%	+1	+5%	N/A	N/A
Shangri-La Residences, Dalian	100%	N/A	N/A	N/A	N/A	–11	+20%
Shangri-La Centre, Qingdao	100%	+13	+3%	+5	+6%	+4	+10%
Tianjin Kerry Centre	20%	N/A	N/A	–10	+31%	N/A	N/A
Hangzhou Kerry Centre	25%	+1	+7%	+9	+4%	N/A	N/A
Shangri-La Centre, Chengdu	80%	+6	–3%	–4	–7%	+17	+9%
Singapore							
Tanglin Mall, Singapore	44.6%	N/A	N/A	+3	+1%	N/A	N/A
Tanglin Place, Singapore	44.6%	–2	+2%	0	+6%	N/A	N/A
Shangri-La Apartments, Singapore	100%	N/A	N/A	N/A	N/A	–2	+4%
Shangri-La Residences, Singapore	100%	N/A	N/A	N/A	N/A	+2	+1%
Malaysia							
UBN Tower, Malaysia	52.78%	–5	+13%	+11	+23%	N/A	N/A
UBN Apartments, Malaysia	52.78%	N/A	N/A	N/A	N/A	0	+7%
Mongolia							
Central Tower, Ulaanbaatar	51%	+9	–10%	+4	+4%	N/A	N/A
Shangri-La Centre, Ulaanbaatar	51%	+33	+19%	+16	+11%	+25	+5%
Other countries							
Sule Square, Yangon	59.28%	+18	–12%	+12	–10%	N/A	N/A
Shangri-La Residences, Yangon	55.86%	N/A	N/A	N/A	N/A	–7	–5%
The Pier Retail Complex, Cairns	100%	–1	+5%	–3	+12%	N/A	N/A

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(iii) Property Rentals (continued)

Performance of most properties in Mainland China was generally well in the current period. Notably, performance of the Phase IIIB new commercial and office spaces (available since 2017) of China World Trade Center ("**CWTC**") improved substantially following the absorption of the increased supply in last year. Renovations of the serviced apartments of CWTC commenced, resulted in a 46 percentage points decrease in occupancy. Major renovations to CWTC's original exhibition hall and its connecting area were substantially completed by end of June 2018.

The investment properties in Mainland China continued to be the key profit contributors and generated a net profit of US$75.2 million for the six months ended 30 June 2018 compared to US$60.0 million in the same period last year.

The Group's share of the net profit of the investment properties in Singapore increased by US$0.6 million to US$4.7 million in the current period and the Group's share of the net profit of the investment properties in Malaysia also increased by US$0.3 million to US$0.9 million in the current period.

While the local economy of Mongolia remains weak, the performance of the Group's properties improved in the current period. However, the Group's share of net loss from these investment properties increased by US$0.8 million in the current period as a result of the increase in deferred taxation.

For properties in other countries, the Group's share of net profit from the investment properties remained at similar level when compared with the same period last year.

(iv) Property Sales

Properties sales by subsidiaries represented the recognition of the sales revenue and profit upon hand-over of the residential units of the Yangzhou Lakeview Residence and Yavis in Dalian to the buyers in the current period. All the units of Yangzhou Lakeview Residence were sold by year end 2017. All these sold units were handed over to the buyers in 2017 except one unit being handed over to the buyer in early 2018. For Yavis, 4 units which were sold in 2017 were handed over to the buyers in early 2018. The subsidiary also sold and handed over another 4 units in Yavis to the buyers in the current period. As at 30 June 2018, Yavis had an inventory of 100 units. For the six months ended 30 June 2018, sales of properties by subsidiaries recorded a marginal loss of US$0.1 million as compared to a gain of US$0.9 million for the same period last year.

Most of the net profit from property sales during the current period was contributed by associates. The Group has equity interests in certain composite developments in Mainland China and the Philippines which included the development of Shangri-La hotels together with office buildings and/or residential buildings for sales and/or rental purposes. These associates continued to dispose of the inventories and handed over the sold units to the buyers in an orderly manner.

1. OPERATIONS REVIEW (CONTINUED)

(a) Segment Results (continued)

(iv) Property Sales (continued)

The status of the properties for sale are as follows:

– *Arcadia Court, Tangshan (a 35%-owned project)*
7 residential units sold in 2017 were handed over to the buyers in the current period.

– *Arcadia Court, Tianjin (part of Phase I of Tianjin Kerry Centre, a 20%-owned project)*
The development comprises three residential towers. Approximately 91% of the units had been sold as at 30 June 2018. 3 residential units sold in 2017 were handed over to the buyers in the current period.

– *Arcadia Court and Shenyang Kerry Centre (a 25%-owned project)*
Approximately 99% of all the 972 Phase I residential units and 67% of the total of 229 office units had been sold as at 30 June 2018. 41 residential units and 4 office units were handed over to the buyers in the current period.

Phase II and Phase III of the project are under construction. As at 30 June 2018, 54% of the total 495 Phase II residential units had been pre-sold.

– *Arcadia Court, Nanchang (a 20%-owned project)*
As at 30 June 2018, 97% of the total of 436 units had been sold and handed over to the buyers.

– *Lake Grandeur, Hangzhou (a 25%-owned project)*
Lake Grandeur is situated at Hangzhou Kerry Centre adjacent to the renowned West Lake in Hangzhou and was completed in 2017. As at 30 June 2018, 21% of the total 121 units had been sold and 6 units were handed over to the buyers in the current period.

– *Horizon Homes at Shangri-La at the Fort, Manila (a 40%-owned project)*
The development comprises of 98 residential units which are located at the top floors of Shangri-La at The Fort, Manila. 97% of the total 98 units were sold and 82 units were handed over to the buyers as at 30 June 2018.

For the six months ended 30 June 2018, the Group's share of net profit from sales of properties by associates were US$12.0 million as compared to US$14.2 million in the same period last year.

Development of the Residences at One Galle Face, Sri Lanka in Colombo (90% owned by the Group) is ongoing and will be completed by September 2018. The development comprises 390 apartments for sale with total gross floor area of approximately 93,500 square metres. Apartments with a total gross floor area of approximately 67,700 square metres (approximately 72%) were pre-sold by end of July 2018. Subject to obtaining the necessary certifications from the local government, the Group will start to hand over the sold units to the buyers in the last quarter of the year in an orderly manner. It is expecting that not less than 50% of the sold units will be handed over to the buyers before year end of 2018. On this basis, the Group will record its net share of profit of not less than US$60 million in the second half of 2018.

1. OPERATIONS REVIEW (CONTINUED)

(b) EBITDA and Consolidated Profits

The following table summarises information related to the EBITDA of the Company and its subsidiaries and the aggregate effective share of EBITDA of the Company, subsidiaries and associates for the six months ended 30 June 2018 and 2017 by geographical areas and by business segments:

	EBITDA of subsidiaries		Effective share of EBITDA of subsidiaries		Effective share of EBITDA of associates		Aggregate effective share of EBITDA	
(US$ million)	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Hotel ownership								
Hong Kong	**60.5**	43.3	**54.6**	38.2	**0.7**	0.3	**55.3**	38.5
Mainland China	**115.7**	98.2	**105.4**	89.6	**36.2**	30.2	**141.6**	119.8
Singapore	**32.6**	15.0	**32.6**	15.0	**3.0**	2.4	**35.6**	17.4
Malaysia	**21.1**	16.8	**11.8**	9.8	**4.1**	2.2	**15.9**	12.0
The Philippines	**28.2**	31.2	**27.5**	30.5	**4.8**	4.5	**32.3**	35.0
Japan	**1.8**	0.9	**1.8**	0.9	**–**	–	**1.8**	0.9
Thailand	**17.2**	13.7	**12.7**	10.0	**–**	–	**12.7**	10.0
France	**1.3**	(0.5)	**1.3**	(0.5)	**–**	–	**1.3**	(0.5)
Australia	**10.0**	10.8	**10.0**	10.8	**–**	–	**10.0**	10.8
United Kingdom	**(5.8)**	(3.5)	**(5.8)**	(3.5)	**–**	–	**(5.8)**	(3.5)
Mongolia	**(0.5)**	(0.1)	**(0.2)**	–	**–**	–	**(0.2)**	–
Sri Lanka	**1.9**	(1.0)	**1.7**	(0.9)	**–**	–	**1.7**	(0.9)
Other countries	**(0.7)**	3.1	**(0.7)**	1.8	**3.2**	2.1	**2.5**	3.9
	283.3	227.9	**252.7**	201.7	**52.0**	41.7	**304.7**	243.4
Hotel management services	**17.0**	21.7	**17.0**	21.7	**–**	–	**17.0**	21.7
Sub-total hotel operations	**300.3**	249.6	**269.7**	223.4	**52.0**	41.7	**321.7**	265.1
Property rentals								
Mainland China	**4.1**	3.5	**3.7**	3.2	**113.5**	87.8	**117.2**	91.0
Singapore	**3.2**	2.4	**3.2**	2.4	**2.4**	2.0	**5.6**	4.4
Malaysia	**2.1**	1.7	**1.1**	0.9	**–**	–	**1.1**	0.9
Mongolia	**2.1**	2.0	**1.1**	1.0	**–**	–	**1.1**	1.0
Other countries	**5.6**	5.4	**3.2**	3.0	**–**	–	**3.2**	3.0
Sub-total property rentals	**17.1**	15.0	**12.3**	10.5	**115.9**	89.8	**128.2**	100.3
Property sales & other business	**0.3**	(0.4)	**0.3**	(0.4)	**18.7**	17.7	**19.0**	17.3
Sub-total	**317.7**	264.2	**282.3**	233.5	**186.6**	149.2	**468.9**	382.7
Corporate & pre-opening expenses	**(16.2)**	(17.5)	**(16.2)**	(17.5)	**(0.4)**	(0.5)	**(16.6)**	(18.0)
Grand total	**301.5**	246.7	**266.1**	216.0	**186.2**	148.7	**452.3**	364.7

1. OPERATIONS REVIEW (CONTINUED)

(b) EBITDA and Consolidated Profits (continued)

Aggregate effective share of EBITDA was US$452.3 million for the six months ended 30 June 2018, an increase of US$87.6 million or 24.0%, compared to US$364.7 million for same period last year. The increase was mainly driven by:

- Hotel ownership segment effective share of EBITDA increased by US$61.3 million which included increased contributions from hotels in Hong Kong, Mainland China and Singapore of US$16.8 million, US$21.8 million and US$18.2 million, respectively.

- Property rentals segment effective share of EBITDA increased by US$27.9 million which included increased contributions from investment properties in Mainland China of US$26.2 million. Jing An Kerry Centre in Shanghai and the China World Trade Center in Beijing were the key contributors. The Group's property rentals effective share of EBITDA from these two investment properties increased by US$18.7 million in the current period.

Consolidated profit attributable to equity holders of the Company after non-operating items was US$152.9 million for the six ended 30 June 2018, an increase of 147.8%, compared to US$61.7 million for the same period last year. The increase was mainly driven by:

– Net profit from the hotel ownership segment increased by US$26.2 million in the current period to US$43.6 million. Net profit from hotels in Mainland China, Singapore and Malaysia increased by US$9.7 million, US$11.5 million and US$4.4 million, respectively;

– Net profit from property rentals segment increased by US$15.2 million, primarily contributed by the investment properties in Mainland China; and

– Net credit of US$72.5 million from non-operating items in the current period, an increase of US$55.7 million compared to US$16.8 million in the same period last year. The increase was primarily driven by the share of net fair value gains from investment properties of US$70.0 million in the current period (US$8.5 million in the same period last year) following the favourable operation results of the investment properties.

2. CORPORATE DEBT AND FINANCIAL CONDITIONS

At the corporate level, the Group executed two 5-year unsecured bank loan agreements totaling an equivalent of US$279.0 million for refinancing maturing loans.

At the subsidiary level, the Group also executed one 3-year bank loan agreement of US$70 million during the period for refinancing a maturing loan.

The Group has not encountered any difficulty when drawing down loans from committed banking facilities. None of the banking facilities were cancelled by the banks during or after the close of the current financial period.

The Group's net borrowings (total bank loans less cash and bank balances and short-term fund placements) to total equity ratio, i.e. the gearing ratio, slightly increased from 60.5% as at 31 December 2017 to 61.6% as at 30 June 2018.

The Group has satisfactorily complied with all covenants under its borrowing agreements.

The analysis of borrowings outstanding as at 30 June 2018 is as follows:

	Maturities of Borrowings Contracted as at 30 June 2018				
			Repayment		
(US$ million)	**Within 1 year**	**In the 2nd year**	**In the 3rd to 5th year**	**After 5 years**	**Total**
Borrowings					
Corporate borrowings					
– unsecured bank loans	51.6	510.6	2,780.3	–	3,342.5
Bank loans of subsidiaries					
– secured	7.3	95.5	14.7	–	117.5
– unsecured	574.1	456.4	739.5	82.7	1,852.7
Total outstanding balance	633.0	1,062.5	3,534.5	82.7	5,312.7
Undrawn but committed facilities					
Bank loans and overdrafts	21.9	90.5	861.0	30.0	1,003.4

2. CORPORATE DEBT AND FINANCIAL CONDITIONS (CONTINUED)

The currency mix of borrowings and cash and bank balances (including the short-term fund placements) as at 30 June 2018 is as follows:

(US$ million)	**Borrowings**	**Cash and Bank Balances** *(Note)*
In United States dollars	2,560.4	231.6
In Hong Kong dollars	1,790.7	76.0
In Renminbi	450.0	411.0
In Euros	234.0	2.8
In Australian dollars	88.1	12.5
In British pounds	59.4	3.0
In Singapore dollars	84.9	65.4
In Japanese yen	45.2	5.6
In Philippine pesos	–	11.8
In Thai baht	–	94.5
In Malaysian ringgit	–	58.4
In Fiji dollars	–	4.0
In Mongolian tugrik	–	15.3
In Sri Lankan rupees	–	17.0
In Myanmar kyat	–	1.6
In Maldivian rufiyaa	–	0.4
In other currencies	–	0.4
	5,312.7	1,011.3

Note: Cash and bank balances as stated included short-term fund placements in Malaysian ringgit amounted to US$39.5 million.

Excepting the bank loans in Renminbi which carry interest at rates specified by the People's Bank of China from time to time, all borrowings are generally at floating interest rates.

Details of financial guarantees, contingencies and charges over assets as at 30 June 2018 are disclosed in Note 24 to the condensed consolidated interim financial statements included in this Interim Report.

3. TREASURY POLICIES

The Group's treasury policies are aimed at minimising interest and currency risks. The Group assesses the market environment and its financial position and adjusts its tactics from time to time.

(A) Minimising Interest Risks

The majority of the Group's borrowings are in US dollars and Hong Kong dollars and arranged at the corporate level. Anticipating the onset of an increasing interest rate cycle, the Group has closely monitored the cash flow forecasts of all its subsidiaries and arranged to transfer any surplus cash to the corporate to reduce corporate debts. In order to minimise the overall interest cost, the Group also arranged intra-group loans to utilise the surplus cash of certain subsidiaries to meet the funding requirements of other group companies. The Group reviews the intra-group loans arrangements from time to time in response to changes in currency exchange rates and bank loan interest rates.

The Group has endeavoured to hedge its medium term interest rate risks by entering into interest-rate swap contracts. As at 30 June 2018, the outstanding HIBOR and LIBOR interest-rate swap contracts are:

- HK$1,600 million (approximately US$206.4 million) at fixed rates ranging between 1.395% and 1.635% per annum maturing during July 2018 to October 2018

- US$806 million at fixed rates ranging between 1.42% and 1.85% per annum maturing during August 2018 to April 2022

Taking into account the interest-rate swap contracts and the Renminbi bank loans, the Group has fixed its interest liability on 28% of its outstanding borrowings as at 30 June 2018.

All these interest-rate swap contracts qualify for hedge accounting.

(B) Minimising Currency Risks

The Group aims at using bank borrowings in local currency to finance the capital expenditure and operational funding requirements of the properties and/or development projects in the corresponding country to achieve natural hedging of its assets.

It is the Group's practice, wherever and to the extent possible, to quote tariffs in the stronger currency and maintain bank balances in that currency, if legally permitted. In general, the Group has not felt it appropriate to substantially hedge against currency risks through currency forward contracts upon consideration of the currency risks involved in normal operations and the cost of obtaining such cover.

4. INVESTMENT PROPERTIES VALUATIONS

Investment properties of subsidiaries and associates continue to be stated at fair value and are reviewed semi-annually (including those properties being constructed for future use as investment properties for which fair value becomes reliably determinable). All changes in the fair value of investment properties (including those under construction) based on the opinions obtained from independent professional valuers are recorded in the income statement.

The following table shows the fair value gains and losses of the investment properties held by the Group's subsidiaries and associates for the six months ended 30 June 2018:

	Subsidiaries		**Associates**		**Total**	
(US$ million)	**100%**	**Effective Share**	**100%**	**Effective Share**	**100%**	**Effective Share**
Gains/(Losses)	(9.1)	(5.7)	281.1	98.8	272.0	93.1
Deferred tax	2.2	1.4	(69.8)	(24.5)	(67.6)	(23.1)
Net gains/(losses)	(6.9)	(4.3)	211.3	74.3	204.4	70.0

5. FINANCIAL ASSETS – TRADING SECURITIES

As at 30 June 2018, the market value of the Group's investment portfolio was US$24.9 million, which mainly included 4,483,451 ordinary shares in Kerry Properties Limited and 2,241,725 ordinary shares in Kerry Logistics Network Limited. The Group recorded unrealised fair value gains of US$1.3 million and dividend income of US$1.1 million during the period.

6. DEVELOPMENT PROGRAMMES

Construction work on the following projects is on-going:

(a) Hotel Developments

	Group's Equity Interest	**Hotel Rooms**	**Long Stay Apartments**	**Projected Opening**
Hotels in Mainland China				
Shangri-La Hotel, Zhoushan	100%	204	–	2019
Shangri-La Hotel, Putian	40%	247	7	2021
Traders Hotel, Kunming; and Shangri-La Hotel, Kunming (part of composite development project in Kunming City)	45% 45%	265 81	– –	2021 TBD
Shangri-La Hotel, Zhengzhou	45%	211	–	2022

TBD: To be determined

6. DEVELOPMENT PROGRAMMES (CONTINUED)

(b) Composite Developments and Investment Properties Developments

	Group's Equity Interest	Total gross floor area upon completion (excluding hotel component) (approximate in square metres) Residential	Office	Commercial	Scheduled Completion
In Mainland China					
Shenyang Kerry Centre (Phase II & III)	25%	439,816	165,485	216,858	Late 2018 onwards*
Phase II of Shangri-La Hotel, Wuhan	92%	–	42,953	340	2019
Kunming City Project	45%	21,169	–	830	2021
Phase II of Shangri-La Hotel, Fuzhou	100%	–	34,142	54,059	2022
Composite development project in Zhengzhou	45%	94,222	58,947	3,993	2022 onwards*
In other countries					
Composite development project in Colombo, Sri Lanka (Note)	90%	111,100	59,866	79,518	Late 2018 onwards
		666,307	361,393	355,598	

* Being developed in phases

Note: The pre-sale of residences was officially launched in 2015.

The Group is currently reviewing the development plans of the following projects:

Hotel development

- Wolong Bay in Dalian, Mainland China (wholly owned by the Group)
- Rome, Italy (wholly owned by the Group)
- Lakeside Shangri-La, Yangon, Myanmar (55.86% equity interest owned by the Group)

Composite development

- Nanchang city project – Phase II, Mainland China (20% equity interest owned by the Group)
- Tianjin Kerry Centre – Phase II, Mainland China (20% equity interest owned by the Group)
- Accra, the Republic of Ghana (45% equity interest owned by the Group)

The Group continues to review its asset portfolio, and may sell assets that it considers non-core at an acceptable price and introduce strategic investors for some of its operating assets/development projects. The Group adjusts its development plans and investment strategy from time to time in response to changing market conditions and in order to improve the financial position of the Group.

7. MANAGEMENT CONTRACTS FOR HOTELS OWNED BY THIRD PARTIES

During the current period, SLIM signed a new management agreement with a third party for the management of a Shangri-La hotel in Manama, Bahrain scheduled to open in 2022.

As at the date of this report, the Group has management agreements in respect of 20 operating hotels owned by third parties. In addition, the Group also has agreements on hand for 9 new hotels currently under development and owned by third parties. The development projects are located in Nanning, Qiantan and Suzhou (Mainland China); Kota Kinabalu (Malaysia), Bali (Indonesia), Jeddah (Saudi Arabia), Phnom Penh (Cambodia), Melbourne (Australia) and Manama (Bahrain).

The Group continues to review proposals it receives for management opportunities and intends to secure management agreements for third-party owned hotels that do not require capital commitments in locations/cities which it considers to be of long-term strategic interest.

8. PROSPECTS

We continue to see positive hotel performance across most of the countries we operate in the first half of 2018. The Mainland China market, where the Group has most of its hotels and investment properties, continued to grow, especially in Tier 1 and Tier 2 cities where the majority of the Group's inventory is located. Demand for hotel rooms in Tier 1 and 2 cities remained strong and outgrew supply. In some Tier 3 and 4 cities, the oversupply has yet to be absorbed; this is of limited impact as these cities account for only 11% of the Group's total hotel rooms inventory. Financial results from the Mainland China hotel ownership segment is expected to experience some pressure due to the recent depreciation of Renminbi against US dollar.

The Group saw relatively strong growth in its rental property income in the first half of 2018 driven mainly by the opening of China World Trade Center Phase IIIB and the appreciation of the Renminbi. However as with the hotel ownership segment, the recent depreciation of Renminbi against US dollar points to some headwind in rental property income in the second half of 2018.

We anticipate property sales to contribute positively to the Group's results in the latter half of 2018 as we recognise profits from the sale of residences in Shangri-La's One Galle Face development in Colombo. Apartments with a total gross floor area of approximately 67,700 square metres (approximately 72%) were pre-sold by end of July 2018. Subject to obtaining the necessary certifications from the local government, the Group will start to hand over the sold units to the buyers in the last quarter of the year in an orderly manner. It is expecting that not less than 50% of the sold units will be handed over to the buyers before year end of 2018. On this basis, the Group will record its net share of profit of not less than US$60 million in the second half of 2018.

For the first half of 2018, consolidated profit attributable to equity holders of the Company was US$152.9 million compared to US$61.7 million for the same period last year. Barring any unforeseen geo-political developments and/or a worsening of trade relations between the United States and China, the Group can expect to see significant improvements in its operating performance relative to 2017.

9. HUMAN RESOURCES

As of 30 June 2018, the Company and its subsidiaries had approximately 30,500 employees. The headcount of all the Group's managed hotels and resorts totalled approximately 46,800.

Remuneration policies, share option scheme, share award scheme and training schemes have been consistently applied by the Group as disclosed in the 2017 annual report.

10. CORPORATE GOVERNANCE

The Company recognises the importance of transparency in governance and accountability to shareholders and that shareholders benefit from good corporate governance. The Company reviews its corporate governance framework on an ongoing basis to ensure compliance with best practices.

Directors Handbook

The Board has adopted a composite handbook ("**Directors Handbook**") comprising (amongst other things) a set of principles for securities transactions by directors or any non-directors of the Company ("**Securities Principles**") and a set of corporate governance principles of the Company ("**CG Principles**"), whose terms align with or are stricter than the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Securities Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited ("**HKSE**") and the code provisions under the Corporate Governance Code and Corporate Governance Report ("**CG Model Code**") as contained in Appendix 14 to the Listing Rules, save for the provision in the Directors Handbook that the positions of the chairman and the chief executive officer may be served by the same person. The Directors Handbook serves as a comprehensive guidebook for all directors of the Company.

Code on Securities Transactions

The Company has made specific enquiry of each of the directors of the Company, and all the directors have confirmed compliance with the Securities Principles throughout the underlying six-month period.

Code on Corporate Governance

The Company has complied with the CG Principles and the CG Model Code throughout the underlying six-month period.

10. CORPORATE GOVERNANCE (CONTINUED)

Changes in Directors' Information

There have been changes in the information of some of the directors since the date of the Company's 2017 annual report. Details of the changes as reported to the Company and as required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

1. Professor LI Kwok Cheung Arthur ceased to act as a member of The National Committee of the Chinese People's Political Consultative Conference in March 2018.

2. Mr LIM Beng Chee was appointed an executive director and the chairman of China World Trade Center Company Limited (listed on the Shanghai stock exchange), an associate of the Company, in April 2018.

3. Ms KUOK Hui Kwong was designated as an executive director of China World Trade Center Company Limited (listed on the Shanghai stock exchange), an associate of the Company, in April 2018.

4. Mr YAP Chee Keong ceased to act as an independent non-executive director of The Straits Trading Company Limited (listed on the Singapore stock exchange) and Malaysia Smelting Corporation Berhad (listed on both the Malaysia and the Singapore stock exchanges) in April 2018 and May 2018, respectively.

5. At the Company's annual general meeting held on 31 May 2018, shareholders of the Company have approved the adjustment of the annual fee payable to the chairman and each other member of the Audit & Risk Committee for 2018 to HK$280,000 and HK$250,000, respectively.

11. SIGNIFICANT SHAREHOLDERS' INTERESTS

As at 30 June 2018, the interests and short positions of those persons (other than the directors of the Company) in shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance ("**SFO**") or as ascertained by the Company after reasonable enquiry were as follows:

Name	Capacity	Number of ordinary shares held	Approximate % of total issued share of the Company
Substantial shareholders			
Kerry Group Limited ("**KGL**") *(Note 1)*	Interest of controlled corporation(s)	1,808,919,280	50.45
Kerry Holdings Limited ("**KHL**") *(Notes 1 and 2)*	Beneficial owner	87,237,052	2.43
	Interest of controlled corporation(s)	1,546,203,039	43.12
Caninco Investments Limited ("**Caninco**") *(Note 2)*	Beneficial owner	568,568,684	15.86
	Interest of controlled corporation(s)	157,280,233	4.39
Paruni Limited ("**Paruni**") *(Note 2)*	Beneficial owner	382,904,547	10.68
	Interest of controlled corporation(s)	36,667,449	1.02
Other major shareholders			
Darmex Holdings Limited ("**Darmex**") *(Note 2)*	Beneficial owner	267,068,070	7.45
Kuok Brothers Sdn Berhad	Beneficial owner	84,441,251	2.36
	Interest of controlled corporation(s)	225,569,761	6.29
Kuok (Singapore) Limited ("**KSL**") *(Note 3)*	Interest of controlled corporation(s)	218,008,907	6.08
Baylite Company Limited ("**Baylite**") *(Note 3)*	Beneficial owner	218,008,907	6.08

Notes:

1. KHL is a wholly owned subsidiary of KGL and accordingly, the shares in which KHL is shown as interested are also included in the shares in which KGL is shown as interested. The number of shares shown were the holdings as at 30 June 2018 and might be different from the latest public record having been filed by the relevant shareholder(s) before 30 June 2018 as required under SFO.

2. Caninco, Paruni and Darmex are wholly owned subsidiaries of KHL and accordingly, the shares in which Caninco, Paruni and Darmex are shown as interested are also included in the shares in which KHL is shown as interested. The number of shares shown were the holdings as at 30 June 2018 and might be different from the latest public record having been filed by the relevant shareholder(s) before 30 June 2018 as required under SFO.

3. Baylite is a wholly owned subsidiary of KSL and accordingly, the shares in which Baylite is shown as interested are also included in the shares in which KSL is shown as interested.

12. DIRECTORS' INTERESTS

As at 30 June 2018, the interests and short positions of the directors of the Company in shares, underlying shares and debentures in/of the Company and its associated corporation(s) (within the meaning of Part XV of the SFO) ("**Associated Corporation(s)**") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and HKSE pursuant to the Securities Model Code were as follows:

(A) Long positions in shares in the Company and Associated Corporations

Name of company	Name of director	Class of shares	Number of shares held: Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate % of total issued shares in the relevant company
The Company	KUOK Hui Kwong	Ordinary	490,833 *(Note 1)*	1,038,000 *(Note 2)*	2,000,000 *(Note 3)*	6,930,170 *(Note 4)*	10,459,003	0.292
	LIM Beng Chee	Ordinary	506,000	–	–	–	506,000	0.014
	LUI Man Shing	Ordinary	902,777	–	–	–	902,777	0.025
	HO Kian Guan	Ordinary	1,231,116	–	145,887,718 *(Note 5)*	–	147,118,834	4.103
Associated Corporation								
Shangri-La Hotel Public Company Limited	LUI Man Shing	Ordinary	10,000	–	–	–	10,000	0.008

Notes:

1. 32,000 shares were held jointly by Ms KUOK Hui Kwong and her spouse.
2. These shares were the deemed interest of Ms KUOK Hui Kwong's spouse.
3. These shares were held through the company which was owned by Ms KUOK Hui Kwong.
4. These shares were held through discretionary trusts of which Ms KUOK Hui Kwong is a discretionary beneficiary.
5. 95,537,377 shares were held through companies that were owned as to 33.33% by Mr HO Kian Guan.

   11,083,411 shares were held through companies that were owned as to 31.34% by Mr HO Kian Guan.

   39,266,930 shares were held through companies that were owned as to 6.79% by Mr HO Kian Guan.

(B) Long positions in underlying shares in the Company and Associated Corporations

As at 30 June 2018, there were share options held by the directors of the Company with rights to subscribe for shares in the Company. Details of such options are set out in the section entitled "SHARE OPTIONS" of this report.

13. SHARE OPTIONS

The share options having been granted by the Company and remaining outstanding during the underlying six-month period were granted under the Company's share option scheme adopted by the shareholders of the Company on 28 May 2012. Details and movements of such option shares during the underlying six-month period are as follows:

		Number of option shares								
Grantees	Date of grant	Held as at 1 Jan 2018	Granted during the period	Transferred from other category during the period	Transferred to other category during the period	Exercised during the period	Lapsed during the period	Held as at 30 Jun 2018	Exercise price per option share (HK$)	Exercise period
1. Directors										
LUI Man Shing	23 Aug 2013	350,000	–	–	–	–	–	350,000	12.11	23 Aug 2013 – 22 Aug 2023
Alexander Reid HAMILTON	23 Aug 2013	100,000	–	–	–	–	–	100,000	12.11	23 Aug 2013 – 22 Aug 2023
LI Kwok Cheung Arthur	23 Aug 2013	100,000	–	–	–	–	–	100,000	12.11	23 Aug 2013 – 22 Aug 2023
2. Employees	23 Aug 2013	6,713,000	–	–	(430,000)	(840,000)	–	5,443,000	12.11	23 Aug 2013 – 22 Aug 2023
3. Other participants	23 Aug 2013	1,920,000	–	430,000	–	–	–	2,350,000	12.11	23 Aug 2013 – 22 Aug 2023
	23 Aug 2013	350,000	–	–	–	(350,000)	–	–	12.11	23 Aug 2013 – 31 Dec 2019
	23 Aug 2013	80,000	–	–	–	–	–	80,000	12.11	23 Aug 2013 – 31 Dec 2018
	23 Aug 2013	200,000	–	–	–	(200,000)	–	–	12.11	23 Aug 2013 – 23 Feb 2018
Total		9,813,000	–	430,000	(430,000)	(1,390,000)	–	8,423,000		

Note:

1. No options were cancelled during the underlying six-month period.

14. SHARE AWARDS

The award shares having been granted by the Company and remaining outstanding during the underlying six-month period were granted under the Company's share award scheme adopted by the shareholders of the Company on 28 May 2012 (as amended on 10 August 2012 and 31 May 2018). Details and movements of such award shares during the underlying six-month period are as follows:

Grantees	Date of grant	Number of award shares: Held as at 1 Jan 2018	Granted during the period	Lapsed during the period	Accepted during the period	Held as at 30 Jun 2018	Type of accepted award shares delivered: New shares	Existing shares	Consideration per award share (HK$)	Vesting date	Acceptance period
1. Directors											
KUOK Hui Kwong	11 Apr 2018	–	364,000	–	(364,000)	–	–	364,000	Nil	11 Apr 2018	11 Apr 2018 – 11 Oct 2018
LIM Beng Chee	11 Apr 2018	–	456,000	–	(456,000)	–	–	456,000	Nil	11 Apr 2018	11 Apr 2018 – 11 Oct 2018
2. Employees	11 Apr 2018	–	598,000	–	(598,000)	–	–	598,000	Nil	11 Apr 2018	11 Apr 2018 – 11 Oct 2018
Total		–	1,418,000	–	(1,418,000)	–	–	1,418,000			

Notes:

1. The closing price of the Company's shares traded on the HKSE on 11 April 2018 (i.e. the date of grant) was HK$15.82.

2. A substantial portion of the award shares granted during the period under review was made in accordance with the Group's share plan(s) and represented year-end share-based bonus, made in place of the Group's usual cash bonus, to certain senior management members of the Group for the financial year of 2017.

15. REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the underlying six-month period, neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any of the listed securities of the Company.

16. QUALIFICATION FOR INTERIM DIVIDEND

To qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 pm on 26 September 2018.

On behalf of the Board
KUOK Hui Kwong
Chairman

Hong Kong, 23 August 2018