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

2017 Interim Results

HIGHLIGHTS

Key financial results

- Revenue amounted to HK$2,596 million (2016: HK$2,606 million), similar to last year
- Group EBITDA increased by 7% to HK$561 million (2016: HK$525 million) and EBITDA margin increased from 20% to 22%
- Underlying profit attributable to shareholders* increased by 19% to HK$181 million (2016: HK$152 million)
- Profit attributable to shareholders amounted to HK$519 million (2016: HK$198 million), inclusive of the net property revaluation gain of HK$359 million (2016: HK$54 million)
- Earnings per share and underlying earnings per share* of HK$0.33 (2016: HK$0.13) and HK$0.12 (2016: HK$0.10) respectively
- Interim dividend of 4 HK cents per share (2016: 4 HK cents per share)
- Shareholders' funds as at 30 June 2017 amounted to HK$37,219 million or HK$23.48 per share (31 December 2016: HK$36,359 million or HK$23.20 per share) and gearing remained at a conservative level of 13% (31 December 2016: 12%)

Key developments

- The previous 525 rooms of The Peninsula Beijing were combined to create 230 elegant suites, which are the largest in Beijing. The renovation has been well received by guests and the hotel was market leader in average rate for the first half of 2017. The first batch of newly renovated rooms was made available in September 2016 and the second phase of rooms will be completed in August 2017
- Following the extensive renovation of The Peninsula Chicago in 2016, the hotel was the RevPAR leader in its competitive set in the first half
- For The Peninsula London project, the last remaining office tenants moved out from 1-5 Grosvenor Place in April and demolition has begun on the site for expected completion in 2021
- For The Peninsula Yangon project, the assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which a groundbreaking ceremony was held in February 2017. Completion is expected in 2021
- For The Peninsula Istanbul project, demolition on the project site began in 2016 and we are making significant progress towards construction completion in 2019

** Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items*

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2017	2016	Increase/ (Decrease)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HK$m)			
Revenue	**2,596**	2,606	-
EBITDA	**561**	525	7%
Operating profit	**319**	299	7%
Profit attributable to shareholders	**519**	198	162%
Underlying profit attributable to shareholders *	**181**	152	19%
Interim dividend	**63**	62	2%
Earnings per share (HK$)	**0.33**	0.13	154%
Underlying earnings per share (HK$) *	**0.12**	0.10	20%
Interim dividend per share (HK cents)	**4**	4	-
Interim dividend cover (times) **	**2.9x**	2.5x	16%
Interest cover (times)	**4.8x**	6.8x	(29%)
Weighted average gross interest rate	**2.2%**	2.1%	0.1pp
	As at 30 June 2017	As at 31 December 2016	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$m)			
Total assets	**46,892**	45,870	2%
Net assets attributable to shareholders	**37,219**	36,359	2%
Adjusted net assets attributable to shareholders #	**40,557**	39,711	2%
Net assets per share (HK$)	**23.48**	23.20	1%
Adjusted net assets per share (HK$) #	**25.59**	25.34	1%
Net borrowings	**5,408**	4,911	10%
Funds from operations to net debt ##	**18%**	22%	(4pp)
Net debt to EBITDA (annualised)(times)	**4.8x**	3.8x	26%
Net debt to equity attributable to shareholders	**15%**	14%	1pp
Gearing	**13%**	12%	1pp
	For the six months ended 30 June		
	2017	2016	
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (HK$m)			
Net cash generated from operating activities	**463**	581	(20%)
Capital expenditure on existing assets			
- The Peninsula Beijing	**(167)**	(307)	(46%)
- Others	**(156)**	(200)	(22%)
Capital expenditure on new projects	**(347)**	(126)	175%
SHARE INFORMATION (HK$)			
Highest share price	**14.16**	9.27	
Lowest share price	**8.27**	7.15	
Period end closing share price	**14.10**	7.86	

* *Underlying profit attributable to shareholders and underlying earnings per share are calculated by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items*

** *Interim dividend cover is calculated based on underlying profit attributable to shareholders over interim dividend*

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

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

pp *Denotes percentage points*

CEO's Strategic Review

We continued to face global uncertainties in the first half of 2017, with many of the markets in which we operate being affected by geopolitical tensions, security issues and the US Administration's travel policies. Notwithstanding such challenges, the outlook for the global travel industry has seen some improvement as a whole over last year.

Our Company continues to be steadfast in its commitment to the long term, improving and developing our assets and operations to ensure the well-being of the Company for future generations. The current focus of our efforts is on maintaining the quality of our existing assets and operations, including the major renovations undertaken at The Peninsula Beijing and The Peninsula Chicago, whilst improving our overall financial performance; transforming the Company in the age of corporate responsibility and sustainability and digital transformation; and the continued development of a small number of carefully selected new Peninsula hotels, with projects currently ongoing in London, Istanbul and Yangon.

While we acknowledge and seek to deal with the challenges of managing an international business which typically faces volatility and different market cycles, the recent celebration of the 20^{th} anniversary of the Hong Kong Special Administrative Region on 1 July 2017 reminds us that over this period, our Company has further strengthened its brand and recognition as one of the world's finest luxury hotel groups, significantly improved its financial position and the value of its net assets and developed several Peninsula hotels which are regarded as being among the best in the world. Hong Kong has provided us with a base which has the people and experience to have managed and operated our international business effectively.

Within the context of our long-term strategy and in the light of the global market uncertainties, the operating results for the period in review were satisfactory. Group EBITDA increased by 7% to HK$561 million for the first six months of 2017. We have also calculated the Group's combined EBITDA by including the Group's effective share of EBITDA of its associates and joint ventures, which increased by 11% from the previous year to HK$630 million. The Group's underlying profit increased 19% to HK$181 million.

Hotels Division

Hotels **Consolidated hotels**	**Revenue** **HK$m**	**Variance YoY**
The Peninsula Hong Kong	607	(2%)
The Peninsula Beijing	92	84%
The Peninsula New York	312	(1%)
The Peninsula Chicago	250	9%
The Peninsula Tokyo	400	2%
The Peninsula Bangkok	115	2%
The Peninsula Manila	117	(13%)
Non-consolidated hotels		
The Peninsula Shanghai	277	(3%)
The Peninsula Beverly Hills	322	9%
The Peninsula Paris	239	8%

ASIA

The Peninsula Hong Kong		Variance YoY
Revenue	HK$607m	- 2%
Occupancy		+5pp
Average Room Rate		-2%
RevPAR		+4%

The Peninsula Hong Kong was voted "Best Hotel in Hong Kong" by *Travel + Leisure* 2017 World's Best Awards. Overnight tourist arrivals to Hong Kong increased by 5.7% in the first half of 2017 and we are optimistic for the tourism market outlook for the second half, which is Hong Kong's traditional peak season. The Peninsula Hong Kong reported an increase in occupancy and RevPAR for the first six months, although there was a slight drop in average room rate which was in line with the luxury market in Hong Kong. Our top three customer market segments continued to be China, the US and Japan, and we have seen growth in two out of these three key markets. Our Food and Beverage division performed strongly, with most restaurants enjoying increased patronage and higher average spend. *Spring Moon* has benefited from its newly-attained Michelin star rating. The luxury retail market continues to stabilise and The Peninsula Arcade was 88% occupied with a number of new tenants and renewals successfully signed. Our strategy for the remainder of the year is to drive room rates and to focus on promoting Hong Kong as an attractive destination for luxury travellers seeking an authentic cultural experience, and we have tailored our Peninsula Academy programmes accordingly.

The Peninsula Shanghai		Variance YoY
Revenue	RMB245m	+1%
Occupancy		-1pp
Average Room Rate		+3%
RevPAR		+1%

The Peninsula Shanghai remained the RevPAR and average rate leader in our competitive set for the first half of 2017, driven by a large number of high-level delegations and suite bookings. The Middle East market was strong during the first half of 2017 and we continue to see an increase in bookings from the domestic Chinese mainland market. As a result we are working on strategies to drive more direct internet bookings and interaction with our guests in popular online channels. Amidst increasing inventory in the luxury hotels market, we are delighted that The Peninsula Shanghai was awarded "Best Hotel in Shanghai" by *Travel + Leisure* 2017 World's Best Awards. The Peninsula Arcade was 96% occupied in the first half and in April 2017 we announced that No.1 Waitanyuan, the former British Consulate building, will be fully managed and operated by The Peninsula Shanghai, diversifying its portfolio of services, facilities and event spaces to include one of Shanghai's most iconic period buildings. Our Group's strategy includes the development for lease and sale of residential properties associated with our hotels in certain key markets. In Shanghai, of the 19 The Peninsula Shanghai Residences available for sale, 17 have been sold and a further 20 are available for lease of which 14 are currently occupied.

The Peninsula Beijing		Variance YoY
Revenue	RMB81m	+93%
Available Rooms		230[1]
Occupancy		+19pp
Average Room Rate		+135%
RevPAR		+297%

The Peninsula Beijing has undergone a complete transformation with an extensive renovation which has combined 525 rooms into 230 elegant suites, which are the largest in Beijing and among the most spacious luxury hotel rooms in China, and the main public areas including the Lobby have been rebuilt. The transformation has been very well received by guests and media. The hotel is starting to establish its business with this completely new hotel rooms product and we have already seen a significant increase in average room rate, placing it among the rate leaders in Beijing. Tourist arrivals in Beijing declined slightly in the first half of 2017 but we expect the hotel industry to benefit from the Chinese Government's Belt and Road Initiative, as an increasing number of conferences are being held in the Chinese capital in support of this project. As such, we are implementing a strategy to focus on diplomatic and group bookings for the coming year. Following the renovation of our dining outlets including the creation of a new Lobby restaurant and the complete renewal of *Jing*, we have launched new marketing campaigns to drive our food and beverage business. The Peninsula Arcade has retained most of its top luxury tenants despite the significant disruption in the past 18 months from the hotel's renovation and virtually all of the prime spaces are let.

The Peninsula Tokyo		Variance YoY
Revenue	JPY5.75b	+3%
Occupancy		+1pp
Average Room Rate		+3%
RevPAR		+4%

The Peninsula Tokyo is celebrating its tenth anniversary in 2017 and we are holding a series of special offers and promotions to celebrate our anniversary year. We are delighted that our hotel was awarded "Best Hotel in Tokyo" by *Travel + Leisure* 2017 World's Best Awards. The first six months were positive with improved RevPAR positioning and increased occupancy. As a result of new online marketing strategies, Japanese domestic guests comprised our number one geographical market segment for the first time since 2013. Our traditional markets of US, Hong Kong and mainland China also remained strong. Due to efficiencies and new business strategies, food and beverage and spa revenues and profits also increased.

[1] 110 effective rooms out of 230 for the period ended 30 June 2017

The Peninsula Bangkok		Variance YoY
Revenue	THB517m	0%
Occupancy		0pp
Average Room Rate		+3%
RevPAR		+3%

The Peninsula Bangkok reported a stable first half of 2017, with a 3% increase in RevPAR and average rate, although with the sad passing away of His Majesty King Bhumibol Adulyadej of Thailand in October 2016, Thailand entered a period of mourning for one year starting from October 2016 which led to the cancellation of corporate events and banquets, and our MICE business (Meetings, Incentives, Conferences and Exhibitions) remained soft for the first six months of 2017. Foreign tourist arrivals to Thailand increased by 5% in the first half and the country expects to receive record tourist arrivals by the end of the year, facilitated by the Thai Government's waiving of visa-on-arrival costs for tourists from 18 countries, including China. We are optimistic that the developments along the river, including the Icon Siam retail complex, will be positive for our hotel.

HSH currently owns 75% of The Peninsula Bangkok and Thai Country Club. The current shareholding structure was a result of a restructuring of the original joint-venture in which HSH and our Thai partner originally each held a 50% economic interest. Pursuant to a restructuring of the debt and equity which was announced in 2002, the Thai partner became a 25% shareholder, with an option to return to its original shareholding percentage. On 30 June 2017, our Thai partner served their notice to exercise the option. Upon completion of the transaction in August 2017, HSH and our Thai partner will each own a 50% interest in our Thai businesses.

The Peninsula Manila		Variance YoY
Revenue	PHP750m	-8%
Occupancy		-1pp
Average Room Rate		-10%
RevPAR		-11%

The Peninsula Manila experienced a challenging first half of 2017 with revenue decreasing 8% over the same period last year. Due to security concerns and travel alerts from the US, UK, European, Japan and South Korean governments, we saw cancellations from these traditionally strong markets. The outlook for the second half remains uncertain and our strategy has shifted to securing more local conference and group business and banqueting, with competitive value added rate offers and aggressive marketing strategies designed to drive last-minute bookings. The domestic market in the Philippines remains robust as the middle class continues to grow and we are continuing to focus on developing our guest direct business in the domestic market, particularly the local "family" market.

US

The Peninsula New York		Variance YoY
Revenue	US$40m	-1%
Occupancy		+1pp
Average Room Rate		-1%
RevPAR		0%

The Peninsula New York's results for the first six months of 2017 were flat to the same period over the previous year, which is a creditable result in the light of intense competition in New York City, with continued growth in supply in the luxury market. The Middle East market segment has been impacted by the US administration's travel restrictions and this remains a concern for the second half of the year. Corporate business has grown year-on-year and we were pleased to improve our RevPAR ranking within our competitive set. The new 250 square metre Fifth Avenue Suite, which has views over Fifth Avenue and Central Park, has been well received by guests and enjoyed strong occupancy. We continued to drive food and beverage revenue and saw growth at *Clement* restaurant. We were delighted that our rooftop bar, *Salon de Ning*, was included in *Conde Nast Traveler's* "Gold List" for New York City.

The Peninsula Chicago		Variance YoY
Revenue	US$32m	+9%
Occupancy		+5pp
Average Room Rate		+3%
RevPAR		+12%

The Peninsula Chicago had a satisfactory first half of the year with a good growth in RevPAR, occupancy and average rate following the completion of its major renovation in April 2016. The hotel achieved number one in RevPAR in its competitive set. We were delighted to receive the accolade of "Best Hotel in Chicago" by *Travel + Leisure* 2017 World Best Awards. Our online bookings increased by 35% year-on-year, due to significant marketing and promotion efforts. Our Peninsula Spa revenue also reported strong growth after we made a number of improvements to the offering and increased marketing.

Looking to the second half of 2017, we expect a stable performance. Our hotel is once again participating in EXPO Chicago, an annual international contemporary art exhibition which attracts thousands of visitors. We have implemented 24-hour check-in for web bookings and "Keys to the City," which provides guests with special access to Chicago's top restaurants and tourist attractions and these initiatives have helped to drive revenue. Planning and design is underway for a stunning rooftop bar designed by Yabu Pushelberg, which is expected to launch in 2018.

The Peninsula Beverly Hills		Variance YoY
Revenue	US$41m	+9%
Occupancy		+3pp
Average Room Rate		+10%
RevPAR		+14%

We were delighted that **The Peninsula Beverly Hills** was once again voted "The Best Hotel in the US" by *Global Traveler* magazine and remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993. The hotel enjoyed a positive first half of 2017 with double-digit growth in average rates and RevPAR, and steady market growth and increased occupancy over the previous year. The hotel remained number one in RevPAR within its competitive set. While we are cautiously optimistic for the rest of the year, the US Administration's travel bans on Middle East countries as well as political tension in the Middle East region has led to decreased business from this market. We are working hard to implement strategies to attract group business from other markets to counteract and minimise the impact. Increased competition in the Beverly Hills area with the first five-star luxury hotel to open in more than eight years is expected to impact occupancy in the short term, however, we have a loyal clientele with a high rate of return and we will continue to nurture our long-term relationships with our guests.

EUROPE

The Peninsula Paris		Variance YoY
Revenue	EUR28m	+10%
Occupancy		+3pp
Average Room Rate		+7%
RevPAR		+13%

In the first half of 2017 we were pleased to report that tourists are starting to return to Paris and sentiment is improving following the tragic terrorist attacks in previous years. The newly elected President Macron is widely expected to bring stability and business confidence to France. The hotel reported positive results with a 10% increase in revenue and a 13% increase in RevPAR. Food and beverage revenue was strong, particularly from the rooftop restaurant *L'Oiseau Blanc* which offers 360-degree views over Paris and is the location for numerous high-profile events, including the event commemorating 90th anniversary of the first transatlantic flight from New York to Paris by Charles Lindbergh. The recent geopolitical developments in the Middle East have added uncertainty to our business from that region.

Commercial Properties Division

Commercial Properties	Revenue HK$m	Variance YoY
The Repulse Bay Complex	310	0%
The Peak Tower	97	14%
St John's Building	26	0%
The Landmark	19	0%
1-5 Grosvenor Place	14	(7%)

The Repulse Bay Complex performed satisfactorily in the first six months of 2017 as we saw a stabilisation of the luxury residential market in Hong Kong. We believe The Repulse Bay, with its beautiful ocean views and convenient access to the city, is the best luxury residential property in the area, which is reflected in the satisfactory rental renewals we have experienced during the traditional summer contract renewal season this year. Tenants are increasingly coming from the Chinese mainland and France, as well as the traditional British and American markets, and we are seeing an increasing trend of individuals signing rental contracts rather than corporates. Food and beverage revenue improved in the first half and weddings business remained strong, which we expect will continue into the peak wedding season in the second half. The Repulse Bay Shopping Arcade, which offers an eclectic blend of lifestyle amenities, health and wellness facilities and boutiques, was fully occupied for most of the year but, given the weaker retail market in Hong Kong, we are closely monitoring the situation for the rest of the year.

The Peak Tower was fully leased in the first six months of 2017 and revenue grew by 14%. The Peak Tower generates most of its revenue from commercial leasing, with additional revenue coming from admission fees to the open-air rooftop attraction of Sky Terrace 428 with its panoramic views of Hong Kong. Visitor numbers to Sky Terrace 428 reached record levels in the first half.

St John's Building, located at the lower terminus of the Peak Tram, was fully let during the first half and revenue remained stable.

The Landmark in Ho Chi Minh City, Vietnam, which is a mixed-use commercial building comprised of serviced apartments and office and retail space, reported a 3% increase in revenue in local currency terms, despite a highly competitive market situation in Ho Chi Minh City.

1-5 Grosvenor Place in London reported a 7% increase in revenue in local currency terms over the same period last year as we became entitled to 100% of the rental income following the change in structure of our partnership with Grosvenor on 30 September 2016. Demolition has commenced on the existing building which will be redeveloped into The Peninsula London hotel and residential complex. As of 1 April 2017 the building was completely vacated and this asset will no longer be accounted for as an investment property.

The renovation of **21 avenue Kléber** is close to completion. The building has been restored in keeping with the heritage of the building, while modernising the internal space into contemporary offices, spacious terraces and a large courtyard. The property has achieved international BREEAM Excellent and HQE Outstanding environmental certifications which are the highest level of sustainable building assessments in Europe. The building is immediately adjacent to The Peninsula Paris, and we are in negotiations with respect to leasing this property. Completion is expected in September 2017.

Clubs and Services Division

Clubs and Services	Revenue HK$m	Variance YoY
The Peak Tram	63	13%
Thai Country Club	29	0%
Quail Lodge & Golf Club	52	8%
Peninsula Clubs & Consultancy Services	3	(95%)
Peninsula Merchandising	30	3%
Tai Pan Laundry	27	8%

The Peak Tram is one of Hong Kong's most popular tourist attractions and revenue increased 13% in the first half, driven by improving tourist arrivals, particularly from India, Thailand and the Philippines, as well as a strategy to sell "combination" tickets for the Peak Tram and Sky Terrace 428. We renewed our operating rights to the Peak Tram from 1 January 2016 for a ten-year period with a right to have a further 10 years being granted by the Hong Kong Government, subject to our Company's major improvement project for the Peak Tram being satisfactory to the Government. This improvement project will have an estimated budget of around HK$680 million and we are currently advanced in our discussions with the various Government departments to obtain the necessary approvals to proceed.

Thai Country Club which is located near Bangkok recorded a stable revenue for the first half of the year although we are experiencing a soft market, fewer visitors and fewer golf membership sales during the one-year mourning period following the sad passing of His Majesty King Bhumibol Adulyadej. We were delighted to host the Thailand Open in May 2017 which led to significant recognition for the club.

Quail Lodge & Golf Club reported a stronger first half of the year with revenue increasing by 8% and higher occupancy rates due to a more effective marketing strategy to drive strong last-minute bookings, as well as improved golf membership sales and golf rounds. *The Quail Motorcycle Gathering*, a Peninsula Signature event, continues to grow in popularity with more than 2,000 visitors in May, complementing the very successful *The Quail: A Motorsports Gathering* event, which occurs in August and has become one of the world's leading concours events for classic car aficionados. *The Quail: A Motorsports Gathering* attracts more than 5,000 visitors and brings the Peninsula brand to the attention of leading car aficionados and collectors.

Peninsula Clubs & Consultancy Services (PCCS) manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's. On 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end PCCS's management of the Cathay Pacific Lounges at Hong Kong International Airport, and the year-on-year decline in revenue for this division was due to the termination of the Lounges management, although there were also commensurate cost savings. Butterfield's was closed for a major renovation during the first half of 2017 and will emerge as a smaller, new and vibrant Club by the end of the year.

Revenue at **Peninsula Merchandising** was 3% higher than the same period last year, driven by higher sales and brand awareness following new marketing campaigns, business at the Peninsula Boutique store at Hong Kong International Airport and various pop-up promotions in leading retail outlets in Hong Kong. Peninsula Merchandising sales are driven by the popular Peninsula Mooncakes which are sold in autumn and are gaining popularity around the world beyond the traditional market of Hong Kong. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which requires an initial investment in operating costs but is expected to lead to a long-term increase in earnings as well as a broader earnings base.

Projects

The Peninsula London

In 2013, our Group purchased a 50% interest in the lease of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of £132.5 million. In 2016 HSH assumed 100% ownership of the project for an additional cash consideration of £107.5 million. Grosvenor will remain as the landlord under the 150-year lease. In return for this investment, we will have full control over the development, management and future operations of The Peninsula London, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and profits of the hotel.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch and we are replacing the existing 1950s and 1960s offices with a high-quality 189-room hotel and 24-28 luxury residential apartments. The final project budget is still being finalised but is expected to be in the region of £600 million.

The last remaining office tenants moved out in April 2017 and demolition has begun on the site. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for 2021.

The Peninsula Istanbul

In July 2015, together with our partners Doğuş Holding and BLG, we entered into a conditional shareholders' agreement to form a joint venture partnership, of which HSH has a 50% share, for a proposed hotel development in Istanbul, Turkey.

The partners agreed to jointly develop the property with an investment commitment of approximately €300 million, of which HSH is responsible for 50% or approximately €150 million. All the conditions have been met and the project is under way. Demolition on the project site began in 2016 and is making progress, with an expected completion date in late 2019.

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

We remain concerned about the security situation in Turkey which has had a negative impact on the tourism industry. However, we remain committed to this project as we believe in the long-term future of Istanbul given its unique location and attractiveness as a city and we will continue to monitor the security situation closely.

The Peninsula Yangon

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

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

The Group's overall investment is expected to be around US$100 million, including the value of the leasehold interest and estimated development costs. The assignment and extension of the master lease and the approval of the Myanmar Investment Commission were obtained after an extended period of application, following which the groundbreaking ceremony was held in February 2017. We look forward to continue to work with our partners to complete this project by 2021.

Human Resources

Attracting talent and developing our people is a key focus for HSH. As part of our Human Resources five-year strategy, one of our priorities in 2017 is to continue to improve engagement with our employees and continue to develop their business acumen and creativity. We believe this will enhance organisational efficiency and will ultimately contribute to the Group's overall profitability. We are proud to have a family culture that inspires loyalty and long service, and in the first half of 2017 we reported a low voluntary staff turnover rate of 8.6% which is favourable compared to the industry. We endeavour to improve the turnover rate amongst our under-30 staff through bespoke learning and development programmes, including opportunities for cross-exposure in our global properties. Our Corporate Management Trainee programme is designed to attract recent hospitality graduates who are recognised as having significant ability and enthusiasm for the industry, as well as the development potential to become part of our management team. As of 30 June 2017, there were 7,537 full time employees in the Group.

Outlook

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

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

In terms of shorter-term outlook, it appears that the hotel, high-end retail and high-end residential leasing markets in our most important market of Hong Kong have stabilised following a period of negative sentiment in 2016. We continue to seek to strengthen these businesses by providing high quality products and services and we believe this differentiation, together with our long-term relationships with many of our guests and tenants, will provide a stable outlook for us.

We are also seeing a relatively stable outlook in our key markets of the US, China and Japan. The property with the most immediate earnings growth potential is The Peninsula Beijing following its major renovation which has transformed the hotel into a completely new product, having combined two previous guestrooms into one to create the largest suites in Beijing. We are also experiencing good growth at The Peninsula Chicago following the major renovation that was completed in April 2016. We are, however, watching the impact of US travel policies and geographical developments on our business from the Middle East. Trends have been weaker and more uncertain in Paris, Bangkok and Manila, due to the various security and political uncertainties.

It continues to be a challenge to manage our cost base and profit margins while maintaining and enhancing the quality of both our physical assets and our services. This is a balance that we constantly work on with good support and understanding from our operational managers.

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

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

The Directors hereby announce the unaudited interim results of the Group for the six months ended 30 June 2017. The Interim Financial Report has been reviewed by the Company's Audit Committee, comprising a majority of Independent Non-Executive Directors, one of whom chairs the Committee. The Interim Financial Report is unaudited but has been reviewed by the Company's auditors, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the Interim Report to be sent to shareholders.

Financial Review

Basis of preparation

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

The Group's underlying earnings

Our operating results are mainly derived from the operation of hotels and letting of commercial properties. We manage the Group's operations with principal reference to their underlying operating cash flows and recurring earnings. However, to comply with the applicable accounting standards, we are required to include non-operating and non-recurring items, such as any changes in fair value of investment properties, in our statement of profit or loss. To reflect the true performance of the Group, we have provided calculations of the underlying profit attributable to shareholders and underlying earnings per share. These are determined by excluding the post-tax effects of the property revaluation movements and other non-operating and non-recurring items.

The Group's underlying profit attributable to shareholders and underlying earnings per share for the six months ended 30 June 2017 amounted to HK$181 million and HK$0.12, representing an increase of 19% and 20% respectively.

	For the 6 months ended 30 June		2017 vs
HK$m	**2017**	2016	2016
Profit attributable to shareholders	**519**	198	
Adjustment for fair value movement of investment properties, including the Group's share of revaluation movement of The Peninsula Shanghai, net of tax and non-controlling interest	**(338)**	(46)	
Underlying profit attributable to shareholders	**181**	152	19%
Underlying earnings per share (HK$)	**0.12**	0.10	20%

The Group's adjusted net asset value

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

Accordingly, we have commissioned an independent third-party fair valuation of the Group's hotels and golf courses as at 30 June 2017, the details of which are set out on page 22. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$40,557 million as indicated in the table below.

HK$m	**As at 30 June 2017**		As at 31 December 2016	
Net assets attributable to shareholders per statement of financial position		**37,219**		36,359
Adjusting the value of hotels and golf courses to fair value	**3,739**		3,815	
Less: Related deferred tax and non-controlling interests	**(401)**		(463)	
		3,338		3,352
Adjusted net assets attributable to shareholders		**40,557**		39,711
Net assets per share (HK$)		**23.48**		23.20
Adjusted net assets per share (HK$)		**25.59**		25.34

Statement of profit or loss

The Group's consolidated statement of profit or loss for the six months ended 30 June 2017 is set out on page 25. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 17 to 20 of this Financial Review.

	For the 6 months ended 30 June		2017 vs
HK$m	**2017**	2016	2016
Revenue	**2,596**	2,606	-
Operating costs	**(2,035)**	(2,081)	(2%)
EBITDA	**561**	525	7%
Depreciation and amortisation	**(242)**	(226)	7%
Net financing charges	**(66)**	(44)	50%
Share of result of The Peninsula Shanghai *	**(26)**	(14)	86%
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(11)**	(19)	(42%)
Increase in fair value of investment properties	**359**	54	565%
Taxation	**(59)**	(79)	(25%)
Profit for the period	**516**	197	162%
Non-controlling interests	**3**	1	200%
Profit attributable to shareholders	**519**	198	162%

* *Being the Group's 50% share of The Peninsula Shanghai (PSH)'s result. The 2017 figure includes the Group's share of unrealised loss of HK$31 million (2016: HK$8 million) arising from the revaluation of PSH's investment properties, net of tax*

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

Revenue

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

Total revenue for the six months ended 30 June 2017, including the Group's effective share of revenue of associates and joint venture, remained flat at HK$2,847 million. This was due to the loss of revenue from Peninsula Clubs and Consultancy Services in 2017 following the termination of the operations of Cathay Pacific lounges at Hong Kong International Airport, offset by the increased revenue from the hotels division. A breakdown of revenue by business segment and geographical segment is set out in the following tables.

Revenue by business segment

	For the 6 months ended 30 June						
HK$m		**2017**			2016		2017 vs 2016
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**1,926**	**251** *	**2,177**	1,898	246 *	2,144	2%
Commercial Properties	**466**	**-**	**466**	456	-	456	2%
Clubs and Services	**204**	**-**	**204**	252	-	252	(19%)
	2,596	**251**	**2,847**	2,606	246	2,852	-

Revenue by geographical segment

	For the 6 months ended 30 June						
HK$m		**2017**			2016		2017 vs 2016
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**1,165**	**-**	**1,165**	1,217	-	1,217	(4%)
Other Asia	**772**	**139** *	**911**	756	143 *	899	1%
US and Europe	**659**	**112**	**771**	633	103	736	5%
	2,596	**251**	**2,847**	2,606	246	2,852	-

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

The hotels division is the main contributor to the Group's revenue, accounting for 76% (2016: 75%) of the total revenue. The increase in revenue of the hotels division was mainly due to the gradual increase in availability of the renovated rooms at The Peninsula Beijing, which started an extensive renovation in November 2015 and will be completed in August 2017.

The commercial properties division performed well in the first half of 2017, with revenue increasing by 2% to HK$466 million, mainly due to the increase in admission fee income achieved by Sky Terrace 428 at The Peak Tower. For the clubs and services division, the decrease in revenue was mainly due to the loss of revenue from Peninsula Clubs and Consultancy Services as mentioned above.

Details of the operating performances of the Group's individual operations are set out on pages 3 to 10 of the CEO's Strategic Review.

EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) for the six months ended 30 June 2017, including the Group's effective share of EBITDA of joint venture and associates, increased by 11% to HK$630 million. The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA by business segment

	For the 6 months ended 30 June						2017 vs
HK$m	**2017**			2016			2016
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hotels	**292**	**69** *	**361**	259	45 *	304	19%
Commercial Properties	**261**	**-**	**261**	246	-	246	6%
Clubs and Services	**8**	**-**	**8**	20	-	20	(60%)
	561	**69**	**630**	525	45	570	11%

EBITDA by geographical segment

	For the 6 months ended 30 June						2017 vs
HK$m	**2017**			2016			2016
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	
Hong Kong	**486**	**-**	**486**	480	-	480	1%
Other Asia	**66**	**50** *	**116**	54	33 *	87	33%
US and Europe	**9**	**19**	**28**	(9)	12	3	833%
	561	**69**	**630**	525	45	570	11%

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

During the first half of 2017, the combined EBITDA margin of the hotels division increased by three percentage points to 17%, reflecting a general recovery in the hotel market. The increase in the EBITDA margin for the commercial properties division was mainly due to the higher admission fee income achieved by Sky Terrace 428 at The Peak Tower. The decrease in the EBITDA margin for the clubs and services division was mainly due to the loss of income resulting from the termination of the management contracts for the Cathay Pacific Lounges.

	For the 6 months ended 30 June					
EBITDA margin	**2017**			2016		
	Group's subsidiaries	Associates and joint venture (effective share)	Combined total	Group's subsidiaries	Associates and joint venture (effective share)	Combined total
Hotels	**15%**	**27%** *	**17%**	14%	18% *	14%
Commercial Properties	**56%**	**-**	**56%**	54%	-	54%
Clubs and Services	**4%**	**-**	**4%**	8%	-	8%
Overall EBITDA margin	**22%**	**27%**	**22%**	20%	18%	20%
By region						
Hong Kong	**42%**	**-**	**42%**	39%	-	39%
Other Asia	**9%**	**36%** *	**13%**	7%	23% *	10%
US and Europe	**1%**	**17%**	**4%**	(1%)	12%	-

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

Increase in fair value of investment properties

The investment properties of the Group were revalued as at 30 June 2017 by independent firms of valuers based on an income capitalisation approach. The increase in fair value represented the net revaluation surplus of the Group's investment properties, which amounted to HK$359 million (2016: HK$54 million). The net surplus in 2017 was principally attributable to the increase in the appraised market value of The Repulse Bay Complex, The Peninsula Office Tower and St John's Building net of the decrease in appraised market value of the commercial arcades at The Peninsula Hong Kong and The Peninsula Beijing.

Share of result of The Peninsula Shanghai

The Group, through a joint venture The Peninsula Shanghai Waitan Hotel Company Limited (PSW), owns a 50% interest in The Peninsula Shanghai Complex, which comprises a hotel, a shopping arcade and a residential tower of 39 apartments, of which 19 apartment units were reclassified as apartments held for sale in 2013. Of the 19 apartment units available for sale, 17 units have been sold to date.

During the first half of 2017, The Peninsula Shanghai remained the market leader in terms of RevPAR in its competitive set, generating an operating EBITDA of HK$100 million (2016: HK$65 million). After accounting for the gain on apartment sales, unrealised revaluation loss of investment properties, depreciation and interest, PSW generated a net loss of HK$52 million (2016: HK$28 million) and the Group's share of loss amounted to HK$26 million (2016: HK$14 million).

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

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

The Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. The Group's share of net loss of these hotels amounted to HK$11 million (2016: HK$19 million).

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

Statement of financial position

The Group's financial position as at 30 June 2017 remained strong and net assets attributable to shareholders amounted to HK$37,219 million, representing a per share value of HK$23.48 compared to HK$23.20 as at 31 December 2016. The key components of the Group's assets and liabilities as at 30 June 2017 and 31 December 2016 are set out in the table below.

HK$m	**As at 30 June 2017**	As at 31 December 2016	2017 vs 2016
Fixed assets	**41,912**	40,712	3%
Other long-term assets	**2,362**	2,223	6%
Cash at banks and in hand	**1,775**	2,087	(15%)
Other assets	**843**	848	(1%)
	46,892	45,870	2%
Interest-bearing borrowings	**(7,183)**	(6,998)	3%
Other liabilities	**(2,234)**	(2,298)	(3%)
	(9,417)	(9,296)	1%
Net assets	**37,475**	36,574	2%
Represented by			
Shareholders' funds	**37,219**	36,359	2%
Non-controlling interests	**256**	215	19%
Total equity	**37,475**	36,574	2%

Summary of hotel, commercial and other properties

The Group's hotel properties and investment properties are dealt with under different accounting policies as required by accounting standards. The hotel properties (other than shopping arcades and offices within the hotels) and golf courses are stated at cost less accumulated depreciation and any provision for impairment losses, whilst investment properties (including shopping arcades and offices within the hotels) are stated at fair value as appraised by independent valuers.

A summary of the Group's hotel, commercial and other properties, including those held by associates and joint ventures, showing both the book value and the fair value as at 30 June 2017 is set out in the table on the following page.

		30 June 2017		31 December 2016	
		Value of 100% of the property (HK$m)			
	Group's interest	**Fair value valuation**	**Book value**	Fair value valuation	Book value
Hotel properties *					
The Peninsula Hong Kong	100%	**12,059**	**9,872**	12,031	9,882
The Peninsula New York	100%	**2,367**	**1,728**	2,378	1,757
The Peninsula Beijing	76.6%**	**1,730**	**1,696**	1,716	1,485
The Peninsula Tokyo	100%	**1,651**	**1,495**	1,567	1,446
The Peninsula Chicago	100%	**1,331**	**1,238**	1,331	1,268
The Peninsula Bangkok	75%	**643**	**637**	606	590
The Peninsula Manila	77.4%	**131**	**129**	139	138
The Peninsula Shanghai Complex#	50%	**4,623**	**4,271**	4,556	4,256
The Peninsula Paris#	20%	**5,609**	**5,449**	5,220	5,017
The Peninsula Beverly Hills#	20%	**2,644**	**477**	2,640	479
Commercial properties					
The Repulse Bay Complex	100%	**17,186**	**17,186**	16,930	16,930
The Peak Tower	100%	**1,393**	**1,393**	1,362	1,362
St. John's Building	100%	**1,127**	**1,127**	1,027	1,027
21 avenue Kléber	100%	**709**	**709**	621	621
1-5 Grosvenor Place△△	100%	**-**	**-**	2,583	2,583
The Landmark	70%△	**66**	**66**	68	68
Other properties					
Thai Country Club golf course	75%	**224**	**259**	211	242
Quail Lodge resort, golf course and vacant land	100%	**299**	**283**	307	286
Vacant land in Thailand	75%	**414**	**414**	390	390
Others	100%	**365**	**222**	344	219
Properties under development##					
The Peninsula London△△	100%	**3,211**	**3,211**	-	-
The Peninsula Yangon	70%	**125**	**125**	-	-
The Peninsula Istanbul#	50%	**320**	**320**	132	132

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

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

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

△△ *1-5 Grosvenor Place was reclassified as property under development in May 2017*

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

\## *The Directors consider that the carrying amount of all properties under development approximates their fair value*

Statement of cash flows

The condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2017 is set out on page 29. The following table summarises the key cash movements for the first six months of 2017.

	For the 6 months ended 30 June	
HK$m	**2017**	2016
EBITDA	**561**	525
Changes in working capital	**(91)**	67
Tax payment	**(7)**	(11)
Net cash generated from operating activities	**463**	581
Capital expenditure on existing assets		
- The Peninsula Beijing	**(167)**	(307)
- The Peninsula Chicago	**-**	(78)
- 21 avenue Kléber	**(37)**	(25)
- Others	**(119)**	(97)
Net cash inflow after normal capital expenditure	**140**	74
Capital expenditure on new projects		
- The Peninsula London	**(197)**	(47)
- The Peninsula Yangon	**(115)**	-
- Capital injection into the Istanbul joint venture	**(35)**	(79)
Net cash outflow before dividends, other payments and financing activities	**(207)**	(52)

The after-tax net cash generated from operating activities for the six months ended 30 June 2017 amounted to HK$463 million (2016: HK$581 million), of which HK$323 million (2016: HK$507 million) was applied to fund capital expenditure on existing assets. The major renovations of The Peninsula Beijing and 21 avenue Kléber are still ongoing with completion expected in August 2017 and September 2017 respectively. The major rooms upgrade at The Peninsula Chicago was completed in April 2016.

Treasury management

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

During the period, net borrowings increased by 10% to HK$5,408 million (31 December 2016: HK$4,911 million) and the Group’s gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders’ funds, increased to 13% (31 December 2016: 12%). The increase was mainly due to the project payments made by The Peninsula Beijing and The Peninsula London and the increase in Hong Kong dollar equivalent of Japanese Yen loans resulted from the appreciation of the Japanese Yen. Net interest cover, expressed as operating profit divided by net financing charges, decreased to 4.8 times (2016: 6.8 times).

In addition to the Group's consolidated borrowings, The Peninsula Beverly Hills (20% owned), The Peninsula Shanghai (50% owned) and The Peninsula Paris (20% owned) have non-recourse bank borrowings, which are not consolidated in the statement of financial position as the entities owning the assets are not subsidiaries of the Group. Including the Group's share of the net debt of these non-consolidated entities, total net borrowings would amount to HK$6,890 million at 30 June 2017 (31 December 2016: HK$6,388 million).

As at 30 June 2017, the Group's fixed-to-floating interest rate ratio remained at 67% (31 December 2016: 67%). The weighted average gross interest rate for the period increased slightly to 2.2% (2016: 2.1%) after taking hedging activities into account.

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

Non-adjusting Event after the Reporting Period

The Company, through a wholly owned subsidiary Peninsula International Investment Holdings Limited (PIIHL), currently owns a 75% interest in HSH-Siam Chaophraya Holdings Company Limited (HSH-SCH) which in turn holds a 100% direct interest in The Peninsula Bangkok and Thai Country Club.

The current shareholding structure is a result of a restructuring of the original joint-venture under which PIIHL and the Thai Partner originally each held a 50% economic interest in HSH-SCH. Pursuant to a restructuring of the debt and equity of HSH-SCH as announced on 6 February 2002, the Thai Partner became a 25% shareholder, as from 17 December 2002, with an option to return to its original 50% shareholding percentage. The consideration for the option to acquire back the 25% interest in the equity of HSH-SCH was agreed at US$25 million at the time of restructuring.

On 30 June 2017, the Thai Partner served their notice to exercise the option. The transaction is expected to complete by end of August 2017, whereupon each of PIIHL and the Thai Partner will own 50% economic and voting interest in HSH-SCH. The exercise of the option will not have a significant impact on the Group's consolidated results and financial position.

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

	Note	For the six months ended 30 June 2017	2016
Revenue	3	**2,596**	2,606
Cost of inventories		**(169)**	(179)
Staff costs and related expenses		**(1,047)**	(1,061)
Rent and utilities		**(266)**	(265)
Other operating expenses		**(553)**	(576)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**561**	525
Depreciation and amortisation		**(242)**	(226)
Operating profit		**319**	299
Interest income		**11**	23
Financing charges	4	**(77)**	(67)
Net financing charges		**(66)**	(44)
Profit after net financing charges	5	**253**	255
Share of result of a joint venture	10	**(26)**	(14)
Share of results of associates	11	**(11)**	(19)
Increase in fair value of investment properties	9(b)	**359**	54
Profit before taxation		**575**	276
Taxation			
Current tax	6	**(68)**	(70)
Deferred tax	6	**9**	(9)
Profit for the period		**516**	197
Profit attributable to:			
Shareholders of the Company		**519**	198
Non-controlling interests		**(3)**	(1)
Profit for the period		**516**	197
Earnings per share, basic and diluted (HK$)	7	**0.33**	0.13

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

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

	For the six months ended 30 June	
	2017	2016
Profit for the period	**516**	197
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
- financial statements of overseas subsidiaries	**287**	(316)
- financial statements of joint ventures	**44**	(18)
- loans to an associate	**55**	9
- hotel operating rights	**41**	8
	427	(317)
Cash flow hedges:		
- effective portion of changes in fair value	**(17)**	(16)
- transfer from equity to profit or loss	**10**	12
	420	(321)
Total comprehensive income for the period	**936**	(124)
Total comprehensive income attributable to:		
Shareholders of the Company	**930**	(126)
Non-controlling interests	**6**	2
Total comprehensive income for the period	**936**	(124)

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

	Note	As at 30 June 2017	As at 31 December 2016
Non-current assets			
Investment properties		**31,834**	33,896
Other properties, plant and equipment		**10,078**	6,816
	9	**41,912**	40,712
Interest in joint ventures	10	**1,072**	1,019
Interest in associates	11	**688**	642
Hotel operating rights	12	**549**	515
Deferred tax assets		**53**	47
		44,274	42,935
Current assets			
Inventories		**76**	82
Trade and other receivables	14	**652**	655
Amount due from a joint venture		**115**	111
Cash at banks and in hand		**1,775**	2,087
		2,618	2,935
Current liabilities			
Trade and other payables	15	**(1,238)**	(1,359)
Interest-bearing borrowings	16	**(546)**	(2)
Derivative financial instruments	13	**(8)**	(7)
Current taxation		**(83)**	(26)
		(1,875)	(1,394)
Net current assets		**743**	1,541
Total assets less current liabilities		**45,017**	44,476
Non-current liabilities			
Interest-bearing borrowings	16	**(6,637)**	(6,996)
Trade and other payables	15	**(220)**	(229)
Net defined benefit retirement obligations		**(16)**	(16)
Derivative financial instruments	13	**(9)**	(9)
Deferred tax liabilities		**(660)**	(652)
		(7,542)	(7,902)
Net assets		**37,475**	36,574
Capital and reserves			
Share capital	17	**5,170**	5,005
Reserves		**32,049**	31,354
Total equity attributable to shareholders of the Company		**37,219**	36,359
Non-controlling interests		**256**	215
Total equity		**37,475**	36,574

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

	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Company						
At 1 January 2016		4,808	(47)	(63)	31,729	36,427	233	36,660
Changes in equity for the six months ended 30 June 2016								
Profit for the period		-	-	-	198	198	(1)	197
Other comprehensive income		-	(4)	(320)	-	(324)	3	(321)
Total comprehensive income for the period		-	(4)	(320)	198	(126)	2	(124)
Dividends approved in respect of the previous year	8	155	-	-	(231)	(76)	-	(76)
Balance at 30 June 2016 and 1 July 2016		4,963	(51)	(383)	31,696	36,225	235	36,460
Changes in equity for the six months ended 31 December 2016								
Profit for the period		-	-	-	477	477	(7)	470
Other comprehensive income		-	24	(347)	-	(323)	(8)	(331)
Total comprehensive income for the period		-	24	(347)	477	154	(15)	139
Dividends approved in respect of the current year	8	42	-	-	(62)	(20)	-	(20)
Dividends paid to non-controlling interests		-	-	-	-	-	(5)	(5)
Balance at 31 December 2016 and 1 January 2017		**5,005**	**(27)**	**(730)**	**32,111**	**36,359**	**215**	**36,574**
Changes in equity for the six months ended 30 June 2017								
Profit for the period		**-**	**-**	**-**	**519**	**519**	**(3)**	**516**
Other comprehensive income		**-**	**(7)**	**418**	**-**	**411**	**9**	**420**
Total comprehensive income for the period		**-**	**(7)**	**418**	**519**	**930**	**6**	**936**
Dividends approved in respect of the previous year	8	**165**	**-**	**-**	**(235)**	**(70)**	**-**	**(70)**
Capital injection from non-controlling interests		**-**	**-**	**-**	**-**	**-**	**35**	**35**
Balance at 30 June 2017		**5,170**	**(34)**	**(312)**	**32,395**	**37,219**	**256**	**37,475**

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

	For the six months ended 30 June	
	2017	2016
Operating activities		
EBITDA	**561**	525
Tax paid	**(7)**	(11)
Changes in working capital	**(91)**	67
Net cash generated from operating activities	**463**	581
Investing activities		
Loan to an associate	**(2)**	-
Capital injection into a joint venture	**(35)**	(79)
Capital expenditure on existing properties		
- The Peninsula Beijing and The Peninsula Chicago	**(167)**	(385)
- Others	**(156)**	(122)
Capital expenditure on new projects	**(312)**	(47)
Proceeds from disposal of properties, plant and equipment	**-**	1
Dividend received from an associate	**-**	3
Net cash used in investing activities	**(672)**	(629)
Financing activities		
Interest received	**10**	21
Interest and other financing charges paid	**(68)**	(60)
Withdrawal of interest-bearing bank deposits with maturity of more than three months	**4**	643
Net increase/(decrease) in bank borrowings	**10**	(32)
Dividends paid to shareholders of the Company	**(70)**	(76)
Net cash (used in)/generated from financing activities	**(114)**	496
Net (decrease)/increase in cash and cash equivalents	**(323)**	448
Cash and cash equivalents at 1 January	**1,955**	768
Effect of changes in foreign exchange rates	**11**	(16)
Cash and cash equivalents at 30 June (note)	**1,643**	1,200

Note *Analysis of cash and cash equivalents*

	As at 30 June	
	2017	*2016*
Interest-bearing bank deposits	***1,582***	*2,563*
Cash at banks and in hand	***193***	*146*
Total cash at banks and in hand	***1,775***	*2,709*
Less: Interest-bearing bank deposits with maturity of more than three months	***(126)***	*(1,503)*
Less: Bank overdrafts (note 16)	***(6)***	*(6)*
Cash and cash equivalents in the condensed consolidated statement of cash flows	***1,643***	*1,200*

Total cash at banks and in hand at the end of the reporting period include deposits with banks of HK$143 million (30 June 2016: HK$572 million) held by overseas subsidiaries which are subject to prevailing regulations and foreign exchange restrictions.

Notes to the unaudited interim financial report

1. Basis of preparation

The unaudited Interim Financial Report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue by the Board of Directors of the Company on 4 August 2017.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these relevant changes in accounting policies are set out in note 2.

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

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The Interim Financial Report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2016 that is included in the Interim Financial Report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the Interim Financial Report.

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

3. Segment reporting (HK$m)

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

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

No operating segments have been aggregated to form the reportable segments. Comparative figures have been restated to conform to the current period's presentation of internal report to the Group's senior executive management for the purposes of resource allocation and performance assessment.

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

(a) Segment results (HK$m)

The results of the Group's reportable segments for the six months ended 30 June 2017 and 2016 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	For the six months ended 30 June							
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Reportable segment revenue*	**1,926**	1,898	**466**	456	**204**	252	**2,596**	2,606
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	**292**	259	**261**	246	**8**	20	**561**	525
Depreciation and amortisation	**(219)**	(203)	**(6)**	(5)	**(17)**	(18)	**(242)**	(226)
Segment operating profit	**73**	56	**255**	241	**(9)**	2	**319**	299

* *Analysis of segment revenue*

	2017	*2016*
Hotels		
- Rooms	***874***	*841*
- Food and beverage	***562***	*529*
- Shopping arcades and offices	***321***	*344*
- Others	***169***	*184*
	1,926	*1,898*
Commercial Properties		
- Residential properties	***243***	*248*
- Offices	***52***	*52*
- Shopping arcades	***171***	*156*
	466	*456*
Clubs and Services		
- Clubs and consultancy services	***3***	*65*
- Peak Tram operation	***63***	*56*
- Others	***138***	*131*
	204	*252*
Total	***2,596***	*2,606*

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

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

(b) Segment assets (HK$m)

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

The Group's segment assets and unallocated assets as at 30 June 2017 and 31 December 2016 are set out as follows:

	Note	**As at 30 June 2017**	As at 31 December 2016
Reportable segment assets			
Hotels		**21,419**	17,868
Commercial properties		**20,719**	23,087
Clubs and services		**1,051**	1,009
		43,189	41,964
Unallocated assets			
Interest in joint ventures	10	**1,072**	1,019
Interest in associates	11	**688**	642
Deferred tax assets		**53**	47
Amount due from a joint venture		**115**	111
Cash at banks and in hand		**1,775**	2,087
Consolidated total assets		**46,892**	45,870

4. Financing charges (HK$m)

	For the six months ended 30 June **2017**	2016
Interest on bank borrowings	**56**	46
Other borrowing costs	**10**	8
Total interest expense on financial liabilities carried at amortised cost	**66**	54
Derivative financial instruments:		
- cash flow hedges, transfer from equity	**11**	13
	77	67

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

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

	For the six months ended 30 June	
	2017	2016
Amortisation of hotel operating rights	**7**	7
Depreciation	**235**	219
Interest income	**(11)**	(23)

6. Taxation (HK$m)

	For the six months ended 30 June	
	2017	2016
Current tax		
Hong Kong profits tax	**62**	65
Overseas tax	**6**	5
	68	70
Deferred tax		
Decrease in net deferred tax liabilities relating to revaluation of overseas investment properties	**(8)**	(1)
(Decrease)/increase in net deferred tax liabilities relating to other temporary differences	**(1)**	10
	(9)	9
	59	79

The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries is calculated at the current tax rates applicable in the relevant jurisdictions.

7. Earnings per share

(a) Earnings per share - basic

	For the six months ended 30 June	
	2017	2016
Profit attributable to shareholders of the Company (HK$m)	**519**	198
Weighted average number of shares in issue (million shares)	**1,568**	1,544
Earnings per share (HK$)	**0.33**	0.13

	2017	*2016*
	(million shares)	*(million shares)*
Issued shares at 1 January	***1,567***	*1,543*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2016 final dividend (2016: 2015 final dividend)	***1***	*1*
Weighted average number of shares in issue at 30 June	***1,568***	*1,544*

(b) Earnings per share - diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2017 and 2016 and hence the diluted earnings per share is the same as the basic earnings per share.

8. Dividends (HK$m)

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

	For the six months ended 30 June	
	2017	2016
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2016: 4 HK cents per share)	**63**	62

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

8. Dividends (HK$m) *continued*

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

	For the six months ended 30 June	
	2017	2016
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 15 HK cents per share (year ended 31 December 2015: 15 HK cents per share)	**235**	231

For the final dividend in respect of 2016, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 70% of the issued share capital of the Company elected to receive their entitlement to the 2016 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 18 million new shares on 16 June 2017.

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

(a) Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired items of fixed assets with a cost of HK$642 million, of which HK$204 million related to the renovations at The Peninsula Beijing and 21 avenue Kléber and HK$312 million related to new projects (six months ended 30 June 2016: HK$539 million, of which HK$410 million related to the renovations at The Peninsula Beijing, The Peninsula Chicago and 21 avenue Kléber and HK$47 million related to new projects). Items of properties, plant and equipment disposed of during the six months ended 30 June 2017 and 30 June 2016 were insignificant in value.

In May 2017, the Group commenced the development of 1-5 Grosvenor Place into The Peninsula London. As a result, the carrying value of 1-5 Grosvenor Place of HK$2,705 million was reclassified from investment property held for re-development to other properties, plant and equipment.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2017 using the income capitalisation approach by applying a capitalisation rate to the expected rental income adjusted for the quality and location of the building, which are the same valuation techniques as were used by the valuers when carrying out the December 2016 valuations, except for an investment property which is under renovation, which was revalued by taking into account the fair value of the completed investment property and then by deducting from that amount the estimated cost to complete the renovation. The changes in fair value of the investment properties during the period were accounted for in the consolidated statement of profit or loss. The valuations were carried out by valuers independent of the Group, who have staff with recent and relevant experience in the location and category of the properties being valued. Discussions have been held with the valuers on the valuation assumptions and valuation results when the valuation is performed at the reporting date.

As a result of the revaluation, a net gain of HK$359 million (2016: HK$54 million) has been included in the consolidated statement of profit or loss.

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

(c) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2017. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$6,451 million (31 December 2016: HK$6,225 million), was HK$9,549 million as at 30 June 2017 (31 December 2016: HK$9,417 million). It is important to note that the surplus of HK$3,098 million (31 December 2016: HK$3,192 million) and the related deferred taxation and non-controlling interests, if any, have not been incorporated in this Interim Financial Report but are provided for additional information only.

10. Interest in joint ventures (HK$m)

	As at 30 June 2017	As at 31 December 2016
Share of net assets	**551**	498
Loans to a joint venture *(note 10(b))*	**521**	521
	1,072	1,019

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

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

Company name	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Group's effective interest	Principal activity
The Peninsula Shanghai (BVI) Limited (TPS)	Incorporated	British Virgin Islands	US$1,000	50%*	Investment holding
PIT İstanbul Otel İşletmeciliği Anonim Şirketi (PIT)	Incorporated	Turkey	TRY163,400,000	50%**	Hotel investment

* *The Group's interest in TPS is held indirectly by the Company. TPS holds a 100% direct interest in Evermore Gain Limited (EGL), a company incorporated in Hong Kong in 2007, which in turn holds a 100% direct interest in The Peninsula Shanghai Waitan Hotel Company Limited (PSW). PSW is a wholly owned foreign enterprise incorporated in the People's Republic of China and is engaged in the development and operation of the hotel, apartments, retail arcade and ancillary facilities of The Peninsula Shanghai. At 30 June 2017, the paid up capital of EGL and PSW amounted to HK$1 (31 December 2016: HK$1) and US$117,500,000 (31 December 2016: US$117,500,000) respectively.*

** *PIT was incorporated on 10 February 2016 and the Group's interest in this joint venture is held indirectly by the Company. PIT has redevelopment and operating rights in respect of a property within the Salıpazarı Port Project Area in Istanbul, Turkey. The Group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul. The net assets of PIT at 30 June 2017 mainly comprised of property, plant and equipment and cash at bank and in hand of HK$320 million and HK$13 million respectively.*

(b) The loans to TPS are denominated in US dollars, unsecured, interest free and have no fixed repayment terms.

(c) PSW has pledged its properties inclusive of the land use rights as security for a loan facility amounting to HK$2,875 million (RMB2,500 million). As at 30 June 2017, the loan drawn down amounted to HK$1,990 million (RMB1,730 million) (31 December 2016: HK$1,977 million (RMB1,774 million)). The net carrying amount of these pledged assets amounted to HK$4,316 million (RMB3,753 million) (31 December 2016: HK$4,300 million (RMB3,857 million)).

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

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

	As at 30 June 2017	As at 31 December 2016
Non-current assets	**4,271**	4,256
Cash at bank and in hand	**175**	127
Other current assets	**112**	163
Current liabilities	**(346)**	(349)
Non-current liabilities	**(3,529)**	(3,515)
Net assets	**683**	682

	For the six months ended 30 June	
	2017	2016
Income*	**277**	328
Cost of inventories and operating expenses	**(177)**	(238)
EBITDA	**100**	90
Depreciation	**(42)**	(41)
Net financing charges	**(48)**	(60)
Profit/(loss) before non-operating item	**10**	(11)
Non-operating item, net of tax **	**(62)**	(17)
Loss for the period	**(52)**	(28)
The Group's share of result of PSW	**(26)**	(14)

* *Including proceeds of HK$Nil million (2016: HK$43 million) from sale of apartments.*
** *Being the net re-valuation adjustment on investment properties.*

11. Interest in associates (HK$m)

	As at 30 June 2017	As at 31 December 2016
Interest in associates	**688**	642

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

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

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

* *The Group's effective interest is held indirectly by the Company.*
** *19 Holding holds a 100% direct interest in Majestic which owns The Peninsula Paris.*
\# *BHP holds a 100% interest in The Peninsula Beverly Hills.*

(b) Included in the balance of interest in associates are loans to 19 Holding of HK$654 million (31 December 2016: HK$616 million). The loans were made pro rata to the Group's shareholding in 19 Holding and bear interest at rates related to the rates published by the French tax authorities. The loans are expected to be settled after more than one year.

(c) Majestic has pledged its hotel property as security for a loan facility amounting to EUR220 million (HK$1,965 million) (31 December 2016: EUR220 million (HK$1,802 million)). As at 30 June 2017, the loan drawn down amounted to EUR220 million (HK$1,965 million) (31 December 2016: EUR220 million (HK$1,802 million)). As at 30 June 2017, the net carrying amount of these pledged assets amounted to EUR603 million (HK$5,386 million) (31 December 2016: EUR613 million (HK$5,017 million)).

(d) BHP has pledged its hotel property to an independent financial institution as security for BHP's loan facility, amounting to US$145 million (HK$1,131 million) (31 December 2016: US$145 million (HK$1,131 million)). The net carrying amount of the pledged assets amounted to US$61 million (HK$476 million) (31 December 2016: US$61 million (HK$476 million)). As at 30 June 2017, the loan drawn down amounted to US$136 million (HK$1,061 million) (31 December 2016: US$137 million (HK$1,069 million)).

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

	For the six months ended 30 June	
	2017	2016
Net loss from operations	**(55)**	(95)
Other comprehensive income	**-**	-
Total comprehensive income	**(55)**	(95)
The Group's share of results of the associates	**(11)**	(19)

12. Hotel operating rights

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

13. Derivative financial instruments (HK$m)

	As at 30 June 2017 Liabilities	As at 31 December 2016 Liabilities
Cash flow hedges:		
Interest rate swaps	**(16)**	(15)
At fair value through profit or loss:		
Interest rate swaps	**(1)**	(1)
	(17)	(16)
Less: Portion to be settled within one year		
Cash flow hedges:		
Interest rate swaps	**(7)**	(6)
At fair value through profit or loss:		
Interest rate swaps	**(1)**	(1)
	(8)	(7)
Amount to be settled after one year	**(9)**	(9)

14. Trade and other receivables (HK$m)

	As at 30 June 2017	As at 31 December 2016
Trade debtors	**210**	271
Payments in advance, sundry deposits and other receivables	**436**	378
Tax recoverable	**6**	6
	652	655

The amount of the Group's trade and other receivables expected to be recovered or recognised as expenses after more than one year is HK$84 million (31 December 2016: HK$139 million). All the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

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

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

The ageing analysis of trade debtors is as follows:

	As at 30 June 2017	As at 31 December 2016
Current	**194**	255
Less than one month past due	**13**	10
One to three months past due	**3**	5
More than three months but less than 12 months past due	**-**	1
Amounts past due	**16**	16
	210	271

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

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

15. Trade and other payables (HK$m)

	As at 30 June 2017	As at 31 December 2016
Trade creditors	**96**	148
Interest payable	**7**	7
Accruals for property, plant and equipment	**152**	145
Tenants' deposits	**364**	381
Guest deposits and gift vouchers	**187**	157
Golf membership deposits	**87**	76
Other payables	**565**	674
Financial liabilities measured at amortised cost	**1,458**	1,588
Less: Non-current portion of trade and other payables	**(220)**	(229)
Current portion of trade and other payables	**1,238**	1,359

The amount of trade and other payables of the Group expected to be settled or recognised as income after more than one year is HK$309 million (31 December 2016: HK$310 million). All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

The ageing analysis of trade creditors is as follows:

	As at 30 June 2017	As at 31 December 2016
Less than three months	**89**	144
Three to six months	**2**	2
More than six months	**5**	2
	96	148

16. Interest-bearing borrowings (HK$m)

	As at 30 June 2017	As at 31 December 2016
Total facilities available:		
Term loans and revolving credits	**9,287**	9,116
Uncommitted facilities, including bank overdrafts	**338**	323
	9,625	9,439
Utilised at 31 December:		
Term loans and revolving credits	**7,217**	7,047
Uncommitted facilities, including bank overdrafts	**10**	2
	7,227	7,049
Less: Unamortised financing charges	**(44)**	(51)
	7,183	6,998
Represented by:		
Short-term bank loans, repayable within one year or on demand	**540**	-
Bank overdrafts, repayable on demand	**6**	2
	546	2
Long-term bank loans, repayable:		
Between one and two years	**3,006**	3,291
Between two and five years	**2,908**	2,423
Over five years	**767**	1,333
	6,681	7,047
Less: Unamortised financing charges	**(44)**	(51)
Non-current portion of long-term bank loans	**6,637**	6,996
Total interest-bearing borrowings	**7,183**	6,998

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

17. Share capital

	At 30 June 2017 No. of shares (million)	**At 30 June 2017** HK$m	At 31 December 2016 No. of shares (million)	At 31 December 2016 HK$m
Ordinary shares, issued and fully paid				
At 1 January	**1,567**	**5,005**	1,543	4,808
Shares issued under scrip dividend scheme	**18**	**165**	24	197
At 30 June 2017/31 December 2016	**1,585**	**5,170**	1,567	5,005

During the six months ended 30 June 2017, the Company issued and allotted approximately 18 million new ordinary shares at HK$9.18 per share in respect of the 2016 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK$165 million. All ordinary shares issued during the period rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18. Fair value measurement of financial instruments

(a) Financial instruments carried at fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

18. Fair value measurement of financial instruments *continued*

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

Financial instruments are carried at amounts not materially different from their fair values as at 30 June 2017. The loans to an associate (note 11) are at floating interest rates and the carrying amount of these loans approximate their fair values. The loans to a joint venture (note 10(b)) are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose its fair value.

19. Commitments (HK$m)

Capital commitments outstanding as at 30 June 2017 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2017			As at 31 December 2016		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments in respect of existing properties and new projects	**556**	**7,522**	**8,078**	849	7,782	8,631
The Group's share of capital commitments of joint ventures and associates	**510**	**631**	**1,141**	517	598	1,115
	1,066	**8,153**	**9,219**	1,366	8,380	9,746

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

20. Material related party transactions

There were no material related party transactions during the six months ended 30 June 2017, other than the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2016.

21. Non-adjusting event after the reporting period

The Company, through a wholly owned subsidiary Peninsula International Investment Holdings Limited (PIIHL), currently owns a 75% interest in HSH-Siam Chaophraya Holdings Company Limited (HSH-SCH) which in turn holds a 100% direct interest in The Peninsula Bangkok and Thai Country Club.

The current shareholding structure is a result of a restructuring of the original joint-venture under which PIIHL and the Thai Partner originally each held a 50% economic interest in HSH-SCH. Pursuant to a restructuring of the debt and equity of HSH-SCH as announced on 6 February 2002, the Thai Partner became a 25% shareholder as from 17 December 2002, with an option to return to its original 50% shareholding percentage. The consideration for the option to acquire back the 25% interest in the equity of HSH-SCH was agreed at US$25 million at the time of restructuring.

On 30 June 2017, the Thai Partner served their notice to exercise the option. The transaction is expected to complete by end of August 2017, whereupon each of PIIHL and the Thai Partner will own 50% economic and voting interest in HSH-SCH. The exercise of the option will not have a significant impact on the Group's consolidated results and financial position.

Other Corporate Information

Corporate governance

Good corporate governance is crucial to sustain the Group in the long-run through the changing regulatory and market environment. The Board of Directors of the Company sees corporate governance as an integral part of its business strategy. By putting in place the right governance framework, the Board of Directors has set a culture of integrity, transparency and accountability that permeates throughout the Group. This in turn fosters and maintains shareholders' and stakeholders' confidence in the Company. The Corporate Governance Report in the 2016 Annual Report outlines the Company's approach to governance and its initiatives and activities.

The Stock Exchange's Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code) forms the basis of the Company's Corporate Governance Code (HSH Code). The Board of Directors recognises and applies all the principles underlying the CG Code to the HSH Code. The HSH Code has already encompassed all code provisions and recommended best practices of the CG Code, save for the recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as disclosed in the 2016 Corporate Governance Report.

Throughout the six months ended 30 June 2017, the Company has complied with all the code provisions in the CG Code.

Risk management and internal control

Effective risk management is and has been an integral part of the overall achievement of the Group's strategic objectives. The Board's focus is on managing risks to ensure the long-term sustainability of the Group's business, preserve a high standard of luxury, tradition of integrity and respect of its heritage as embodied in the culture of the Company. The Group's approach to risk governance and principal risks is outlined in the 2016 Corporate Governance Report.

The Board has considered and endorsed the Audit Committee's assessment of the effectiveness of risk management and control systems in the Group. In particular, for the first half of the year 2017 there were no areas of concern identified which might materially affect the operational, financial reporting and compliance controls of the Group, and that the existing risk management and internal control systems remain effective and adequate.

Corporate Responsibility and Sustainability

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

The 2016 Corporate Responsibility and Sustainability Report (CRS Report) discusses in detail our progress towards Vision 2020 and specific material issues that contribute to the sustainable development of the Group. The CRS Report discloses the Group's corporate responsibility and sustainability performance which complies with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules as well as contains the standard disclosures on core level of the recently launched Global Reporting Initiative Standards. KPMG was commissioned to provide assurance on the reported data and an independent opinion of the CRS Report's alignment with the relevant standards. The CRS Report is available on the Company's and the Stock Exchange's websites.

Purchase, sale or redemption of listed securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2017.

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

The Company has made specific enquiries with all the Directors regarding any non-compliance with the Model Code and the Securities Code during the six months ended 30 June 2017. The Directors have confirmed their full compliance with the required standard set out in the Model Code and the Securities Code.

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

Interim dividend
The Board of Directors has resolved to declare an interim dividend of 4 HK cents per share (2016: 4 HK cents per share) for the six months ended 30 June 2017. The interim dividend will be payable on 13 October 2017 to shareholders whose names appear on the register of members on 7 September 2017.

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

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on 13 September 2017.

Closure of register of members
The register of members will be closed from 5 September 2017 to 7 September 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to receive the interim dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30pm on Monday, 4 September 2017.

Interim Report
The Interim Report of the Company will be dispatched to the shareholders as well as published on the websites of the Company and the Stock Exchange on or about 25 August 2017.

By Order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 4 August 2017

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

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Andrew Clifford Winawer Brandler

Executive Directors
Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Operating Officer
Peter Camille Borer

Chief Financial Officer
Matthew James Lawson

Non-Executive Directors
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer

Independent Non-Executive Directors
Dr the Hon. Sir David Kwok Po Li
Patrick Blackwell Paul
Pierre Roger Boppe
Dr William Kwok Lun Fung
Dr Rosanna Yick Ming Wong
Dr Kim Lesley Winser