THE HONGKONG AND SHANGHAI HOTELS, LIMITED
香港上海大酒店有限公司

Interim Report 2016 中期報告
Stock Code 股份代號：00045

Tradition meets Innovation
承先澤 啟新猷

An Imperial pattern – the hexagon – is a strong recurring theme throughout The Peninsula Beijing's renovated hotel design and its fittings. The 160,000 hexagonal motifs are partially inspired by the pattern of tortoise shells, which in Chinese culture represents longevity, as well as the peony flower, a symbol that denotes prosperity and honour.

皇城的六角圖案，在王府半島酒店翻新工程的設計及配置上佔有重要一席。160,000 個六角圖案靈感來自龜背，在中國文化中代表長壽，而牡丹花則象徵繁榮和榮譽。

Contents

Company at a Glance

Hotels

Asia

The Peninsula Hong Kong
Established: 1928
Rooms: 300
Ownership: 100%

The Peninsula Shanghai
Established: 2009
Rooms: 235
Ownership: 50%

The Peninsula Beijing
Established: 1989
Rooms: 525*
Ownership: 76.6%**

USA

The Peninsula New York
Established: 1988
Rooms: 235
Ownership: 100%

The Peninsula Chicago
Established: 2001
Rooms: 339
Ownership: 100%

The Peninsula Beverly Hills
Established: 1991
Rooms: 195
Ownership: 20%

* *Currently under renovation to combine 525 rooms into 230.*

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

THE PENINSULA TOKYO
Established: 2007
Rooms: 314
Ownership: 100%

THE PENINSULA BANGKOK
Established: 1998
Rooms: 370
Ownership: 75%

THE PENINSULA MANILA
Established: 1976
Rooms: 469
Ownership: 77.4%

EUROPE

THE PENINSULA PARIS
Established: 2014
Rooms: 200
Ownership: 20%

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

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

Company at a Glance

Commercial Properties

Residential

The Repulse Bay, Hong Kong
Established: 1976 & 1989
GFA: 995,546 sq. ft.
Ownership: 100%

The Landmark, Ho Chi Minh City, Vietnam
Established: 1994
GFA: 69,750 sq. ft.
Ownership: 70%***

Commercial

The Peak Tower, Hong Kong
Established: 1996
GFA: 116,768 sq. ft.
Ownership: 100%

Office

The Peninsula Office Tower, Hong Kong
Established: 1994
GFA: 75,082 sq. ft.
Ownership: 100%

St. John's Building, Hong Kong
Established: 1983
GFA: 71,400 sq. ft.
Ownership: 100%

The Landmark, Ho Chi Minh City, Vietnam
Established: 1994
GFA: 106,153 sq. ft.
Ownership: 70%***

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

The Repulse Bay Arcade, Hong Kong

Established: 1989
GFA: 62,909 sq. ft.
Ownership: 100%

1-5 Grosvenor Place, London, United Kingdom

Acquired: 2013
GFA: 246,192 sq. ft.
Ownership: 50%

21 avenue Kléber, Paris, France

Acquired: 2013
GFA: 43,163 sq. ft.
Ownership: 100%

Clubs and Services

The Peak Tram, Hong Kong

Established: 1888
Ownership: 100%

Thai Country Club, Bangkok, Thailand

Established: 1996
Ownership: 75%

Quail Lodge & Golf Club, Carmel, USA

Acquired: 1997
Ownership: 100%

Peninsula Clubs and Consultancy Services

Established: 1977
Ownership: 100%

Peninsula Merchandising

Established: 2003
Ownership: 100%

Tai Pan Laundry, Hong Kong

Established: 1980
Ownership: 100%

Financial Highlights

	For the six months ended 30 June 2016	2015	Increase/ (Decrease)
Consolidated Income Statement (HK$m)			
Revenue	**2,606**	2,690	(3%)
EBITDA	**525**	642	(18%)
Operating profit	**299**	435	(31%)
Profit attributable to shareholders	**198**	477	(58%)
Underlying profit attributable to shareholders*	**152**	265	(43%)
Interim dividend	**62**	77	(19%)
Earnings per share (HK$)	**0.13**	0.31	(58%)
Underlying earnings per share (HK$)*	**0.10**	0.17	(41%)
Interim dividend per share (HK cents)	**4**	5	(20%)
Interim dividend cover (times)**	**2.5x**	3.4x	(26%)
Interest cover (times)	**6.8x**	11.8x	(42%)
Weighted average gross interest rate	**2.1%**	2.3%	(0.2pp)

	As at 30 June 2016	As at 31 December 2015	
Consolidated Statement of Financial Position (HK$m)			
Total assets	**45,376**	45,089	1%
Net assets attributable to shareholders	**36,225**	36,427	(1%)
Adjusted net assets attributable to shareholders#	**39,491**	39,627	–
Net assets per share (HK$)	**23.19**	23.61	(2%)
Adjusted net assets per share (HK$)#	**25.28**	25.68	(2%)
Net borrowings	**3,849**	3,273	18%
Funds from operations to net debt##	**25%**	35%	(10pp)
Net debt to EBITDA (annualised) (times)	**3.7x**	2.3x	61%
Net debt to equity attributable to shareholders	**11%**	9%	2pp
Gearing	**10%**	8%	2pp

	For the six months ended 30 June 2016	2015	
Consolidated Statement of Cash Flows (HK$m)			
Net cash generated from operating activities	**581**	612	(5%)
Capital expenditure on existing assets			
– The Peninsula Beijing and The Peninsula Chicago	**(385)**	(80)	381%
– Others	**(122)**	(121)	1%
Capital expenditure on new projects/new acquisition	**(47)**	(134)	(65%)
Share Information (HK$)			
Highest share price	**9.27**	12.20	(24%)
Lowest share price	**7.15**	10.68	(33%)
Period end closing share price	**7.86**	10.76	(27%)

* *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

The first six months of 2016 have been challenging. Hong Kong, which is the largest geographic contributor to our Group, has been impacted by the well-publicised declines in tourism and high-end retail spending and a softening in the high-end residential market. There have also been challenges with unfortunate terrorist events disrupting tourism and business in global markets, as well as political uncertainty from the "Brexit" vote and subdued economic activity in general. These events have had varying impacts on our different businesses, with one of the most affected markets being Paris.

In the light of these circumstances, we are not dissatisfied with the operating results for the Group. While operating profit was down 31% and underlying profit attributable to shareholders down 43% as compared to the first six months last year, the bulk of this decrease was due to the earnings disruption from the partial closure of The Peninsula Beijing and The Peninsula Chicago due to the extensive renovation projects being undertaken at those hotels, as we had reported and forewarned in our 2015 Annual Report. Excluding the operating results of these two hotels, our Group's EBITDA would be only 4% lower than the same period last year which we regard as being quite creditable given the market circumstances.

As virtually all of our investment properties are located in Hong Kong, the property revaluation surplus for the six months at HK$54 million is substantially less than last year, although this is in line with the trend of softer real estate values in the city. Notwithstanding, we believe our valuations are prudent relative to other transactions we have witnessed in the market. After taking account of our operating earnings together with the property revaluation surplus, our profit attributable to shareholders of HK$198 million was down by 58% as compared to last year.

It is important to remember during a market downturn like this that our Group focuses on long-term investments and has successfully weathered many storms and cycles in its very long history. It is with considerable pride that we are celebrating the 150th anniversary of the establishment of our company, The Hongkong and Shanghai Hotels. We believe we are the world's oldest hotel group in continuous operation and we are the oldest company on the Hong Kong Companies Registry. As we celebrate this anniversary, our company has never been in better shape, with The Peninsula brand enjoying recognition as one of the leading luxury city hotel brands in the world. In an environment of consolidation and commoditisation in the hotel market globally, we are increasingly unique as an owner-operator, which we believe will serve us well over the long term. We have a valuable portfolio of quality hotel and other assets located in some of the most exceptional locations in the world, and we continue to invest in our real estate and people to ensure we maintain the exacting standards that have become synonymous with our brand. We have a strong balance sheet with conservative gearing, which positions us well to weather any downturn or capitalise on opportunities to grow when presented.

CEO's Strategic Review

The largest new project under development is The Peninsula London. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. This will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our Group, given the importance of London as a business and tourism destination. We take a long-term view and believe that many of the factors that make London such an important global city and desirable place to live will remain largely unaffected regardless of the outcome of the recent "Brexit" vote.

We have also continued to make progress with our committed projects for the developments of The Peninsula Yangon and The Peninsula Istanbul, although we continue to monitor the political and security situation in Turkey closely. We are also investing more heavily in our brand marketing, particularly in the digital arena.

Generally the outlook for our businesses remains challenging for the remainder of the year and we are therefore focused on cost containment and managing the margins of our operations.

A detailed review of our business performance is below:

Hotels Division

Hotels	Revenue HK$m	Variance	
		in HK$	in Local Currency
Consolidated Hotels			
The Peninsula Hong Kong	617	-5%	-5%
The Peninsula Beijing	50	-68%	-66%
The Peninsula New York	314	9%	9%
The Peninsula Chicago	230	5%	5%
The Peninsula Tokyo	391	13%	4%
The Peninsula Bangkok	113	8%	16%
The Peninsula Manila	134	-6%	-1%
Non-consolidated hotels			
The Peninsula Shanghai	285	3%	8%
The Peninsula Beverly Hills	295	0%	0%
The Peninsula Paris	221	-11%	-12%

Asia

Revenue HK$617m	Average Room Rate
-5%	0%
Occupancy	**RevPAR**
-4pp	-5%

The market in Hong Kong was challenging for tourism in the first half of the year, which was reflected in the reduced RevPAR of **The Peninsula Hong Kong**, although we were able to maintain our strong position in terms of market share. Overnight tourist arrivals to Hong Kong declined year-on-year by 3.2%. We continued to employ a strategy of drawing from a diverse base of customers, so that we are not dependent on any one geography or market segment. In the current market we have focused more marketing efforts on corporate business and groups to offset the softer demand from leisure travellers and we believe that the revenue and RevPAR drop of only 5% was a creditable result relative to the market. The Peninsula Office Tower was fully let although The Peninsula Arcade saw some softening in average rental rates along with the broader Hong Kong retail market. We are working closely with our key retail tenants to address the significant downturn in Hong Kong's high-end retail market, where we believe the long-term relationship we enjoy with many of our key tenants and our unique ability to offer access to Peninsula Hotel guests will help to support our tenants. We initiated a successful marketing campaign, *Legendary Artisans*, to promote our Arcade tenants by showcasing exclusive collection launches and culinary collaborations such as the Tiffany-inspired afternoon tea. The hotel's three-year collaboration with Britain's highly regarded Royal Academy of Arts, *Love Art at The Peninsula*, broke new ground with the launch of a robotic sculptural installation entitled "The Ada Project" by British conceptual artist Conrad Shawcross RA, which generated extensive press coverage and standout reviews from the international art community during Art Basel Hong Kong in March.

Revenue RMB242m	Average Room Rate
+8%	+4%
Occupancy	**RevPAR**
+2pp	+8%

The Peninsula Shanghai reported a satisfactory first half of 2016 with occupancy increasing 2pp, and the average room rate increasing 4% over the same period last year. The hotel remains the market leader in RevPAR in the city and we were delighted to receive the accolade of Number 1 in Best City Hotels in Asia by *Travel + Leisure* magazine. Overall revenue was impacted by a new VAT reform which was implemented by the Chinese government on 1 May 2016. The domestic market remained robust and we are seeing a very strong trend towards last-minute bookings in mainland China, as well as increasing numbers of guests from The Middle East. The Peninsula Arcade was fully occupied, and we are working with our tenants on renewed rental contracts to secure long-term partnerships. The Arcade also participated in the *Legendary Artisans* marketing campaign to promote our retail tenants which was also held in Hong Kong and Beijing.

CEO's Strategic Review

The Peninsula Beijing is well advanced in its extensive RMB890 million renovation, with the first phase to be completed in August 2016 and the second phase to be completed in spring 2017. The previous 525 rooms of the hotel are being combined to create 230 elegant new rooms and suites, which start from 60 sq. m., making them the largest in Beijing and among the most spacious luxury hotel rooms in China. At a press conference held in June 2016, we unveiled spectacular new public spaces including the Lobby and newly revamped restaurants, *Huang Ting* and *Jing*. The latter has introduced a new "farm to table" dining concept and a 70% organic, sustainable menu, a unique feature in China. The renovation was inspired by the Imperial architecture of ancient China and we have combined the very best of Chinese tradition, culture and artisanship with the most contemporary standards of luxury, including the most up-to-date modern technology and our traditional Peninsula hospitality. Occupancy and average rates in the first half were significantly impacted by the renovation, however, the new rooms will start to be available for sale from August 2016 and completed by spring 2017. The feedback from guests and media on the first phase of the renovation has been positive and we believe this renovation will place The Peninsula Beijing at the top of the highly competitive Beijing market. The Peninsula Arcade reported a stable performance despite some disruption from the renovation, with over 90% occupancy.

Revenue RMB42m	Room revenue RMB7m
-66%	-82%
Available Rooms	Average Room Rate
-56%	-1%
Occupancy	RevPAR
-41pp	-60%

The Peninsula Tokyo had a positive first half of the year with the hotel reporting an increase of 18% in average room rate year-on-year in Japanese yen terms, and an increase in RevPAR of 9%. We reported a lower occupancy rate due to the strategy to drive average rate, but the overall outcome was that we achieved the highest revenue for the hotel since its opening, which was a pleasing result. City-wide, Tokyo luxury hotels saw slightly softer demand from international markets due to the strengthening yen. The Kumamoto earthquake in April and the Japanese government's campaign to highlight its regional cities to inbound travellers versus Tokyo also had an impact on international visitor arrivals. However, visitors from the US increased by double digits during June. The Peninsula Tokyo's innovative Pokémon luxury hotel experience, exclusively designed for The Peninsula Tokyo by The Pokémon Company, has resulted in a positive increase in family travellers, and we expect this trend will continue due to the popularity of "Pokémon GO". Forward bookings indicate that the second half of the year will see growth in corporate business which has a longer booking lead time.

Revenue JPY6b	Average Room Rate
+4%	+18%
Occupancy	RevPAR
-7pp	+9%

The Peninsula Bangkok enjoyed a strong beginning to the year with revenue increasing 16% and RevPAR up 12% over the previous year, with particularly robust business during Chinese New Year. Although martial law ended in April 2015, MICE business (Meetings, Incentives, Conferences and Exhibitions) remains soft due to the lead time for long-term planning of such events. Visitor arrivals improved significantly from the US, mainland China and from around the Asian region, especially South Korea. We saw a strong growth in the transient segment particularly from last minute bookings around the region. Our strategy is to increase group and corporate business as the Bangkok market gradually recovers from the political uncertainty of the past few years.

Revenue THB516m	Average Room Rate
+16%	+1%
Occupancy	**RevPAR**
+7pp	+12%

The Peninsula Manila reported a stable first half, with revenue slightly decreasing 1% over the same period last year. This was partially due to a softer business environment due to uncertainty over the Philippine Presidential Election, which took place on 9 May 2016, and the new government under President Duterte transitioned to power on 30 June 2016. The election period negatively impacted our negotiated corporate and long-stay guest bookings, but we are confident these will return to normal in the coming months post-election. The rise of the middle class in the Philippines continues to have a positive effect on our business with domestic travellers now comprising our second largest group after the US. Our strategy is to continue to grow our corporate business and meeting groups. Leisure traffic also shows positive growth in the Makati Central Business District. The Peninsula Manila will celebrate its 40th anniversary in September 2016.

Revenue PHP812m	Average Room Rate
-1%	-2%
Occupancy	**RevPAR**
-3pp	-5%

USA

The Peninsula New York reported a steady first half of the year due to an improving US economy and increased arrivals from the Middle East and UK. We were pleased to maintain a strong market share, with revenue up 9%, higher occupancy and improved RevPAR. Average room rate declined 7% year-on-year as a result of a much shorter booking window; this was a trend across the city which also affected our competitive set. Leisure travellers from our traditionally robust markets of Brazil, Australia and Europe were more cost conscious and the opening of many new boutique hotels has presented an intensely competitive market for luxury travellers. Business travel was soft compared to the same period last year, due to the uncertain financial situation of the global economy, combined with the impact of our major corporate accounts significantly cutting their travel budgets. Our strategy is to further drive corporate and diplomatic business during our traditional high season in the second half. We introduced a new monthly series concept at *Clement* restaurant, *Kitchen Table at Clement*, hosted by Chef Remi van Peteghem, and *Jazz at Clement Bar*, to drive food and beverage revenue. In response to demand for larger suites, the hotel will create a new grand suite overlooking Fifth Avenue, which will open in September.

Revenue US$40m	Average Room Rate
+9%	-7%
Occupancy	**RevPAR**
+6pp	+2%

CEO's Strategic Review

The Chicago market had a challenging first six months of 2016, with increased supply in the luxury hotel segment, which affected city-wide occupancy and average rates. Some new events were held in the city for the first time including the America's Cup, although the loss of other major conventions affected corporate bookings across the city. **The Peninsula Chicago** celebrated its 15th anniversary in June 2016 with an elegant gala event for our VIP guests and media, offering an opportunity to showcase the newly renovated hotel. In the first half we were pleased to report an increase of 9% in average rates and an improved ranking in both RevPAR and average rates. We have been able to charge a premium rate for the same room category in our renovated rooms, achieving additional revenue per room per night. The new room product continued to receive positive feedback from guests and generated enthusiastic media reviews. The re-design of the hotel introduced the Peninsula's proprietary advanced guest room technology to the United States, along with two new service initiatives: 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.

Revenue US$29m	Average Room Rate
+5%	+9%
Occupancy	**RevPAR**
-3pp	+2%

The Peninsula Beverly Hills had a stable first half of the year, remaining number one in RevPAR within our competitive set although occupancy was flat over the same period in the previous year. Average room rates and RevPAR decreased slightly over the previous year, a trend which also affected our competitor set. A strong US dollar impacted arrivals from overseas markets including the UK, while medical tourism to Los Angeles continues to be a popular niche trend. An increase in the minimum wage in California from 1 January 2016 also affected overall earnings. The newly renovated *Belvedere* restaurant opened in January and has achieved very positive reviews and feedback from guests, with the revamped outdoor Terrace area proving popular with guests, leading to improved catering revenue from an increased number of events being held on the Terrace. We also launched a new Peninsula Academy LA-themed experience for children, *Red Carpet Kids*, in line with our strategy of attracting more family travellers. The Peninsula Beverly Hills remains the only AAA Five Diamond and Forbes Five Star-rated hotel in Southern California, an accolade it has achieved every year since 1993. We are optimistic for our traditional high season in summer and the second half of 2016 and will continue to contain costs.

Revenue US$38m	Average Room Rate
0%	-3%
Occupancy	**RevPAR**
-1pp	-4%

Europe

The Paris market continues to face intense challenges following the terrorist attacks in 2015, as well as the attacks on Brussels airport in March 2016, which deterred many foreigners from visiting Paris in the spring of 2016, affecting occupancy and RevPAR across the city. We are generally very concerned about the effect of the recent terrorist attacks in Europe on the tourism industry. However, **The Peninsula Paris** continues to garner a high level of acclaim from guests, media and the industry after its spectacular Grand Opening in 2015. In the first half, the hotel welcomed an increased number of US and Middle East guests, particularly from Saudi Arabia. Unseasonably cold and rainy weather in late spring affected the food and beverage outlets at the hotel. In line with our strategy to attract more family travellers, in February 2016, The Peninsula Paris launched its own mobile application for children, *My Little Peninsula Paris*, featuring the hotel and Paris as a background, which invites junior guests to join the iconic Peninsula mascot *Peter The Bear* on an adventure to discover the hotel and experience Paris.

Revenue EUR26m	Average Room Rate
-12%	-11%
Occupancy	**RevPAR**
-5pp	-20%

Commercial Properties Division

Commercial Properties	Revenue HK$m	Variance in HK$	Variance in Local Currency
The Repulse Bay Complex	311	0%	0%
The Peak Tower	85	0%	0%
St. John's Building	26	-4%	-4%
The Landmark	19	0%	5%
1-5 Grosvenor Place	15	-12%	-9%
21 avenue Kléber	0	-100%	-100%

In the first six months, revenue at **The Repulse Bay Complex** was stable compared with the same period last year. The operating results were satisfactory in the light of the general weakening of the property market in Hong Kong with softer demand and longer negotiating times for rental contracts being reported across the city, especially from the finance sector and other corporate clients. The Shopping Arcade, which offers an eclectic blend of boutique and lifestyle amenities, was almost fully occupied in the first half. Food and beverage revenue was slightly down over the same period last year and we are implementing summer promotion campaigns to boost traffic. Weddings business remains stable and this trend is expected to continue into the second half of 2016.

The Peak Tower was almost fully leased in the first six months of 2016 and revenue remained stable having signed new rental agreements for two new restaurant tenants. 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, with particularly strong growth from Southeast Asian markets.

St John's Building, located at the lower terminus of the Peak Tram, was also fully let during the first half. Revenue decreased by 4% due to lower advertising income on the façade of the building.

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 5% increase in revenue despite a highly competitive market situation in Ho Chi Minh City.

The Group's commercial properties of **1-5 Grosvenor Place** in London and **21 avenue Kléber** in Paris, which were acquired during 2013, saw a revenue decline of 9% and 100% respectively due to lower rental income as we prepare the buildings for renovation. As mentioned in the Projects section on page 14, on 26 July we signed Heads of Terms to change the structure in our partnership with Grosvenor to assume 100% ownership of the leasehold. We target to obtain vacant possession and commence demolition and construction in mid-2017. We have commenced a major renovation on 21 avenue Kléber, which is immediately adjacent to The Peninsula Paris, and we expect this renovation to be completed by mid-2017. We have received positive leads from the market with respect to leasing this property.

CEO's Strategic Review

Clubs and Services Division

Clubs and Services

	Revenue HK$m	Variance in HK$	Variance in Local Currency
The Peak Tram	56	-3%	-3%
Thai Country Club	29	-6%	0%
Quail Lodge & Golf Club	48	9%	9%
Peninsula Clubs & Consultancy Services	65	-29%	-29%
Peninsula Merchandising	29	16%	16%
Tai Pan Laundry	25	-11%	-11%

The Peak Tram is one of Hong Kong's most popular tourist attractions. In the first half, overall revenue decreased by 3%. Patronage declined slightly by 1% in the first half of 2016, although we received record visitor numbers in the month of June which sets a good momentum for the rest of the year.

Thai Country Club recorded a small decrease in revenue due to lower golf membership sales, while food and beverage also reported a small decline due to fewer numbers of overseas visitors.

Quail Lodge & Golf Club had an improved first half of the year with revenue increasing by 9% due to a successful marketing strategy, as well as improved golf membership sales and golf rounds following the golf course renovation in 2015. *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.

Peninsula Clubs & Consultancy Services manages prestigious clubs in Hong Kong including The Hong Kong Club, Hong Kong Bankers Club and Butterfield's. As of 1 May 2016, HSH and Cathay Pacific Airways Limited agreed to end the Peninsula's management of the Cathay Pacific Lounges at Hong Kong International Airport. We are disappointed with this outcome as we had been managing Cathay Pacific's Lounges at Hong Kong airport since 1998. The decline in revenue in the Clubs and Services division was due to the loss of income from the Lounges.

Revenue at **Peninsula Merchandising** was 16% higher than the same period last year, driven by higher sales at our new Peninsula Boutique at Hong Kong International Airport and a new website which was launched in May 2016. Peninsula Merchandising expects significant sales in the second half due to the highly popular Peninsula Mooncakes. Peninsula Merchandising has implemented a new strategy of a broader product range and seasonal promotions, which requires an initial investment but is expected to lead to a long-term increase in revenue.

Projects

The Peninsula London

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of GBP132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is currently owned by Grosvenor. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100%

ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. This restructure will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our group, given the importance of London as a business and tourism destination.

This property is in a spectacular location overlooking Hyde Park Corner and the Wellington Arch and we are planning to replace the existing 1950s and 1960s offices with a high-quality 190-room hotel and a select number of luxury residential apartments for sale. The hotel and apartments will set new standards in luxury and service and we believe they will be the finest in the London market when complete, currently scheduled for late 2021.

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 at the heart of a mixed-use development called The Landmark. We will also manage The Peninsula Residences Yangon, luxury residential apartments within the development. The Group's overall investment will be about US$100 million, taking into account the value of the leasehold interest pertaining to the proposed hotel development and development cost estimates which are still being finalised. In June 2016, the Board approved the extension of the Long Stop Date to 31 December 2016, and on 23 July 2016 the Master Lease for The Peninsula Yangon site was formally signed.

The Peninsula Istanbul

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

Subject to fulfilment of the conditions, the partners have agreed to jointly develop the property with an investment commitment of approximately EUR300 million (equivalent to approximately HK$2,568 million), of which HSH is responsible for 50% or approximately EUR150 million (equivalent to approximately HK$1,284 million). The parties to the Shareholders' Agreement have agreed to further extend the Long Stop Date from 30 June 2016 to 31 August 2016 to fulfil conditions of the existing agreement. Construction of the extension of the pier in front of the hotel commenced in January 2016 and demolition on the project site began in June.

We remain concerned about the uncertain political situation in Turkey and the terrorist attacks in the first half of 2016 which have had a negative impact on the tourism industry. We continue to monitor the situation closely.

Human Resources

Attracting and developing our talent remains a key focus of our company. Despite challenging times for our industry and an uncertain economic outlook in our home market of Hong Kong, we are pleased to report a low voluntary turnover rate among our staff compared with the industry. Having a stable workforce is critical to our work culture and in order to deliver the quality of service to our guests.

As of 30 June 2016, there were 7,500 full time employees in the Group.

CEO's Strategic Review

Sustainable Luxury Vision 2020

As a company with 150 years of history, HSH is committed to delivering the highest standards of luxury in a sustainable way. In the first half of 2016 we continued to implement our Sustainable Luxury Vision 2020, working group-wide to deliver progress towards the ambitions set out in our blueprint for sustainable growth, and achieving a saving of over HK$3 million and 5% in energy savings. In the first half of 2016 we focused on delivering natural, organic and sustainably farmed choices on our menus worldwide including the menus in our newly renovated restaurants at The Peninsula Beijing. More details on our ambitions for Vision 2020 can be found on our corporate website.

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 increasingly seem to be challenged by, 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 chart a course which will maximise the value of our assets and operations and deliver appropriate risk-adjusted returns to our shareholders.

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.

As has been mentioned, current trends in retail and tourism in Hong Kong are negative and we are seeking to address this by focusing on driving revenues and containing costs. More generally, our focus is to maintain and drive our operating margins throughout the Group in the light of the global uncertainties arising from political, economic and security factors.

Despite the uncertainties, we remain optimistic that our second half earnings will reflect the traditional autumn high season in many of the markets in which we operate. More specifically, we expect that The Peninsula Chicago will benefit in terms of room rate from its recently completed renovation and The Peninsula Beijing to increase its earnings after the completion of the first phase of its rooms renovation in August 2016. However, this hotel will remain partially closed until its completion of the second phase of its renovation in spring 2017. On the residential lettings side, occupancy at The Repulse Bay Complex has remained stable although the outcome of the traditional leasing renewals season over the summer remains to be seen.

Overall, our company remains in a strong financial position, and the core operations are performing well when the renovations are taken into account. We will continue to invest in our assets and explore new ways to further leverage the considerable value of our Peninsula brand. With our long-term outlook and the exciting new projects 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.

Financial Review

The Interim Report includes the unaudited interim results of the Group for the six months ended 30 June 2016. The Interim Financial Report has been reviewed by the Company's Audit Committee which comprises a majority of Independent Non-Executive Directors, one of whom chairs the Committee, and the Company's Auditor, KPMG, whose independent review report to the Board of Directors is set out on page 52.

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 income statement. In order to provide a better reflection of the performance of the Group, we have provided calculations of the Group's underlying profit attributable to shareholders and underlying earnings per share, which 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 2016 amounted to HK$152 million and HK$0.1 respectively.

	For the 6 months ended 30 June		
HK$m	**2016**	2015	2016 vs 2015
Profit attributable to shareholders	**198**	477	
Increase in fair value of investment properties	**(54)**	(236)	
Share of property revaluation loss of The Peninsula Shanghai, net of tax	**8**	26	
Tax and non-controlling interests attributable to non-operating item	**–**	(2)	
Underlying profit attributable to shareholders	**152**	265	(43%)
Underlying earnings per share (HK$)	**0.10**	0.17	(41%)

Financial Review

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 2016, the details of which are set out on page 23. If these assets were to be stated at fair value, the Group's net assets attributable to shareholders would increase by 9% to HK$39,491 million as indicated in the table below.

HK$m	As at 30 June 2016		As at 31 December 2015	
Net assets attributable to shareholders per statement of financial position		**36,225**		36,427
Adjusting the value of hotels and golf courses to fair value	**3,687**		3,685	
Less: Related deferred tax and non-controlling interests	**(421)**		(485)	
		3,266		3,200
Adjusted net assets attributable to shareholders		**39,491**		39,627
Net assets per share (HK$)		**23.19**		23.61
Adjusted net assets per share (HK$)		**25.28**		25.68

Income Statement

The Group's consolidated income statement for the six months ended 30 June 2016 is set out on page 32. The following table summarises the key components of the Group's profit attributable to shareholders. This table should be read in conjunction with the commentaries set out on pages 19 to 21 of this Financial Review.

	For the 6 months ended 30 June		
HK$m	2016	2015	2016 vs 2015
Revenue	**2,606**	2,690	(3%)
Operating costs	**(2,081)**	(2,048)	2%
EBITDA	**525**	642	(18%)
Depreciation and amortisation	**(226)**	(207)	9%
Net financing charges	**(44)**	(37)	19%
Share of results of The Peninsula Shanghai*	**(14)**	(41)	(66%)
Share of results of The Peninsula Paris and The Peninsula Beverly Hills**	**(19)**	(14)	36%
Increase in fair value of investment properties	**54**	236	(77%)
Taxation	**(79)**	(102)	(23%)
Profit for the period	**197**	477	(59%)
Non-controlling interests	**1**	–	n/a
Profit attributable to shareholders	**198**	477	(58%)

* *Being the Group's 50% share of The Peninsula Shanghai's (PSH) result. The 2016 figure includes the Group's share of unrealised loss of HK$8 million (2015: HK$26 million) mainly arising from the revaluation of PSH's investment properties.*

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

Revenue

The Group's revenue for the six months ended 30 June 2016 decreased by 3% to HK$2,606 million. A breakdown of this by business segment and geographical segment is set out in the following table.

Consolidated revenue by business segment

HK$m	2016	2015	2016 vs 2015
Hotels	**1,898**	1,954	(3%)
Commercial Properties	**456**	459	(1%)
Clubs and Services	**252**	277	(9%)
	2,606	2,690	(3%)

Consolidated revenue by geographical segment

HK$m	2016	2015	2016 vs 2015
Arising in			
Hong Kong	**1,263**	1,323	(5%)
Other Asia	**736**	798	(8%)
United States of America	**592**	551	7%
Europe	**15**	18	(17%)
	2,606	2,690	(3%)

The hotels division is the main contributor to the Group's revenue, accounting for 73% (2015: 73%) of total revenue. The operating performance of the Group's hotel businesses is subject to a higher degree of volatility by nature. The decrease in revenue of the hotels division was mainly due to the room closures for the renovation programmes undertaken by The Peninsula Beijing and The Peninsula Chicago, and declining tourist arrivals in Hong Kong.

The operating performance of the commercial properties division remained stable during the first half of 2016. As disclosed in our 2015 Annual Report, the Company and Cathay Pacific Airways Limited agreed to end the management contracts for the Cathay Pacific Lounges at Hong Kong International Airport with effect from 1 May 2016. The decrease in revenue for the clubs and services division was mainly due to the loss of income from the Lounges.

Further details of the operating performances of the Group's individual operations are set out in the CEO's Strategic Review of pages 7 to 16.

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EBITDA and EBITDA Margin

EBITDA (earnings before interest, taxation, depreciation and amortisation) of the Group decreased by HK$117 million or 18% to HK$525 million in the first half of 2016. The table below sets out the breakdown of the Group's EBITDA by business segment and by geographical segment.

EBITDA (HK$m)	Hong Kong	Other Asia	United States of America	Europe	Total
2016					
Hotels	**225**	**30**	**(29)**	**–**	**226**
Commercial Properties	**263**	**9**	**–**	**6**	**278**
Clubs and Services	**32**	**5**	**(16)**	**–**	**21**
	520	**44**	**(45)**	**6**	**525**
	99%	**8%**	**(8%)**	**1%**	**100%**
2015					
Hotels	255	94	(32)	–	317
Commercial Properties	273	9	–	13	295
Clubs and Services	39	7	(16)	–	30
	567	110	(48)	13	642
	88%	17%	(7%)	2%	100%
Change in EBITDA 2016 vs 2015	(8%)	(60%)	(6%)	(54%)	(18%)

EBITDA margin	**2016**	2015
Hotels	**12%**	16%
Commercial Properties	**61%**	64%
Clubs and Services	**8%**	11%
Overall EBITDA margin	**20%**	24%
Arising in:		
Hong Kong	**41%**	43%
Other Asia	**6%**	14%
United States of America	**(8%)**	(9%)
Europe	**40%**	72%

During the first half of 2016, the EBITDA margin of the hotels division decreased by four percentage points mainly due to the low margins earned by The Peninsula Beijing and The Peninsula Chicago during the renovations. Whilst revenue was down significantly due to the closure of rooms, it was not possible to have a corresponding reduction in operating expenses, the majority of which comprise staff costs and overhead expenses. The decrease in the EBITDA margin for the commercial properties division was mainly due to a reduction in rental income from 1-5 Grosvenor Place, as the property is offering shorter-term leasing in preparation for vacant possession of the building in mid-2017. The decrease in the EBITDA margin for the clubs and services division was due to the loss of income from the Cathay Pacific Lounges, as well as increased investment in the product range and retail presence of Peninsula Merchandising.

Increase in Fair Value of Investment Properties

The amount represented the net revaluation surplus of the Group's investment properties, which amounted to HK$54 million (2015: HK$236 million). The reduction in revaluation surplus was a reflection of the general market conditions. The net surplus in 2016 was principally attributable to the increase in the appraised market value of the Group's office buildings, including The Peninsula Office Tower, St John's Building and 21 avenue Kléber net of the decrease in appraised market value of the commercial arcade at The Peninsula Hong Kong and The Landmark, Vietnam.

Share of Results of a Joint Venture and Associates

The Group, through a joint venture, owns a 50% interest in The Peninsula Shanghai 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.

In addition, the Group has a 20% interest in each of The Peninsula Beverly Hills and The Peninsula Paris. Given the difference in investment structures, The Peninsula Shanghai is accounted for as a joint venture whereas The Peninsula Beverly Hills and The Peninsula Paris are accounted for as associates.

Several factors should be taken into account when comparing the Group's share of results of a joint venture and associates.

During the period, The Peninsula Shanghai sold one-bedroom apartment unit for HK$43 million (In 2015, two three-bedroom apartment units were sold for HK$173 million). The share of The Peninsula Shanghai's result includes a net unrealised loss of HK$8 million (2015: unrealised loss of HK$26 million) mainly arising from the revaluation of The Peninsula Shanghai's investment properties, which comprise the shopping arcade and apartments held for leasing. After accounting for this revaluation adjustment, the Group's share of loss of The Peninsula Shanghai amounted to HK$14 million (2015: loss of HK$41 million).

The Peninsula Paris opened for business on 1 August 2014. As The Peninsula Paris is still becoming established in the market and in the aftermath of the terrorist attacks in Paris in January and November 2015 and in Brussels in March 2016, the hotel sustained a loss in the first six months of 2016.

Although The Peninsula Beverly Hills performed well and continued to be profitable, the Group's share of net loss of associates amounted to HK$19 million (2015: loss of HK$14 million).

Details of the operating results of The Peninsula Shanghai, The Peninsula Beverly Hills and The Peninsula Paris are set out in the CEO's Strategic Review on pages 9 and 12.

Financial Review

Statement of Financial Position

The Group's financial position as at 30 June 2016 remained strong and net assets attributable to shareholders amounted to HK$36,225 million, representing a per share value of HK$23.19 compared to HK$23.61 as at 31 December 2015. The key components of the Group's assets and liabilities as at 30 June 2016 and 31 December 2015 are set out in the table below.

HK$m	As at 30 June 2016	As at 31 December 2015	2016 vs 2015
Fixed assets	**39,568**	39,097	1%
Other long-term assets	**2,205**	2,169	2%
Cash at banks and in hand	**2,709**	2,919	(7%)
Other assets	**894**	904	(1%)
	45,376	45,089	1%
Interest-bearing borrowings	**(6,558)**	(6,192)	6%
Other liabilities	**(2,358)**	(2,237)	5%
	(8,916)	(8,429)	6%
Net assets	**36,460**	36,660	(1%)
Represented by			
Shareholders' funds	**36,225**	36,427	(1%)
Non-controlling interests	**235**	233	1%
Total equity	**36,460**	36,660	(1%)

Fixed Assets

The Group has interests in ten operating hotels in Asia, US and Europe. In addition to its hotel properties, the Group owns residential apartments, office towers and commercial buildings for rental purposes.

Our hotel properties (other than shopping arcades and offices within the hotels) and golf courses are regarded as operating assets and are stated at cost less accumulated depreciation and any provision for impairment losses. On the other hand, our investment properties (including shopping arcades and offices within our hotels) are stated at fair value as appraised by independent valuers.

A summary of the Group's hotel, commercial and other properties showing both the book value and the fair value as at 30 June 2016 is set out in the table on the following page.

		Value of 100% of the property	
	Group's interest	Fair value valuation (HK$m)	Book value (HK$m)
Hotel properties*			
The Peninsula Hong Kong	100%	12,057	9,919
The Peninsula New York	100%	2,390	1,751
The Peninsula Tokyo	100%	1,721	1,650
The Peninsula Beijing	76.6%**	1,567	1,421
The Peninsula Chicago	100%	1,326	1,264
The Peninsula Bangkok	75%	615	599
The Peninsula Manila	77.4%	153	151
		19,829	16,755
Commercial properties			
The Repulse Bay Complex	100%	16,875	16,875
The Peak Tower	100%	1,339	1,339
St. John's Building	100%	996	996
21 avenue Kléber	100%	577	577
1-5 Grosvenor Place	50%	2,977	2,977
The Landmark	70%$^{\Delta}$	73	73
		22,837	22,837
Other properties			
Thai Country Club golf course	75%	216	241
Quail Lodge resort, golf course and vacant land	100%	307	292
Vacant land in Thailand	75%	394	394
Others	100%	339	222
		1,256	1,149
Total market/book value		43,922	40,741
Hotel and investment property held by a joint venture			
The Peninsula Shanghai$^{\Delta\Delta}$	50%	4,800	4,500
Hotel properties held by associates			
The Peninsula Paris	20%	5,563	5,347
The Peninsula Beverly Hills	20%	2,636	488

* *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.*

$^{\Delta}$ *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.*

$^{\Delta\Delta}$ *Excluding the apartment units which are held for sale.*

Financial Review

Statement of Cash Flows

The Group's cash flows for the first six months of 2016 are summarised as follows:

	For the 6 months ended 30 June	
HK$m	**2016**	2015
EBITDA	**525**	642
Changes in working capital	**67**	(8)
Tax payment	**(11)**	(22)
Net cash generated from operating activities	**581**	612
Capital expenditure on existing assets		
– The Peninsula Beijing and The Peninsula Chicago	**(385)**	(80)
– Others	**(122)**	(121)
Net cash inflow after normal capital expenditure	**74**	411
Capital expenditure on new projects/new acquisition	**(47)**	(134)
Capital injection into a joint venture	**(79)**	–
Net cash (outflow)/inflow before dividends, other payments and financing activities	**(52)**	277

During the period, capital expenditure of HK$507 million (2015: HK$201 million) was incurred for the Group's existing assets, of which HK$385 million (2015: HK$80 million) related to the major renovations of The Peninsula Beijing and The Peninsula Chicago. The renovation of The Peninsula Beijing is still ongoing while that of 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 18% to HK$3,849 million (31 December 2015: HK$3,273 million) and the Group's gearing, expressed as the percentage of net borrowings to the total of net borrowings and shareholders' funds, increased to 10% (31 December 2015: 8%). The increase was mainly due to the renovation payments made by The Peninsula Beijing and The Peninsula Chicago 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 6.8 times (2015: 11.8 times) due to the fall in operating profit during the period.

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$5,446 million at 30 June 2016 (31 December 2015: HK$4,882 million).

As at 30 June 2016, the Group's fixed-to-floating interest rate ratio was 63% as compared to 62% as at 31 December 2015. The weighted average gross interest rate for the period decreased to 2.1% (2015: 2.3%) 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. During the period, the Company arranged a credit facility of THB800 million to refinance its maturing revolving loan.

Non-adjusting Event after the Reporting Period

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of GBP132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is currently owned by Grosvenor. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. We will have full responsibility and control for the development of the London Project upon completion of the restructure. This will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our Group, given the importance of London as a business and tourism destination.

Other Corporate Information

Corporate Governance

The Board of Directors of the Company is responsible to its shareholders and stakeholders for ensuring the success of the Company. Good corporate governance is crucial to carry the Group through the changing regulatory landscape and in fostering relationships with shareholders and stakeholders of the Company. By putting in place the right governance framework, the Board has set a culture of integrity, transparency and accountability that permeates throughout the Group. The Board of Directors believes that such a framework is the cornerstone for good corporate governance throughout the organisation and in turn fosters and maintains shareholders' and stakeholders' confidence in the Company. The Corporate Governance Report in the 2015 Annual Report outlines the Company's approach to governance and its initiatives and activities.

The Company has adopted its own Corporate Governance Code (HSH Code). It applies all of the principles in the Corporate Governance Code in Appendix 14 of the Listing Rules (CG Code). The HSH Code has already encompassed all code provisions and recommended best practices of the CG Code, save for the recommended best practices including publication of quarterly financial results and disclosure of individual senior management remuneration, as disclosed in the Corporate Governance Report.

Throughout the six months ended 30 June 2016, the Company has complied with all the code provisions in the CG Code.

Corporate Responsibility and Sustainability

The Group's Sustainable Luxury Vision 2020 guides our commitment to managing sustainability risks and opportunities. With seven areas of focus covering all divisions of our business, Vision 2020 sets out more than 50 economic, social and environmental goals that we are targetting to achieve by year 2020.

The Corporate Responsibility and Sustainability Report discusses in detail our progress towards Vision 2020 and specific material issues that contribute to the sustainable development of the Group. This Report discloses the Group's corporate responsibility and sustainability performance in accordance with the G4 Sustainability Reporting Guidelines of Global Reporting Initiative (GRI) at Core disclosure level and the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules. The reported information has been verified by independent auditor, KPMG, and accredited by GRI in Materiality Disclosures.

Board and Board Committees

Dr Kim L. Winser was appointed to the Board as Independent Non-Executive Director on 1 January 2016 and Mr Matthew J. Lawson was appointed as Executive Director, Chief Financial Officer and a member of the Finance Committee with effect from 3 May 2016. Both were re-elected at the Annual General Meeting on 11 May 2016 (2016 AGM).

The biographical details of the Board members are set out in the 2015 Annual Report and the biographical details of Mr Matthew J. Lawson, who was appointed on 3 May 2016, are set out on the next page.

Matthew J. Lawson

Appointed to the Board as Executive Director and Chief Financial Officer in May 2016, Mr Lawson is also a Director of the majority of the Group's entities. He holds a Bachelor of International Business Relations from Griffith University and a Bachelor of Commerce from The University of Queensland. Mr Lawson has also completed various postgraduate studies in China, including the Hopkins-Nanjing Center for Chinese and American Studies. Over the course of his career Mr Lawson has had extensive experience with hospitality and real estate transactions, investments and financing, including joint venture negotiations and structuring. He began his career with Arthur Andersen Corporate Finance in Sydney in 1998 and subsequently joined Deutsche Bank AG in Sydney in 2001 where he worked across Equity Capital Markets and Real Estate Investment Banking. Mr Lawson joined JPMorgan in Asia in 2006, where he has held senior positions in Hong Kong and Singapore, most recently as Managing Director and Head of the Real Estate, Gaming and Lodging investment banking practice in Asia. He is 43 years old.

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

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

A – Audit Committee Member
N – Nomination Committee Member
R – Remuneration Committee Member
E – Executive Committee Member
F – Finance Committee Member

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

(a) Directors' emoluments

With effect from 1 January 2016, the basic compensation of the two Executive Directors, Messrs Clement K.M. Kwok and Peter C. Borer, was increased by 3%. The basic compensation of another Executive Director, Mr Matthew J. Lawson who was appointed as a Director of the Company in May 2016, is the same as the information set out in the circular dated 8 April 2016. The basis for determining the Directors' bonuses, incentives and retirement benefits remains unchanged.

The Board approved on 16 March 2016 and recommended the fees of Non-Executive Directors and Independent Non-Executive Directors were to be fixed at the rate of HK$300,000 and HK$350,000 respectively per annum. These fees were approved by Shareholders at the 2016 AGM. The Board also approved a revision of the fees payable to the Chairman and members of Nomination Committee to HK$40,000 per annum.

The revised fees took effect on 11 May 2016 and are paid to the Non-Executive Directors and Independent Non-Executive Directors on a pro rata basis for the financial year ending 31 December 2016.

Other Corporate Information

(b) Directors' information

The Hon. Sir Michael Kadoorie has ceased to be an Alternate Director of Hong Kong Aircraft Engineering Company Limited with effect from 6 May 2016.

Dr the Hon. Sir David K.P. Li has resigned as an Independent Non-Executive Director of Armada Holdings Limited (formerly known as SCMP Group Limited) with effect from 6 June 2016.

Save as disclosed above, as at 10 August 2016, being the date of approval of the Company's Interim Report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The biographical details of Directors are available on the Company's website.

Interests of Directors

As at 30 June 2016, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation, within the meaning of Part XV of the Securities and Futures Ordinance (SFO), recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (Model Code) to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
The Hon. Sir Michael Kadoorie	Note (a)	835,017,930	53.473
Mr Clement K.M. Kwok	Beneficial Owner	706,126	0.045
Mr Peter C. Borer	Beneficial Owner	353,801	0.023
Mr Ronald J. McAulay	Note (b)	261,625,122	16.754
Mr William E. Mocatta	Beneficial Owner	17,000	0.001
Mr John A.H. Leigh	Note (c)	79,602,558	5.098
Dr the Hon. Sir David K.P. Li	Beneficial Owner	1,056,366	0.068
Mr Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 835,017,930 shares in the Company. These shares were held in the following capacity:*

(i) *182,022,564 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;*

(ii) *331,329,200 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and*

(iii) *321,666,166 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.*

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 835,017,930 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. She has no legal or beneficial interest in those shares otherwise.

(b) *Mr Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 261,625,122 shares in the Company. These shares were held in the following capacity:*

(i) *182,022,564 shares were ultimately held by discretionary trusts, of which Mr Ronald J. McAulay is one of the discretionary objects; and*

(ii) *79,602,558 shares were ultimately held by a discretionary trust, of which Mr Ronald J. McAulay, his wife and members of his family are discretionary objects.*

(c) *Mr John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 79,602,558 shares in the Company. These shares were ultimately held by a discretionary trust. Mr John A.H. Leigh was deemed to be interested in such 79,602,558 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 79,602,558 shares.*

Messrs Andrew Brandler, Nicholas T.J. Colfer, Patrick B. Paul, Dr William K.L. Fung, Dr Rosanna Y.M. Wong, Dr Kim L. Winser and Mr Matthew J. Lawson, who are Directors of the Company have each confirmed that they had no interests in the shares of the Company or any of its associated corporations as at 30 June 2016.

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

Except as set out above, as at 30 June 2016, none of the Directors of the Company, or any of their spouses, or children under 18 years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, within the meaning of Part XV of the SFO, recorded in the register required to be kept under section 352 of the SFO, or required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

Interests of Senior Management

As at 30 June 2016, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director of the Company, as at 30 June 2016, shareholders (other than Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were set out on the next page.

Other Corporate Information

Long position in shares of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
Acorn Holdings Corporation	Beneficiary	182,022,564	11.656 (i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	597,954,322	38.292 (i)
Guardian Limited	Beneficiary/Interest of controlled corporation	79,602,558	5.098 (v)
Harneys Trustees Limited	Interests of controlled corporations	652,995,366	41.817 (iii)
Lawrencium Holdings Limited	Beneficiary	321,666,166	20.599 (ii)
Lawrencium Mikado Holdings Limited	Beneficiary	331,329,200	21.218 (ii)
The Magna Foundation	Beneficiary	331,329,200	21.218 (ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	652,995,366	41.817 (ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	331,329,200	21.218 (i)
New Mikado Holding Inc.	Trustee	331,329,200	21.218 (i)
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	84,602,558	5.418 (iv)
Oak (Unit Trust) Holdings Limited	Trustee	79,602,558	5.098 (i)
Oak HSH Limited	Beneficiary	79,602,558	5.098 (iv)
Mr Richard Parsons	Trustee	79,602,558	5.098 (v)

Notes:

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

The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors".

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

The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors".

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

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

The interests of The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors".

(v) *Mr Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 79,602,558 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr Richard Parsons and was also duplicated within the interests attributed to Mr John A.H. Leigh as disclosed in "Interests of Directors".*

(b) Other substantial shareholder

	Capacity	Number of shares held in the Company	% of total number of shares in issue of the Company
International Value Advisers, LLC	Investment manager	127,687,810	8.177

Except as set out above, as at 30 June 2016, the Company had not been notified of any substantial shareholder (other than Directors of the Company) who had interests or short positions in the shares or underlying shares of the Company that were recorded in the register required to be kept under section 336 of the SFO.

Interests of Any Other Person

As at 30 June 2016, the Company had not been notified of any person other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2016.

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 standard 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 2016. 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 (2015: 5 HK cents per share) for the six months ended 30 June 2016. The interim dividend will be payable on 21 October 2016 to shareholders whose names appear on the register of members on 15 September 2016.

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 22 September 2016.

Closure of Register of Members

The register of members will be closed from 13 September 2016 to 15 September 2016, 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, 12 September 2016.

By Order of the Board

Christobelle Liao
Company Secretary
10 August 2016

Interim Financial Report

Consolidated Income Statement – unaudited (HK$m)

	Note	For the six months ended 30 June 2016	2015
Revenue	3	**2,606**	2,690
Cost of inventories		**(179)**	(194)
Staff costs and related expenses		**(1,061)**	(1,034)
Rent and utilities		**(265)**	(275)
Other operating expenses		**(576)**	(545)
Operating profit before interest, taxation, depreciation and amortisation (EBITDA)	3	**525**	642
Depreciation and amortisation		**(226)**	(207)
Operating profit		**299**	435
Interest income		**23**	29
Financing charges	4	**(67)**	(66)
Net financing charges		**(44)**	(37)
Profit after net financing charges	5	**255**	398
Share of results of a joint venture	10	**(14)**	(41)
Share of results of associates	11	**(19)**	(14)
Increase in fair value of investment properties	9(b)	**54**	236
Profit before taxation		**276**	579
Taxation			
Current tax	6	**(70)**	(85)
Deferred tax	6	**(9)**	(17)
Profit for the period		**197**	477
Profit attributable to:			
Shareholders of the Company		**198**	477
Non-controlling interests		**(1)**	–
Profit for the period		**197**	477
Earnings per share, basic and diluted (HK$)	7	**0.13**	0.31

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

The notes on pages 37 to 51 form part of this Interim Financial Report.

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

	For the six months ended 30 June	
	2016	2015
Profit for the period	**197**	477
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	**(316)**	13
– financial statements of a joint venture	**(18)**	(2)
– loans to an associate	**9**	(65)
– hotel operating rights	**8**	(42)
	(317)	(96)
Cash flow hedges:		
– effective portion of changes in fair value	**(16)**	(13)
– transfer from equity to profit or loss	**12**	11
	(321)	(98)
Total comprehensive income for the period	**(124)**	379
Total comprehensive income attributable to:		
Shareholders of the Company	**(126)**	385
Non-controlling interests	**2**	(6)
Total comprehensive income for the period	**(124)**	379

The notes on pages 37 to 51 form part of this Interim Financial Report.

Interim Financial Report

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

	Note	As at 30 June 2016	As at 31 December 2015
Non-current assets			
Investment properties		**32,749**	32,783
Other properties, plant and equipment		**6,819**	6,314
	9	**39,568**	39,097
Interest in joint ventures	10	**948**	901
Interest in associates	11	**681**	694
Hotel operating rights	12	**545**	544
Deferred tax assets		**31**	30
		41,773	41,266
Current assets			
Inventories		**82**	82
Trade and other receivables	14	**637**	643
Amount due from a joint venture		**175**	179
Cash at banks and in hand		**2,709**	2,919
		3,603	3,823
Current liabilities			
Trade and other payables	15	**(1,276)**	(1,214)
Interest-bearing borrowings	16	**(48)**	(186)
Current taxation		**(79)**	(28)
		(1,403)	(1,428)
Net current assets		**2,200**	2,395
Total assets less current liabilities		**43,973**	43,661
Non-current liabilities			
Interest-bearing borrowings	16	**(6,510)**	(6,006)
Trade and other payables	15	**(237)**	(239)
Net defined benefit retirement obligations		**(16)**	(16)
Derivative financial instruments	13	**(47)**	(39)
Deferred tax liabilities		**(703)**	(701)
		(7,513)	(7,001)
Net assets		**36,460**	36,660
Capital and reserves			
Share capital	17	**4,963**	4,808
Reserves		**31,262**	31,619
Total equity attributable to shareholders of the Company		**36,225**	36,427
Non-controlling interests		**235**	233
Total equity		**36,460**	36,660

The notes on pages 37 to 51 form part of this Interim Financial Report.

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

		Attributable to shareholders of the Company						
	Note	Share capital	Hedging reserve	Exchange and other reserves	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2015		4,544	(47)	325	31,079	35,901	250	36,151
Changes in equity for the six months ended 30 June 2015								
Profit for the period		–	–	–	477	477	–	477
Other comprehensive income		–	(2)	(90)	–	(92)	(6)	(98)
Total comprehensive income for the period		–	(2)	(90)	477	385	(6)	379
Dividends approved in respect of the previous year	8	202	–	–	(273)	(71)	–	(71)
Balance at 30 June 2015 and 1 July 2015		4,746	(49)	235	31,283	36,215	244	36,459
Changes in equity for the six months ended 31 December 2015								
Profit for the period		–	–	–	523	523	5	528
Other comprehensive income		–	2	(298)	–	(296)	(11)	(307)
Total comprehensive income for the period		–	2	(298)	523	227	(6)	221
Dividends approved in respect of the current year	8	62	–	–	(77)	(15)	–	(15)
Dividends paid to non-controlling interests		–	–	–	–	–	(5)	(5)
Balance at 31 December 2015 and 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		**4,963**	**(51)**	**(383)**	**31,696**	**36,225**	**235**	**36,460**

The notes on pages 37 to 51 form part of this Interim Financial Report.

Interim Financial Report

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

	For the six months ended 30 June	
	2016	2015
Operating activities		
EBITDA	**525**	642
Tax paid	**(11)**	(22)
Changes in working capital	**67**	(8)
Net cash generated from operating activities	**581**	612
Investing activities		
Capital injection into a joint venture	**(79)**	–
Capital expenditure on existing properties		
– The Peninsula Beijing and The Peninsula Chicago	**(385)**	(80)
– Others	**(122)**	(121)
Capital expenditure on new projects and purchase of new property	**(47)**	(134)
Proceeds from disposal of properties, plant and equipment	**1**	–
Dividend received from an associate	**3**	–
Net cash used in investing activities	**(629)**	(335)
Financing activities		
Interest received	**21**	31
Interest and other financing charges paid	**(60)**	(63)
Withdrawal/(placement) of interest-bearing bank deposits with maturity of more than three months	**643**	(340)
Net (decrease)/increase in bank borrowings	**(32)**	48
Dividends paid to shareholders of the Company	**(76)**	(71)
Net cash generated from/(used in) financing activities	**496**	(395)
Net increase/(decrease) in cash and cash equivalents	**448**	(118)
Cash and cash equivalents at 1 January	**768**	839
Effect of changes in foreign exchange rates	**(16)**	(5)
Cash and cash equivalents at 30 June (note)	**1,200**	716

Note: Analysis of cash and cash equivalents

	As at 30 June	
	2016	*2015*
Interest-bearing bank deposits	***2,563***	*2,513*
Cash at banks and in hand	***146***	*185*
Total cash at banks and in hand	***2,709***	*2,698*
Less: Interest-bearing bank deposits with maturity of more than three months	***(1,503)***	*(1,973)*
Less: Bank overdrafts (note 16)	***(6)***	*(9)*
Cash and cash equivalents in the condensed consolidated statement of cash flows	***1,200***	*716*

Total cash at banks and in hand at the end of the reporting period include deposits with banks of HK$572 million (30 June 2015: HK$997 million) held by overseas subsidiaries which are subject to prevailing regulations and foreign exchange restrictions.

The notes on pages 37 to 51 form part of this Interim Financial Report.

Notes to The Unaudited Interim Financial Report

1. Basis of preparation

This 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 the Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue by the Board of Directors of the Company on 10 August 2016.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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.

This 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 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRSs).

The Interim Financial Report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 52.

The financial information relating to the financial year ended 31 December 2015 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 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the 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 Companies Ordinance.

2. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's Interim Financial Report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's Interim Financial Report.

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.

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 2016 and 2015 are set out as follows:

	Hotels		Commercial Properties		Clubs and Services		Consolidated	
	For the six months ended 30 June							
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Reportable segment revenue*	**1,898**	1,954	**456**	459	**252**	277	**2,606**	2,690
Reportable segment operating profit before interest, taxation, depreciation and amortisation (EBITDA)	**226**	317	**278**	295	**21**	30	**525**	642
Depreciation and amortisation	**(203)**	(187)	**(5)**	(5)	**(18)**	(15)	**(226)**	(207)
Segment operating profit	**23**	130	**273**	290	**3**	15	**299**	435

* *Analysis of segment revenue*

	2016	*2015*
Hotels		
– Rooms	***841***	*851*
– Food and beverage	***529***	*542*
– Shopping arcades and offices	***344***	*381*
– Others	***184***	*180*
	1,898	*1,954*
Commercial Properties		
– Residential properties	***248***	*243*
– Offices	***52***	*54*
– Shopping arcades	***156***	*162*
	456	*459*
Clubs and Services		
– Clubs and consultancy services	***65***	*91*
– Peak Tram operation	***56***	*58*
– Others	***131***	*128*
	252	*277*
Total	***2,606***	*2,690*

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

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 2016 and 31 December 2015 are set out as follows:

	Note	**As at 30 June 2016**	As at 31 December 2015
Reportable segment assets			
Hotels		**18,112**	17,602
Commercial properties		**21,700**	21,747
Clubs and services		**1,020**	1,017
		40,832	40,366
Unallocated assets			
Interest in joint ventures	10	**948**	901
Interest in associates	11	**681**	694
Deferred tax assets		**31**	30
Amount due from a joint venture		**175**	179
Cash at banks and in hand		**2,709**	2,919
Consolidated total assets		**45,376**	45,089

4. Financing charges (HK$m)

	For the six months ended 30 June	
	2016	2015
Interest on bank borrowings	**46**	43
Other borrowing costs	**8**	8
Total interest expense on financial liabilities carried at amortised cost	**54**	51
Derivative financial instruments:		
– cash flow hedges, transfer from equity	**13**	12
– at fair value through profit or loss	**–**	3
	67	66

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	
	2016	2015
Amortisation of hotel operating rights	**7**	7
Depreciation	**219**	200
Interest income	**(23)**	(29)

6. Taxation (HK$m)

	For the six months ended 30 June	
	2016	2015
Current tax		
Hong Kong profits tax	**65**	68
Overseas tax	**5**	17
	70	85
Deferred tax		
(Decrease)/increase in net deferred tax liabilities relating to revaluation of overseas investment properties	**(1)**	1
Increase in net deferred tax liabilities relating to other temporary differences	**10**	16
	9	17
	79	102

The provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 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	
	2016	2015
Profit attributable to shareholders of the Company (HK$m)	**198**	477
Weighted average number of shares in issue (million shares)	**1,544**	1,518
Earnings per share (HK$)	**0.13**	0.31

	2016 (million shares)	*2015 (million shares)*
Issued shares at 1 January	***1,543***	*1,517*
Effect of new shares issued and allotted to shareholders who opted to take scrip as an alternative to cash in respect of the 2015 final dividend	***1***	*1*
Weighted average number of shares in issue at 30 June	***1,544***	*1,518*

(b) Earnings per share – diluted

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2016 and 2015 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	
	2016	2015
Interim dividend declared and to be paid after the interim period of 4 HK cents per share (2015: 5 HK cents per share)	**62**	77

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

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

	For the six months ended 30 June	
	2016	2015
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 2014: 18 HK cents per share)	**231**	273

For the final dividend in respect of 2015, scrip dividend elections were offered to shareholders other than those with registered addresses in Australia and the United States of America. Shareholders holding approximately 67% of the issued share capital of the Company elected to receive their entitlement to the 2015 final dividend in the form of scrip, which resulted in the issue and allotment of approximately 18.6 million new shares on 24 June 2016.

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

(a) Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired items of investment properties and other properties, plant and equipment with a cost of HK$539 million (six months ended 30 June 2015: HK$311 million) of which HK$382 million related to the renovations of The Peninsula Beijing and The Peninsula Chicago (six months ended 30 June 2015: HK$76 million). Items of properties, plant and equipment disposed of during the six months ended 30 June 2016 and 30 June 2015 were insignificant in value.

(b) Valuation of investment properties

All investment properties of the Group were revalued as at 30 June 2016 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 2015 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 income statement. 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$54 million (2015: HK$236 million) has been included in the consolidated income statement.

(c) Investment properties held for re-development

The Group has a 50% economic interest in 1-5 Grosvenor Place, London (the Property) which was acquired on 25 July 2013. As at 30 June 2016, the Property was held for leasing purpose and its fair value amounted to HK$1,488 million (GBP142 million) (31 December 2015: HK$1,638 million (GBP142 million)). Subject to certain conditions, the Group intends to redevelop the Property into a mixed used complex consisting of a Peninsula hotel and luxury residences.

(d) Valuation of hotel properties and golf courses

To provide additional information for shareholders, the Directors commissioned an independent valuation of the Group's hotel properties and golf courses as at 30 June 2016. The total valuation placed on the hotel properties and golf courses, which have a net book value of HK$6,263 million (31 December 2015: HK$5,853 million), was HK$9,327 million as at 30 June 2016 (31 December 2015: HK$8,937 million). It is important to note that the surplus of HK$3,064 million (31 December 2015: HK$3,084 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 2016	As at 31 December 2015
Share of net assets	**427**	380
Loans to a joint venture (note 10(b))	**521**	521
	948	901

(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	TRY59,100,000	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 2016, the paid up capital of EGL and PSW amounted to HK$1 (31 December 2015: HK$1) and US$117,500,000 (31 December 2015: 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. Subject to certain conditions, the Group, together with its joint venture partner, intend to redevelop the property into The Peninsula Istanbul.*

(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$2,922 million (RMB2,500 million). As at 30 June 2016, the loan drawn down amounted to HK$2,109 million (RMB1,804 million) (31 December 2015: HK$2,177 million (RMB1,823 million)). The net carrying amount of these pledged assets amounted to HK$4,636 million (RMB3,966 million) (31 December 2015: HK$4,794 million (RMB4,015 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 2016	As at 31 December 2015
Non-current assets	**4,500**	4,628
Current assets	**304**	325
Current liabilities	**(432)**	(439)
Non-current liabilities	**(3,677)**	(3,754)
Net assets	**695**	760

	For the six months ended 30 June	
	2016	2015
Income*	**328**	450
Cost of inventories and operating expenses	**(238)**	(360)
EBITDA	**90**	90
Depreciation	**(41)**	(42)
Net financing charges	**(60)**	(78)
Loss before non-operating items	**(11)**	(30)
Non-operating item, net of tax**	**(17)**	(52)
Loss for the period	**(28)**	(82)
The Group's share of results of the joint venture	**(14)**	(41)

* *Including proceeds of HK$43 million (2015: HK$173 million) from sale of apartments.*

** *Being the net re-valuation adjustment on investment properties.*

11. Interest in associates (HK$m)

	As at 30 June 2016	As at 31 December 2015
Interest in associates	**681**	694

(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
Al Maha Majestic S.à r.l. (Al Maha)**	Incorporated	Luxembourg/ France	EUR 12,500	20%	Investment holding
Majestic EURL (Majestic)	Incorporated	France	EUR 80,000,000	20%	Hotel investment and investment holding
Le 19 Avenue Kléber	Incorporated	France	EUR 100,000	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.*

** *Al Maha holds 100% direct interest in Majestic which owns The Peninsula Paris.*

BHP holds 100% interest in The Peninsula Beverly Hills.

(b) Included in the balance of interest in associates are loans to Al Maha of EUR88 million (31 December 2015: EUR88 million). The loans were made pro rata to the Group's shareholding in Al Maha 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. As at 30 June 2016, the loan drawn down amounted to EUR220 million (31 December 2015: EUR220 million). As at 30 June 2016, the net carrying amount of these pledged assets amounted to EUR621 million (31 December 2015: EUR631 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 (31 December 2015: US$145 million). The net carrying amount of the pledged assets amounted to US$63 million (31 December 2015: US$60 million). As at 30 June 2016, the loan drawn down amounted to US$139 million (31 December 2015: US$140 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	
	2016	2015
Net loss from operations	**(95)**	(70)
Other comprehensive income	**–**	–
Total comprehensive income	**(95)**	(70)
The Group's share of results of the associates	**(19)**	(14)

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 income statement.

13. Derivative financial instruments (HK$m)

	As at 30 June 2016 Liabilities	As at 31 December 2015 Liabilities
Cash flow hedges:		
Interest rate swaps	**(45)**	(37)
At fair value through profit or loss:		
Interest rate swaps	**(2)**	(2)
Amount to be settled after one year	**(47)**	(39)

14. Trade and other receivables (HK$m)

	As at 30 June 2016	As at 31 December 2015
Trade debtors	**251**	254
Rental deposits, payments in advance and other receivables	**381**	377
Tax recoverable	**5**	12
	637	643

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$91 million (31 December 2015: HK$86 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 2016	As at 31 December 2015
Current	**229**	238
Less than one month past due	**15**	10
One to three months past due	**6**	6
More than three months but less than 12 months past due	**1**	–
Amounts past due	**22**	16
	251	254

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 2016	As at 31 December 2015
Trade creditors	**94**	150
Interest payable	**8**	8
Accruals for fixed assets	**101**	45
Tenants' deposits	**381**	382
Guest deposits and gift vouchers	**249**	135
Golf membership deposits	**86**	87
Other payables	**594**	646
Financial liabilities measured at amortised cost	**1,513**	1,453
Less: Non-current portion of trade and other payables	**(237)**	(239)
Current portion of trade and other payables	**1,276**	1,214

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$346 million (31 December 2015: HK$343 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 2016	As at 31 December 2015
Less than three months	**93**	149
Three to six months	**–**	–
More than six months	**1**	1
	94	150

16. Interest-bearing borrowings (HK$m)

	As at 30 June 2016	As at 31 December 2015
Total facilities available:		
Term loans and revolving credits	**7,365**	6,956
Uncommitted facilities, including bank overdrafts	**340**	319
	7,705	7,275
Utilised:		
Term loans and revolving credits	**6,550**	6,184
Uncommitted facilities, including bank overdrafts	**48**	53
	6,598	6,237
Less: Unamortised financing charges	**(40)**	(45)
	6,558	6,192
Represented by:		
Short-term bank loans, repayable within one year or on demand	**42**	181
Bank overdrafts, repayable on demand	**6**	5
	48	186
Long-term bank loans, repayable:		
Between one and two years	**517**	–
Between two and five years	**4,523**	4,764
Over five years	**1,510**	1,287
	6,550	6,051
Less: Unamortised financing charges	**(40)**	(45)
Non-current portion of long-term bank loans	**6,510**	6,006
Total interest-bearing borrowings	**6,558**	6,192

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 2016		At 31 December 2015	
	No. of shares (million)	HK$m	No. of shares (million)	HK$m
Ordinary shares, issued and fully paid				
At 1 January	**1,543**	**4,808**	1,517	4,544
Shares issued under scrip dividend scheme	**19**	**155**	26	264
At 30 June 2016/31 December 2015	**1,562**	**4,963**	1,543	4,808

During the six months ended 30 June 2016, the Company issued and allotted approximately 18.6 million new ordinary shares at HK$8.362 per share in respect of the 2015 final scrip dividend. The new shares issued have resulted in an increase in fully paid share capital of approximately HK$155 million. All ordinary shares issued during the period rank pari passu in all respects with the existing shares in issue. All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18. Fair value measurement of financial instruments

(a) Financial instruments carried at fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

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

Financial instruments are carried at amounts not materially different from their fair values as at 30 June 2016. 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. The Group has no intention of disposing of these loans to an associate and a joint venture.

19. Commitments (HK$m)

Capital commitments outstanding as at 30 June 2016 not provided for in the Interim Financial Report were as follows:

	As at 30 June 2016			As at 31 December 2015		
	Contracted for	Authorised but not contracted for	Total	Contracted for	Authorised but not contracted for	Total
Capital commitments of the Group	605	1,767	2,372	798	2,164	2,962
The Group's share of capital commitments of						
– a joint venture	8	5	13	–	14	14
– associates	1	2	3	1	3	4
	614	1,774	2,388	799	2,181	2,980

The Group's capital commitments include the authorised capital expenditure for the major renovation programmes of The Peninsula Beijing, The Peninsula Chicago and 21 avenue Kléber as well as normal capital expenditure for the Group's existing properties.

On 28 January 2014, the Group entered into conditional agreements with Yoma Strategic Holdings Ltd. to restore the heritage building that is the former Myanmar Railway Company headquarters in Yangon, Myanmar, to be redeveloped as The Peninsula Yangon. The Group has a 70% interest in the project and its share of commitment is estimated to be US$100 million. Furthermore, on 7 July 2015, the Group entered into a conditional shareholders' agreement with Doğuş Holding A.Ş. and BLG Gayrimenkul Yatırımları ve Ticaret A.Ş. for a proposed joint development of a luxury hotel property within the Salıpazarı Port Project Area in Istanbul, Turkey. The Group has a 50% interest in the project and its share of commitment is estimated to be EUR150 million. The conditions precedent of these two potential projects and the redevelopment of 1-5 Grosvenor Place into The Peninsula London (note 9(c)) have not yet been fully satisfied as at 30 June 2016. In respect of these three projects, the figures include the amounts authorised to complete the studies and continuous work for planning and preparation up to the start of construction.

20. Material related party transactions

There were no material related party transactions during the six months ended 30 June 2016, other than the nature of those as disclosed in the Group's annual financial statements for the year ended 31 December 2015.

21. Non-adjusting event after the reporting period

In 2013, our Group purchased a 50% interest in the leasehold of 1-5 Grosvenor Place in Belgravia, central London, for a cash consideration of GBP132.5 million. The remaining 50% leasehold interest, as well as the freehold of the site, is currently owned by Grosvenor. As announced on 26 July 2016, we have signed Heads of Terms to change the structure of our partnership with Grosvenor into a landlord and tenant relationship, whereby HSH will assume 100% ownership of the leasehold. Grosvenor will remain as the landlord under the Lease. We will have full responsibility and control for the development of the London Project upon completion of the restructure. This restructure will result in our Group funding all the remaining development costs, representing a significant increase in investment. In return for this additional investment, we will have full control over the development, management and future operations of the London Project, as well as be entitled to 100% of the proceeds from the future sales of the residential units in the project and the profits of the hotel. This is a significant transaction for our Group, given the importance of London as a business and tourism destination.

Review Report to the Board of Directors

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

Introduction

We have reviewed the Interim Financial Report set out on pages 32 to 51 which comprises the consolidated statement of financial position of The Hongkong and Shanghai Hotels, Limited as of 30 June 2016 and the related consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation and presentation of the Interim Financial Report in accordance with Hong Kong Accounting Standard 34.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Report as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

10 August 2016

Shareholder Information

Financial Calendar 2016

2016 interim results announcement	10 August
Interim Report available	1 September
Ex-dividend date for interim dividend	9 September
For entitlement to receive interim dividend	
– Last day to register	12 September 4:30pm
– Closure of register of members	13 September to 15 September (both days inclusive)
– Record date	15 September
Scrip dividend scheme circular and/or election form available	22 September
Last day to return scrip dividend election form	12 October 4:30pm
Dividend warrants and share certificates for interim dividend available	On or about 21 October
Financial year end	31 December

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Share Information

Stock Code: 00045
2015 Final Dividend: 15 HK cents per share
2016 Interim Dividend: 4 HK cents per share

Request for Feedback

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

Shareholder Services

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

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Customer Services Hotline: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
E-mail: hkinfo@computershare.com.hk

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

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The Peninsula Hotels
www.peninsula.com

The Repulse Bay
www.therepulsebay.com

The Peak Tower and The Peak Tram
www.thepeak.com.hk

The Landmark
www.thelandmarkvietnam.com

Thai Country Club
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* *Toll free access number is only available through Saudi Telecom Company*

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香港上海大酒店有限公司

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