



**HARBOUR
CENTRE
DEVELOPMENT
LIMITED**

海港企業有限公司

2004

Interim Report to

Shareholders

致股東中期報告書

for the half-year period ended

30th June, 2004

截至二〇〇四年六月三十日

止半年度



GROUP RESULTS

The unaudited Group profit attributable to Shareholders for the six months ended 30th June, 2004 amounted to HK\$133.6 million, an increase of 130.3% as compared with the profit of HK\$58.0 million for the corresponding period last year. Earnings per share were 42 cents.

The interim results of last year were severely affected by SARS. For the first half of 2003 which was affected by the impact of SARS, the Hotel and restaurants segment recorded a loss of HK\$4.5 million, as compared to a profit of HK\$48.5 million for the period under review and to a profit of HK\$39.0 million achieved in the first half of 2002.

INTERIM DIVIDEND

The Board has declared an interim dividend in respect of the half-year period ended 30th June, 2004 of 5.0 cents (2003: 5.0 cents) per share, payable on Thursday, 7th October, 2004 to Shareholders on record as at 30th September, 2004.

BUSINESS REVIEW

- * The Marco Polo Hongkong Hotel recorded increased occupancy rate and room yield for the period under review. The significant improvement in operating profit was mainly attributable to a low result base for the same period last year as a result of the outbreak of SARS in Hong Kong from March to May 2003.
- * The commercial section of The Marco Polo Hongkong Hotel reported steady rental revenue.
- * Phase I and Phase II of Sorrento (Kowloon Station Package II development), in which the Group has a 20% interest, have been almost completely sold out.



CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30th June, 2004

	Note	Unaudited 30/6/2004 HK\$ Million	Unaudited 30/6/2003 HK\$ Million
Turnover	2	209.9	115.5
Direct costs and operating expenses		(92.6)	(77.7)
Selling and marketing expenses		(8.5)	(10.0)
Depreciation		(6.1)	(5.9)
Administrative and corporate expenses		(2.1)	(2.6)
Operating profit	3	100.6	19.3
Non-operating items	4	7.5	20.4
Share of profits less losses of associates		47.1	19.8
Profit before taxation		155.2	59.5
Taxation	5	(21.6)	(1.5)
Profit attributable to shareholders		133.6	58.0
Proposed interim dividends	6	15.8	15.8
Earnings per share	7	HK\$0.42	HK\$0.18
Proposed interim dividends per share		HK\$0.05	HK\$0.05



CONSOLIDATED BALANCE SHEET
As at 30th June, 2004

	Note	Unaudited 30/6/2004 HK\$ Million	Audited 31/12/2003 HK\$ Million
ASSETS			
Non-current assets			
Fixed assets		2,550.7	2,541.8
Interest in associates		60.9	387.9
Investment securities		524.1	550.0
Employee benefits		8.2	8.6
		<u>3,143.9</u>	<u>3,488.3</u>
Current assets			
Inventories		3.5	3.5
Debtors	8	28.2	32.1
Cash and cash equivalents		1,670.4	1,277.4
		<u>1,702.1</u>	<u>1,313.0</u>
Current liabilities			
Creditors	9	54.6	67.6
Taxation		20.3	8.9
		<u>74.9</u>	<u>76.5</u>
Net current assets		<u>1,627.2</u>	<u>1,236.5</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,771.1</u>	<u>4,724.8</u>
EQUITY AND NON-CURRENT LIABILITIES			
Capital and reserves			
Share capital	10	157.5	157.5
Reserves	11	4,592.0	4,529.1
		<u>4,749.5</u>	<u>4,686.6</u>
Non-current liabilities			
Deferred income	12	8.5	25.3
Deferred tax liabilities		13.1	12.9
		<u>21.6</u>	<u>38.2</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES		<u>4,771.1</u>	<u>4,724.8</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th June, 2004

	Unaudited 30/6/2004 HK\$ Million	Unaudited 30/6/2003 HK\$ Million
Total equity as at 1st January	<u>4,686.6</u>	4,239.7
Deficit on revaluation of investment securities	(33.0)	(26.0)
Share of surplus on revaluation of investments securities of associates	<u>0.1</u>	0.4
Net losses not recognised in the consolidated profit and loss account	<u>(32.9)</u>	(25.6)
Net profit for the period	133.6	58.0
Final dividend approved in respect of the previous year	<u>(37.8)</u>	(37.8)
Total equity as at 30th June	<u>4,749.5</u>	<u>4,234.3</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2004

	Unaudited 30/6/2004 HK\$ Million	Unaudited 30/6/2003 HK\$ Million
Net cash inflow from operating activities	147.2	29.7
Net cash inflow from investing activities	283.6	185.4
Net cash outflow from financing activities	(37.8)	(37.8)
Net increase in cash and cash equivalents	393.0	177.3
Cash and cash equivalents at 1st January	1,277.4	572.8
Cash and cash equivalents at 30th June	1,670.4	750.1
Analysis of the balance of cash and cash equivalents		
Deposits and cash	1,670.4	750.1



NOTES TO THE ACCOUNTS

1. Principal accounting policies

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" and Appendix 16 of Listing Rules of the Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those described in the annual accounts for the year ended 31st December, 2003.

2. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

	Hotel and restaurants		Property		Investments		Total	
	30/6/2004	30/6/2003	30/6/2004	30/6/2003	30/6/2004	30/6/2003	30/6/2004	30/6/2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue	154.7	83.1	35.6	12.9	19.6	19.5	209.9	115.5
Segment results	48.5	(4.5)	31.0	4.3	21.1	19.5	100.6	19.3
Non-operating items	-	-	-	-	7.5	20.4	7.5	20.4
Share of profits less losses of associates	-	-	47.1	19.4	-	0.4	47.1	19.8
Profit before taxation							155.2	59.5
Taxation							(21.6)	(1.5)
Profit attributable to shareholders							133.6	58.0

(b) Geographical segments

	Segment revenue		Segment results	
	30/6/2004	30/6/2003	30/6/2004	30/6/2003
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	198.8	104.4	89.5	8.2
Singapore	11.1	11.1	11.1	11.1
	209.9	115.5	100.6	19.3

No inter-segment revenue was recorded during the periods.



3. Operating profit

	30/6/2004 HK\$ Million	30/6/2003 HK\$ Million
Operating profit is arrived at after charging:		
Cost of inventories sold	13.2	9.2
Depreciation	6.1	5.9
Staff costs including:	42.8	40.8
Contributions to defined contribution pension schemes	1.5	1.4
Increase in liability for defined benefit pension schemes	0.9	0.9
Total pension cost	2.4	2.3
Auditors' remuneration	0.2	0.2
and after crediting:		
Gross rental income from investment properties	35.6	12.9
Less: direct outgoings	(3.4)	(8.0)
	32.2	4.9
Interest on bank deposits	0.2	4.3
Dividend income from listed securities	19.4	15.2

4. Non-operating items

	30/6/2004 HK\$ Million	30/6/2003 HK\$ Million
Release of deferred income	17.3	20.4
Loss on disposal of investment securities	(9.8)	-
	7.5	20.4



5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

	Group	
	30/6/2004 HK\$ Million	30/6/2003 HK\$ Million
Current tax - provision for Hong Kong profits tax		
Tax for the period	15.7	3.5
Overprovision in respect of prior years	-	(4.1)
	<u>15.7</u>	<u>(0.6)</u>
Deferred tax		
Origination and reversal of temporary difference	0.2	1.2
Effect of increase in tax rate on deferred tax balances at 1st January	-	0.9
	<u>0.2</u>	<u>2.1</u>
Share of associates' Hong Kong profits tax for the period	5.7	-
Total tax charge	<u>21.6</u>	<u>1.5</u>

6. Proposed interim dividends

	30/6/2004 HK\$ Million	30/6/2003 HK\$ Million
Proposed interim dividends of 5.0 cents (2003: 5.0 cents) per share	<u>15.8</u>	<u>15.8</u>

7. Earnings per share

The calculation of earnings per share is based on the profit for the period of HK\$133.6 million (2003: HK\$58.0 million) and on 315.0 million (2003: 315.0 million) ordinary shares in issue during the period. For the period under review and the preceding comparative period, there is no difference between the basic and diluted earnings per share.



8. Debtors

Included in debtors are trade debtors (net of provision for bad and doubtful debts) and their age analysis as at 30th June, 2004 as follows:

	30/6/2004 HK\$ Million	31/12/2003 HK\$ Million
Due within 30 days	11.8	14.4
Due after 30 days but within 60 days	2.6	2.9
Due after 60 days but within 90 days	1.6	1.1
Over 90 days	-	0.1
	<u>16.0</u>	<u>18.5</u>

The Group has a defined credit policy. The general credit terms allowed range from 0 to 60 days.

9. Creditors

Included in creditors are trade creditors and their age analysis as at 30th June, 2004 as follows:

	30/6/2004 HK\$ Million	31/12/2003 HK\$ Million
Due within 30 days	7.4	10.8
Due after 30 days but within 60 days	2.6	6.9
Due after 60 days but within 90 days	-	0.3
Over 90 days	0.3	0.2
	<u>10.3</u>	<u>18.2</u>

10. Share capital

There were no movements in the share capital of the Company during the period under review.



11. Reserves

Extracts from reserves are movements for the investment securities revaluation reserve and revenue reserves for the six months ended 30th June, 2004 as shown below:

	Investment securities revaluation reserve	Revenue reserves
	HK\$ Million	HK\$ Million
(i) Company and subsidiaries		
Balance at 1st January, 2004	8.4	1,671.5
Dividend approved in respect of the previous year	-	(37.8)
Revaluation deficit		
Investment securities	(33.0)	-
Retained profit for the period	-	92.2
Balance at 30th June, 2004	<u>(24.6)</u>	<u>1,725.9</u>
(ii) Associates		
Balance at 1st January, 2004	0.8	41.9
Revaluation surplus		
Investment securities	0.1	-
Retained profit for the period	-	41.4
Balance at 30th June, 2004	<u>0.9</u>	<u>83.3</u>
At 30th June, 2004	<u>(23.7)</u>	<u>1,809.2</u>
At 31st December, 2003	<u>9.2</u>	<u>1,713.4</u>

12. Deferred income

The movements of deferred income of the Group are as follows:

	2004	2003
	HK\$ Million	HK\$ Million
Balance at 1st January	25.3	95.8
Additions	0.5	13.3
Release of deferred income	(17.3)	(83.8)
Balance at 30th June / 31st December	<u>8.5</u>	<u>25.3</u>



13. Material related party transactions

- (a) During the period, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current period amounted to HK\$11.4 million (2003: HK\$3.7 million) which included management fees of HK\$9.3 million (2003: HK\$2.6 million) and marketing fees of HK\$2.1 million (2003: HK\$1.1 million). The management fee includes a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such a management agreement and the relevant transactions thereunder also constitute connected transactions as defined under the Listing Rules, and were exempted under the provisions of the Listing Rules which were in force prior to 31st March, 2004 from the requirements relating to connected transactions.
- (b) Loans totalling HK\$50.9 million (2003: HK\$722.9 million) due from an associate involved in the Sorrento project are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. Waivers were granted by the Stock Exchange in 1997 from complying with the relevant connected transaction requirements. The net interest earned by the Group from the above loan during the period ended 30th June, 2004 amounted to HK\$0.5 million (2003: HK\$9.9 million) which has been deferred and is recognised in the consolidated profit and loss account from when the associate starts to generate profit from a property development project, undertaken by the associate, based on the percentage of total area sold to total area available for sale.
- (c) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the leasing of shops at G/F, 1/F & 2/F at The Marco Polo Hongkong Hotel. The duration of tenancy is from 11th April, 2003 to 10th April, 2009. The rental income earned by the Group from the above agreement during the current period amounted to HK\$22.2 million. Such a transaction does not constitute a connected transaction under the Listing Rules.



14. Commitments

Capital commitments for property, plant and equipment

	30/6/2004 HK\$ Million	31/12/2003 HK\$ Million
Contracted but not provided for	26.6	28.8
Authorised but not contracted for	21.5	16.1
	<u>48.1</u>	<u>44.9</u>

15. The unaudited interim accounts for the six months ended 30th June, 2004 have been reviewed by the audit committee of the Company.



COMMENTARY ON INTERIM RESULTS

(I) Review of 2004 Interim Results and Segmental Performance

The unaudited Group profit attributable to shareholders for the six months ended 30th June, 2004 amounted to HK\$133.6 million against HK\$58.0 million for the corresponding period last year. Earnings per share were HK\$0.42 (2003: HK\$0.18).

The sharp improvement in 2004 interim results was mainly attributable to the increase in profit contribution from both the Hotel Segment and Property Segment which had attained strong recovery in businesses subsequent to the SARS period last year.

The Group's turnover for the period under review was HK\$209.9 million, an increase by 82% from HK\$115.5 million earned in six months in 2003. Operating profit jumped to HK\$100.6 million from HK\$19.3 million reported in the comparative period last year.

The Marco Polo Hongkong Hotel recorded higher occupancy levels and average room rates for the period under review. Total revenue and operating profit increased to HK\$154.7 million and HK\$48.5 million in 2004 from HK\$83.1 million and a loss of HK\$4.5 million in the first half of 2003, respectively. Mainly due to the low results base caused by SARS last year, the hotel's operating profit increased by HK\$53.0 million during the six-month period.

After the completion of the upgrading project for the retail podium within The Marco Polo Hongkong Hotel in mid-2003, the occupancy has gradually returned to a steady level. Consequently, the Property Segment rental revenue and operating profit increased to HK\$35.6 million and HK\$31.0 million in 2004 from HK\$12.9 million and HK\$4.3 million in 2003, respectively.

Profit before taxation for the period under review included deferred interest income of HK\$17.3 million, which was earned from a loan advanced to an associate for the Sorrento development and recognised as in previous years on the basis of the sale progress of the development. It also covered a net loss of HK\$9.8 million on disposal of certain investment securities during the period.

Share of profits of associates in the first half of 2004 was HK\$47.1 million, largely contributed from sale of Sorrento units held through an associate, compared to the HK\$19.8 million recorded in the corresponding period last year.

Taxation charge for the period under review was HK\$21.6 million, compared to HK\$1.5 million recorded in the same period last year. The increase is mainly due to increase in operating profit.



(II) Liquidity and Financial Resources

At 30th June, 2004, the Group's shareholders' funds was HK\$4,749.5 million or HK\$15.08 per share, grew from HK\$4,686.6 million or HK\$14.88 per share at 31st December, 2003, respectively.

As at 30th June, 2004, the Group had net cash of HK\$1,670.4 million, against HK\$1,277.4 million as at 31st December, 2003. The increase was mainly generated from the Group's operating income and the distribution of cash by the associate undertaking the Sorrento development. Most of the cash surpluses were placed on deposit. In addition, the Group maintained a portfolio of listed investments with market value aggregating HK\$524.1 million at the period end. The investment revaluation surplus decreased by HK\$32.9 million following a decline in market value of the portfolio, resulting in a deficit of HK\$23.7 million at 30th June, 2004. The performance of the portfolio is generally in line with the trend of the stock markets.

At the period end, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Employees

The Group has approximately 448 employees working at the Group's hotel. Employees are remunerated according to nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for six months ended 30th June, 2004 amounted to HK\$42.8 million.

Detailed information is set out in Note 3 to the Accounts.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), at any time during the six months ended 30th June, 2004.

DIRECTORS' INTERESTS IN SHARES

At 30th June, 2004, Directors of the Company held the following personal beneficial interests, all being long positions, in the ordinary shares of the Company's parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and the percentages which the shares represented to the issued share capital of Wharf:

Name of Directors	Number of Shares (percentage of issued capital)
Mr. Gonzaga Wei Jen Li	686,549 (0.028%)
Mr. Tze Yuen Ng	178,016 (0.007%)



Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers:

- (i) there were no interests, both long and short positions held as at 30th June, 2004 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO); and
- (ii) there existed during the financial period no rights to subscribe for any shares, underlying shares or debentures of the Company which were held by any of the Directors or Chief Executive of the Company or any of their spouses or children under 18 years of age nor had there been any exercises during the financial period of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at 30th June, 2004 as recorded in the register kept by the Company under section 336 of the SFO and the percentages which the shares represented to the issued share capital of the Company:

Names	No. of Ordinary Shares (percentage of issued capital)
(i) Upfront International Limited	210,379,500 (66.79%)
(ii) Wharf Estates Limited	210,379,500 (66.79%)
(iii) The Wharf (Holdings) Limited	210,379,500 (66.79%)
(iv) Diplock Holdings Limited	210,379,500 (66.79%)
(v) WF Investment Partners Limited	210,379,500 (66.79%)
(vi) Wheelock and Company Limited	210,379,500 (66.79%)
(vii) Bermuda Trust (Guernsey) Limited	210,379,500 (66.79%)
(viii) Harson Investment Limited	25,357,500 (8.05%)

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (vii) above in that they represent the same block of shares.

All the interests stated above represented long positions and as at 30th June, 2004, there were no short positions record in the said register.



PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial period under review.

BOOK CLOSURE

The Register of Members will be closed from Friday, 24th September, 2004 to Thursday, 30th September, 2004, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 23rd September, 2004.

By Order of the Board
Wilson W. S. Chan
Secretary

Hong Kong, 10th August, 2004

As at the date of this interim report, the Board of Directors of the Company comprises Mr. Gonzaga W. J. Li, Mr. Brian S. Forsgate, Mr. C. C. Haung, Mr. T. Y. Ng, Mr. H. M. V de Lacy Staunton and Mr. Paul Y. C. Tsui.