HARBOUR CENTRE DEVELOPMENT LIMITED
海港企業有限公司

2007

Interim Report to Shareholders

for the six months ended 30 June 2007

致股東中期報告書

截至二〇〇七年六月三十日止六個月

Stock Code 股份代號 : 51

Group Results

The unaudited Group profit attributable to Shareholders for the six months ended 30 June 2007 amounted to HK$223.3 million, a decrease of 17.2% as compared with HK$269.7 million reported for the corresponding period last year. Earnings per share were HK$0.71 (2006: HK$0.86).

The Group's profit has included an investment property revaluation surplus, after related deferred tax, of HK$21.9 million in the results. Excluding this net surplus, the profit for the period under review would have been HK$201.4 million, an increase of 6.7% over the comparable period.

The Group's operating profit increased by 10.8% to HK$181.0 million, principally attributable to steady growth of rental income from the retail areas of The Marco Polo Hongkong Hotel ("MPHK") and increase in investment return from the Investment Segment.

Interim Dividend

The Board has declared an interim dividend in respect of the half-year period ended 30 June 2007 of HK$0.05 (2006: HK$0.05) per share, payable on Monday, 15 October 2007 to shareholders on record as at 4 October 2007.

Management Discussion and Analysis

Segment Review

Total revenue and operating profit of the Hotel Segment during the first half of 2007 slightly declined by 0.5% and 2.4% to HK$201.3 million and HK$68.0 million respectively versus the same period last year. The decrease was mainly attributed to lower occupancy at MPHK and a drop in Food & Beverage revenue arising from the closure of Grippes in November 2006. Average occupancy during the period dropped to 84% from 88% recorded a year earlier. In spite of a drop in occupancy, average room rate grew by 8.0% on the back of high demand for hotel rooms during trade fairs and the Chinese New Year holidays.

Property Investment revenue and operating profit grew by 6.5% and 5.9% to HK$60.5 million and HK$52.0 million respectively. The increase was principally contributed by favourable rental growth amidst the strong retail market. The retail space of MPHK was virtually fully let during the first half of 2007, while the Star House retail units were 75.5% leased during the period.

The Group's investment properties, comprising the office and retail areas in MPHK and the Star House units, were revalued by an independent valuer at 30 June 2007. Net revaluation surplus after deferred tax was HK$21.9 million during the period (2006: HK$80.9 million).

Financial Review

(I) Review of 2007 Interim Results

Turnover

The Group's turnover in the first half 2007 decreased by 32.9% to HK$324.1 million (2006: HK$483.0 million) since no property sale was recorded during the period under review.

Hotel Segment maintained its revenue at HK$201.3 million (2006: HK$202.4 million). No growth was reported mainly due to the impact of the closure of a restaurant in MPHK for renovation since November 2006. Room revenue managed to report a 2.8% year-on-year growth as higher room rates were achieved during the period under review.

Property investment revenue was up by 6.5% to HK$60.5 million (2006: HK$56.8 million) as retail rental income generated from MPHK's retail areas continued to grow steadily, but the increase was mitigated by the decrease in rental income from Star House units on the moving out of a major tenant.

Property Development Segment recorded no property sales during the period under review (2006: HK$176.5 million).

Investment Segment's interest and dividend income generated from the Group's surplus cash and investment increased by 31.7% to HK$62.3 million (2006: HK$47.3 million).

Operating Profit

The Group's operating profit rose by 10.8% or HK$17.7 million to HK$181.0 million (2006: HK$163.3 million). The improvement was mainly attributable to the Property Investment Segment and the Investment Segment with operating profit growth of 5.9% and 33.3% respectively, following their corresponding increase in revenue as mentioned above.

Other Items

Included in the Group's profit is other net income of HK$38.0 million (2006: HK$43.1 million), which mainly included profit of HK$37.2 million on disposal of certain listed investments.

Share of Profit of an Associate

Share of profit of an associate in the first half of 2007 was HK$3.9 million, increased from HK$2.8 million in the same period last year. This was due primarily to the increase in attributable profit from the sales of the remaining car parks at Sorrento during the period.

Taxation

The taxation charge for the period reduced by 30.3% to HK$26.2 million (2006: HK$37.6 million) as a result of the decrease in deferred tax on the corresponding decrease in property revaluation surplus of investment properties during the period.

Profit Attributable to Shareholders

The unaudited Group's profit attributable to shareholders for the first half of 2007 amounted to HK$223.3 million (2006: HK$269.7 million), representing a decrease of HK$46.4 million or 17.2%. Earnings per share were HK$0.71 (2006: HK$0.86).

The Group's investment properties were revalued as at 30 June 2007, resulting in a net surplus after deferred tax of HK$21.9 million (2006: HK$80.9 million) recorded in the profit and loss account.

Excluding this net surplus, the profit for the period was HK$201.4 million, representing an increase of 6.7% over 2006. The favourable results were mainly due to the increase in dividend and interest income, but offset in part by the decrease in profit on disposal of investments.

(II) Liquidity and Financial Resources

As at 30 June 2007, the Group's shareholders' equity was HK$5,064.0 million, equivalent to HK$16.1 per share.

As at 30 June 2007, the Group had a net cash of HK$1,469.1 million, decreased by 20.2% from HK$1,840.2 million as at 31 December 2006. The decrease was mainly due to the cash outflow for the net purchase of listed investments, which amounted to HK$478.4 million. The cash surplus was mostly placed as bank deposits. As at 30 June 2007, the Group also maintained a portfolio of investments primarily consisting of blue chip securities, with an aggregate market value of HK$2,163.7 million (2006: HK$1,490.0 million). The favourable performance of the portfolio was in line with the stock markets.

At 30 June 2007, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Human Resources

The Group has approximately 452 employees working at the Group's hotel. Employees are remunerated according to the 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 period ended 30 June 2007 amounted to HK$53.5 million (2006: HK$52.7 million).

Code on Corporate Governance Practices

During the financial period under review, all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were met by the Company, except in respect of one code provision providing for the roles of chairman and chief executive officer to be performed by different individuals. The deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial proportion thereof being independent Non-executive Directors.

Consolidated Profit and Loss Account

For the six months ended 30 June 2007

	Note	**Unaudited 30/6/2007 HK$ Million**	Unaudited 30/6/2006 HK$ Million
Turnover	2	**324.1**	483.0
Direct costs and operating expenses		**(117.5)**	(283.9)
Selling and marketing expenses		**(11.0)**	(22.8)
Depreciation and amortisation		**(11.6)**	(10.4)
Administrative and corporate expenses		**(3.0)**	(2.6)
Operating profit	3	**181.0**	163.3
Increase in fair value of investment properties		**26.6**	98.1
Other net income	4	**38.0**	43.1
		245.6	304.5
Share of profits less losses of an associate		**3.9**	2.8
Profit before taxation		**249.5**	307.3
Taxation	5(b)	**(26.2)**	(37.6)
Profit attributable to shareholders		**223.3**	269.7
Proposed interim dividends	6(a)	**15.8**	15.8
Earnings per share	7	**HK$0.71**	HK$0.86
Proposed interim dividends per share		**HK$0.05**	HK$0.05

Consolidated Balance Sheet
As at 30 June 2007

	Note	**Unaudited 30/6/2007 HK$ Million**	Audited 31/12/2006 HK$ Million
Non-current assets			
Fixed assets			
Investment properties		**1,690.0**	1,663.0
Leasehold land		**15.2**	15.2
Other properties, plant and equipment		**70.7**	63.4
Interest in associate		**0.2**	0.8
Available-for-sale investments		**2,163.7**	1,490.0
Long term receivables		**2.9**	3.1
Employee benefits		**6.4**	6.7
		3,949.1	3,242.2
Current assets			
Inventories		**7.4**	7.6
Trade and other receivables	8	**49.3**	78.8
Cash and cash equivalents		**1,469.1**	1,840.2
		1,525.8	1,926.6
Current liabilities			
Trade and other payables	9	**143.0**	140.5
Taxation payable	5(c)	**35.5**	22.6
		178.5	163.1
Net current assets		**1,347.3**	1,763.5
Total assets less current liabilities		**5,296.4**	5,005.7
Non-current liabilities			
Deferred income	10	**-**	0.8
Deferred taxation		**232.4**	226.9
		232.4	227.7
NET ASSETS		**5,064.0**	4,778.0
Capital and reserves			
Share capital	11	**157.5**	157.5
Reserves	12	**4,906.5**	4,620.5
TOTAL EQUITY		**5,064.0**	4,778.0

Condensed Statement of Recognised Income and Expense

For the six months ended 30 June 2007

	Note	**Unaudited 30/6/2007 HK$ Million**	Unaudited 30/6/2006 HK$ Million
Surplus on revaluation of available-for-sale investments	12	**178.7**	178.9
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of available-for-sale investments	12	**(40.4)**	1.7
Net income recognised directly in equity		**138.3**	180.6
Profit attributable to shareholders		**223.3**	269.7
Total recognised income and expense		**361.6**	450.3

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Unaudited 30/6/2007 HK$ Million	Unaudited 30/6/2006 HK$ Million
Net cash generated from operating activities	**205.4**	304.4
Net cash used in investing activities	**(500.9)**	(200.9)
Net cash used in financing activities	**(75.6)**	(37.8)
Net (decrease)/increase in cash and cash equivalents	**(371.1)**	65.7
Cash and cash equivalents at 1 January	**1,840.2**	1,519.6
Cash and cash equivalents at 30 June	**1,469.1**	1,585.3

Notes to Interim Financial Statements

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure provision of Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited.

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

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

In 2007, the Group adopted the new standard, amendment and interpretations below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK (IFRIC) - Int 10	Interim Reporting and Impairment
HKFRS 7	Financial Instruments: Disclosure

The Group has assessed the impact of the adoption of these new standard, amendment and interpretations and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in the annual report.

2. SEGMENT INFORMATION

(a) Business segments

	Segment revenue		Segment results	
	30/6/2007	30/6/2006	**30/6/2007**	30/6/2006
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hotel and restaurants	**201.3**	202.4	**68.0**	69.7
Property investment	**60.5**	56.8	**52.0**	49.1
Property development	**-**	176.5	**(0.2)**	(1.4)
Investments	**62.3**	47.3	**61.2**	45.9
	324.1	483.0	**181.0**	163.3
Increase in fair value of investment properties			**26.6**	98.1
Other net income				
Investments			**38.0**	43.1
			245.6	304.5
Associate				
Property development			**3.9**	2.8
Profit before taxation			**249.5**	307.3

(b) Geographical segments

	Segment revenue		Segment results	
	30/6/2007	30/6/2006	**30/6/2007**	30/6/2006
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Hong Kong	**304.7**	466.4	**161.6**	146.7
Singapore	**19.4**	16.6	**19.4**	16.6
	324.1	483.0	**181.0**	163.3

No inter-segment revenue has been recorded during the periods.

3. OPERATING PROFIT

	30/6/2007 HK$ Million	30/6/2006 HK$ Million
Operating profit is arrived at:		
After charging:		
Cost of inventories sold	**11.3**	178.8
Depreciation and amortisation	**11.6**	10.4
Staff costs including retirement scheme costs HK$1.8 million (2006: HK$2.8 million)	**53.5**	52.7
Auditors' remuneration	**0.3**	0.3
Share of an associate's taxation	**0.8**	0.4
and crediting:		
Gross rental income from investment properties	**51.4**	47.9
Less: direct outgoings	**(6.6)**	(5.7)
	44.8	42.2
Interest income on bank deposits	**40.0**	25.2
Dividend income from listed investments	**22.3**	20.6

4. OTHER NET INCOME

	30/6/2007 HK$ Million	30/6/2006 HK$ Million
Release of deferred income	**0.8**	0.6
Profit on disposal of available-for-sale investments	**37.2**	42.5
	38.0	43.1

5. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5% (2006: 17.5%).

(b) Taxation in the consolidated profit and loss account represents:

	30/6/2007 HK$ Million	30/6/2006 HK$ Million
Current taxation		
Provision for Hong Kong profits tax for the period	**20.9**	19.8
Overprovision in respect of prior years	**(0.2)**	-
	20.7	19.8
Deferred taxation		
Origination and reversal of temporary differences	**0.8**	0.6
Change in fair value of investment properties	**4.7**	17.2
	5.5	17.8
Total tax charge	**26.2**	37.6

(c) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.

6. DIVIDENDS

(a) Dividends attributable to the period

	30/6/2007 HK$ Million	30/6/2006 HK$ Million
Proposed interim dividends after the balance sheet date:		
5.0 cents (2006: 5.0 cents)	**15.8**	15.8

The interim dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the period

	30/6/2007 HK$ Million	30/6/2006 HK$ Million
Final dividend in respect of the previous financial year, approved and paid during the period, of 24.0 cents per share (2006: 12.0 cents per share)	**75.6**	37.8

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of HK$223.3 million (2006: HK$269.7 million) and on 315.0 million (2006: 315.0 million) ordinary shares in issue throughout the period ended 30 June 2007. For the period under review and the preceding comparative period, there is no difference between the basic and diluted earnings per share.

8. TRADE AND OTHER RECEIVABLES

	30/6/2007 HK$ Million	31/12/2006 HK$ Million
Trade debtors		
Due within 30 days	**15.0**	48.4
Due after 30 days but within 60 days	**3.4**	6.6
Due after 60 days but within 90 days	**0.2**	0.9
Over 90 days	**0.2**	-
	18.8	55.9
Other receivables	**24.9**	12.2
Amounts due from fellow subsidiaries	**5.6**	10.7
	49.3	78.8

The Group has defined credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days.

9. TRADE AND OTHER PAYABLES

	30/6/2007 HK$ Million	31/12/2006 HK$ Million
Trade creditors		
Due within 30 days	**8.1**	14.0
Due after 30 days but within 60 days	**4.1**	5.6
Due after 60 days but within 90 days	**0.4**	-
Over 90 days	**0.1**	-
	12.7	19.6
Other payables and provisions	**92.2**	81.8
Amounts due to fellow subsidiaries	**5.6**	11.3
Amounts due to an associate	**32.5**	27.8
	143.0	140.5

10. DEFERRED INCOME

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

	2007 HK$ Million	2006 HK$ Million
Balance at 1 January	**0.8**	1.6
Credited to the consolidated profit and loss account	**(0.8)**	(0.8)
Balance at 30 June / 31 December	**-**	0.8

11. SHARE CAPITAL

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

12. RESERVES

	Share premium HK$ Million	Investments revaluation reserve HK$ Million	Revenue reserve HK$ Million	Total HK$ Million
Balance at 1 January 2007	542.0	715.9	3,362.6	4,620.5
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	-	178.7	-	178.7
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	-	(40.4)	-	(40.4)
	-	138.3	-	138.3
Profit for the period	-	-	223.3	223.3
Total recognised income and expense	-	138.3	223.3	361.6
Dividend approved in respect of the previous year	-	-	(75.6)	(75.6)
Balance at 30 June 2007	542.0	854.2	3,510.3	4,906.5

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$15.3 million (2006: HK$15.7 million) which included management fees of HK$12.6 million (2006: HK$13.0 million) and marketing fees of HK$2.7 million (2006: HK$2.7 million). The management fees included 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, entered into on 2 April 2007, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules.

(b) 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 lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11 April 2003 to 10 April 2009. The rental income earned by the Group from the above agreement during the current period, including contingent rental income, amounted to HK$38.7 million (2006: HK$33.8 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

14. CONTINGENT LIABILITES

As at 30 June 2007, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK$3.1 million (31/12/2006: HK$3.1 million).

15. COMMITMENTS

Capital commitments outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	30/6/2007 HK$ Million	31/12/2006 HK$ Million
Contracted but not provided for	**66.6**	78.9
Authorised but not contracted for	**6.4**	4.6
	73.0	83.5

16. REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the six months ended 30 June 2007 have been reviewed with no disagreement by the Audit Committee of the Company.

MODEL CODE FOR DIRECTORS' DEALING IN SECURITIES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

Directors' Interests in Shares

At 30 June 2007, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company and the Company's parent company, namely, The Wharf (Holdings) Limited ("Wharf"), and the percentages which the relevant shares represented to the issued share capitals of the Company and Wharf are also set out below:

Names of Directors	Number of shares (percentage of issued capital)	Nature of Interest
The Company		
Mr. Michael T. P. Sze	25,000 (0.0079%)	Family interest
Wharf		
Mr. Gonzaga W. J. Li	686,549 (0.0280%)	Personal interest
Mr. T. Y. Ng	178,016 (0.0073%)	Personal interest
Mr. Michael T. P. Sze	44,533 (0.0018%)	Family interest

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance ("SFO") in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code, there were no interests, both long and short positions, held during the financial period 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), nor had there been any exercises during the financial period of any rights to subscribe for any shares, underlying shares or debentures of the Company.

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 as at 30 June 2007, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

Names		**Number 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)	WF Investment Partners Limited	210,379,500 (66.79%)
(v)	Wheelock and Company Limited	210,379,500 (66.79%)
(vi)	HSBC Trustee (Guernsey) Limited	210,379,500 (66.79%)
(vii)	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 (vi) above in that they represent the same block of shares.

All the interests stated above represented long positions and as at 30 June 2007, there were no short position interests recorded in the 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 Thursday, 27 September 2007 to Thursday, 4 October 2007, 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, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 25 September 2007.

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

Hong Kong, 8 August 2007

As at the date of this interim report, the Board of Directors of the Company comprises Mr. Gonzaga W. J. Li and Mr. T. Y. Ng, together with three independent non-executive Directors, namely, Mr. H. M. V. de Lacy Staunton, Mr. Michael T. P. Sze and Mr. Man Kou Tan.