Harbour Centre Development Limited
海港企業有限公司

Stock Code 股份代號：51

INTERIM REPORT 2014
中期報告書

HIGHLIGHTS

- Investment Properties ("IP") and Hotel in Hong Kong reported steady growth.
- Development Properties ("DP") in the Mainland reported a noticeably lower profit margin and contribution, as expected, on steady turnover.
- The 271-room five-star Marco Polo Hotel in Changzhou, China, is due for grand opening in the fourth quarter of 2014.
- Murray Building is, on full renovation and conversion, due for re-opening as a luxury hotel in Central, Hong Kong, in 2017.
- Suzhou IFS (80%-owned IP) is targeted for completion in 2017 and will include a 129-room luxury sky hotel.
- Internal resources from operations have been earmarked to fund these new investments.

GROUP RESULTS

For the six months ended 30 June 2014, unaudited Group turnover increased by 4% to HK$2,715 million but profit attributable to equity shareholders declined by 52% to HK$485 million. Earnings per share were HK$0.68 (2013: HK$1.42).

The Group's profit included an investment property revaluation surplus of HK$25 million (2013: HK$211 million). Excluding this, profit for the period under review was HK$460 million (2013: HK$798 million) representing a decrease of 42%, mainly due to performance of the DP business already outlined in the 2013 Annual Report.

INTERIM DIVIDENDS

The Board has declared an interim dividend of 12 cents per share and no special dividend (2013: 12 cents and 18 cents, respectively). This will absorb a total amount of HK$85 million. The dividend will be payable on 26 September 2014 to Shareholders on record as at 15 September 2014.

BUSINESS REVIEW

The Group's long-standing core businesses, namely IP and Hotel in Hong Kong reported steady growth during the period under review. DP in the Mainland, however, reported a noticeably lower profit margin and contribution on steady turnover. Non-operating items were unfavourable during the period. Looking ahead, commercial realisation of the Group's investment in the new IP and Hotel assets is expected to begin from 2017. Leveraging on its solid operating and financial foundation, the Group has earmarked primarily internal resources to fund its investment in these new assets. DP sales are expected to continue to generate cash inflow and to enhance the Group's financial position.

China Portfolio

Development Properties

While total DP turnover posted a modest increase of 3% to HK$2,145 million (2013: HK$2,088 million), lower profit margin reduced operating profit to HK$336 million during the period (2013: HK$476 million). Profit recognised mainly included contributions from Suzhou Times City. In the absence of new completion of The U World in Chongqing, contribution from the joint venture decreased to HK$77 million. China DP's share of Group core profit remained unchanged at 48%.

While the expanding middle class aspiring to modern urban living continued to boost the underlying demand for quality residences, various challenges have weighed on the property market.

As at 30 June 2014, the Group had an attributable land bank of 1.7 million square metres at a book value of HK$12.2 billion.

Sales

Including the attributable share in the joint venture project, nearly 700 residences with a total GFA of 107,200 square metres were contracted for sale in the period for RMB1.3 billion (2013: RMB2.3 billion). The net order book as at the end of June 2014 was RMB3.6 billion for 3,100 residences with a total GFA of 408,600 square metres, with profit margins tighter than those reported for the past two years. Sales order recognition during the period was HK$2.6 billion.

Suzhou Times City – During the period, 52,900 square metres were sold or pre-sold at an average price, of RMB13,000 per square metre for residential and RMB20,000 per square metre for retail. Total proceeds amounted to RMB745 million. The cumulative GFA sold/pre-sold represents 51% of the project total.

Changzhou Times Palace – During the period, 47,100 square metres were sold or pre-sold at an average price of RMB7,500 per square metre, generating sales proceeds of RMB355 million. The cumulative GFA sold/pre-sold represents 62% of the project total.

The U World in Chongqing – During the period, on an attributable basis, 7,100 square metres were sold at an average price of RMB18,800 per square metre for residential and RMB55,000 per square metre for retail. Total proceeds amounted to RMB144 million. The cumulative GFA sold/pre-sold represents 50% of the project total.

Development Progress

Changzhou Times Palace comprises residential towers, semi-detached houses and villas, a five-star Marco Polo Hotel, The Mansion and serviced apartments with a total GFA of 800,000 square metres. Construction of the remaining towers is underway with full completion scheduled for 2016.

The U World in Chongqing, 55%-owned joint venture development, offers an attributable GFA of 235,000 square metres with most of the residences enjoying a panoramic river view from different angles. The development, in close proximity to the future Chongqing International Finance Square, is adjacent to the Grand Theatre, Chongqing Science and Technology Museum and the Central Park. Construction of the remaining residential towers is underway, with full completion scheduled for 2016.

Suzhou Times City, located along the main east-west thoroughfare of Xiandai Da Dao and near a future metro station, is a joint venture owned 80:20 between the Group and a unit of the local government. Additional phases were completed during the period. Construction of the remaining towers is underway with full completion scheduled for 2018.

Shanghai South Station is a 493,000-square-metre commercial development in Xuhui District, in which the Group owns a 27% interest (attributable 133,000 square metres), led by major Mainland developer China Vanke Company Limited with a 51% interest. The development is situated next to Shanghai South Railway Station and well connected to the existing Metro Line 1, Line 3 and future Line 15 stations. Construction is underway with full completion scheduled for 2018.

Investment Properties

Suzhou International Finance Square (80% attributable to the Group), is a 450-metre landmark commercial development in the new CBD overlooking Jinji Lake, and will be comparable in height to the tallest building in Hong Kong. The development, designed by Kohn Pedersen Fox, consists of international Grade A office, luxurious apartments as well as a luxury sky hotel with full scenery of Suzhou. With a total GFA of 278,000 square metres, the development will be directly connected to the future metro station. Construction is underway with the initial phases targeted for completion by 2017. Total estimated cost amounted to RMB5.4 billion. Bundled with a larger and profitable DP project, Suzhou IFS will be held as IP for recurrent income. Its opportune location and good quality will put the IFS in a competitive position amidst a challenging market.

Hotel

In Changzhou, a 271-room five-star Marco Polo Hotel, a 31-suite Mansion and the 139-unit serviced apartments are scheduled for completion by end 2014. The hotel is part of The Mansion complex with vast garden space for major events and weddings. Pre-operating expenses continued to weigh on the Hotel segment's results. Post-opening losses are expected in the near term.

In Suzhou, construction of a 129-room luxury sky hotel with full scenery of the city in the Suzhou IFS project is underway. It is expected to make its first revenue contribution from 2017.

Hong Kong Portfolio

Investment Properties

The IP segment (mainly comprising prime Canton road retail properties) was propelled by resilient consumption demand, with a 16% increase in revenue and a 18% increase in operating profit. The Group's IP portfolio was independently revalued as at 30 June 2014, resulting in a net revaluation surplus of HK$25 million for the period.

Hotel

The Group's two unique hotels in Hong Kong are both distinguished not only in location, but also rich in history and superior in market position.

Marco Polo Hongkong Hotel ("MPHK Hotel") continued to perform well. Average room rate increased by 3% while average occupancy was maintained at 88%. With its favourable location in Harbour City, MPHK Hotel continued to provide convenience for discerning travellers. Escalating operating costs and higher depreciation charges, however, continued to affect profitability.

Murray Building, a majestic building with towering arches, is a unique, prominent landmark building featuring an intricate design and part of Hong Kong's heritage for nearly 50 years. It guards the intersection of traffic arteries in Central that run east-west and north-south, commands open green views over Hong Kong Park and is well connected to other buildings in the neighbourhood, as well as to the Mass Transit Railway. The Group will convert this iconic property to a luxury hotel for a total investment of over HK$7 billion. Target opening is scheduled for 2017.

FINANCIAL REVIEW

(I) Review of 2014 Interim Results

The Group recorded a core profit of HK$460 million in the first half of 2014. This represents a decrease of 42% from the corresponding period last year resulting from the anticipated lower profit margin from China DP and a modest non-operating loss (against the exceptional large gain in 2013), whereas IP and Hotel segments reported steady growth.

Including profit from IP revaluation, profit attributable to shareholders amounted to HK$485 million (2013: HK$1,009 million), a decrease of 52% from last year.

Revenue

Group revenue for the period increased by 4% to HK$2,715 million (2013: HK$2,620 million) with all segments reporting revenue increase.

DP revenue increased by 3% to HK$2,145 million (2013: HK$2,088 million), mainly derived from Suzhou Times City.

IP revenue increased by 16% to HK$170 million (2013: HK$146 million) benefitting from higher retail rental, particularly in MPHK Hotel.

Hotel revenue increased by 4% to HK$314 million (2013: HK$302 million), reflecting the higher average room rate achieved by MPHK Hotel.

Investment and Other Income, consisting of interest and dividend from the Group's surplus cash and investments, increased by 2% to HK$86 million (2013: HK$84 million).

Operating Profit

Group operating profit decreased by 15% to HK$660 million (2013: HK$774 million).

DP profit declined by 30% to HK$336 million (2013: HK$476 million) with anticipated lower operating margin of 16% (2013: 23%), mainly recognised from Suzhou Times City.

IP's operating profit increased by 18% to HK$154 million (2013: HK$131 million).

MPHK Hotel in Hong Kong increased operating profit by 3% to HK$102 million (2013: HK$99 million) but Hotel segment's overall profit fell by 3% to HK$91 million (2013: HK$94 million) primarily due to the pre-operating expenses incurred for the Marco Polo Changzhou, with grand opening scheduled for the fourth quarter of 2014.

Profit contribution from Investment and Others increased by 2% to HK$86 million (2013: HK$84 million).

Increase in Fair Value of IP
The Group's completed IP were stated at fair value based on independent valuation as at 30 June 2014 resulting in a revaluation gain of HK$25 million (2013: HK$211 million). IP under development are carried at cost and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Other Net Loss
Other net loss was HK$22 million (2013: income HK$169 million) mainly reflecting a modest foreign exchange loss of HK$32 million (2013: gain of HK$147 million) and the absence of profit (2013: HK$39 million) from disposal of available-for-sale investments for the period.

Finance Costs
Net finance costs amounted to HK$16 million (2013: HK$33 million), after capitalisation of HK$54 million (2013: HK$2 million) for the Group's projects.

Share of Results after Tax of Joint Ventures
The attributable profit after tax from joint ventures decreased by 47% to HK$77 million (2013: HK$146 million) with less profit contribution from The U World in Chongqing without new completion during the period.

Income Tax
Taxation charge for the period dropped by 11% to HK$209 million (2013: HK$235 million) due to a decrease in taxable profit.

Profit Attributable to Equity Shareholders
Group profit attributable to equity shareholders for the period ended 30 June 2014 amounted to HK$485 million (2013: HK$1,009 million), representing a decrease of 52%. Earnings per share were HK$0.68 (2013: HK$1.42).

Excluding the IP revaluation surplus of HK$25 million (2013: HK$211 million), the Group's core profit attributable to shareholders for the period was HK$460 million (2013: HK$798 million), representing a decrease of 42%. Core earnings per share were HK$0.65 (2013: HK$1.13).

(II) Liquidity, Financial Resources and Commitments

Shareholders' and Total Equity
As at 30 June 2014, the Group's shareholders' equity increased by 1% to HK$15,586 million (31/12/2013: HK$15,381 million), equivalent to HK$21.99 per share (31/12/2013: HK$21.70 per share). Including the non-controlling interests, the Group's total equity stood at HK$16,620 million (31/12/2013: HK$16,447 million).

MPHK Hotel is stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards. Restating the hotel property based on independent valuation as at 30 June 2014 would give rise to an additional revaluation surplus of HK$4,306 million and increase the Group's shareholders' equity as at 30 June 2014 to HK$19,892 million, equivalent to HK$28.07 per share.

Assets

The Group's total assets decreased by 5% to HK$29,579 million (31/12/2013: HK$31,076 million). Total business assets, excluding bank deposits and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, decreased by 7% to HK$22,250 million (31/12/2013: HK$23,858 million).

The Group's IP as at 30 June 2014 amounted to HK$6,568 million, representing 30% of the Group's total business assets. Hong Kong IP, comprising MPHK Hotel's podium and Star House, maintained at HK$5,171 million (31/12/2013: HK$5,146 million), which are valued at HK$4,600 million and HK$571 million, respectively. The book value of Mainland IP, mainly Suzhou IFS, was stated at HK$1,397 million (31/12/2013: HK$1,289 million).

The Group's China DP decreased by 23% to HK$5,675 million (31/12/2013: HK$7,376 million). In addition, DP investments undertaken through associates and joint ventures amounted to HK$4,026 million (31/12/2013: HK$4,087 million). Other major business assets included hotel properties and fixed assets of HK$4,966 million, mainly Murray Building.

Geographically, the Group's business assets in the Mainland decreased by 12% to HK$12,244 million (31/12/2013: HK$13,887 million), representing 55% (31/12/2013: 58%) of the Group's total business assets.

Debts and Gearing

The Group's net debt as at 30 June 2014 amounted to HK$832 million (31/12/2013: HK$413 million), which was made up of HK$5,805 million in cash and HK$6,637 million in bank borrowings in various currencies. The ratio of net debt to total equity was 5.0% (31/12/2013: 2.5%).

Finance and Availability of Facilities and Funds

As at 30 June 2014, the Group's available loan facilities amounted to HK$9,417 million, of which HK$6,637 million were utilised. HK$1,204 million is repayable within one year while the balance is due between two and five years. Certain banking facilities were secured by mortgage over the Group's certain properties under development for sale with total carrying value of HK$207 million (31/12/2013: HK$209 million).

The Group's debts were denominated in HKD, USD and RMB. All the Group's borrowing as at 30 June 2014 were at floating rate. Further borrowings will be sourced to finance the Group's property and hotel development projects.

The use of derivative financial instruments is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily used for hedging of the Group's interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate the Group's business and investment activities. As at 30 June 2014, the Group also maintained a portfolio of available-for-sale investments principally consisting of blue chip listed securities, with an aggregate market value of HK$1,503 million (31/12/2013: HK$1,340 million), which is available for liquidation to meet the Group's needs if necessary. The performance of the portfolio was largely in line with the general stock market.

Net Cash Flows for Operating and Investing Activities

For the period under review, the Group generated a net cash inflow from operating activities of HK$79 million (2013: HK$534 million), mainly from pre-sales proceeds net of construction cost payment for the Group's Mainland development projects. For investing activities, the Group recorded a net cash outflow of HK$53 million (2013: HK$739 million), primarily for the Group's hotel development projects, Suzhou IFS and the Chongqing joint venture.

Commitments

As at 30 June 2014, the Group's total authorised and contracted for commitments amounted to HK$4.5 billion which was chiefly for Mainland development projects. In addition, the Group intends to invest HK$1.9 billion for the conversion of Murray Building into a hotel. Moreover, the Group intends to invest HK$7.0 billion mainly for the existing DP in the Mainland, which will be incurred in stages in the forthcoming years.

The above commitments and planned expenditures will be funded by the Group's internal financial resources including cash of HK$5.8 billion and property pre-sales proceeds as well as bank loans. Other available resources include available-for-sale investments.

(III) Human Resources

The Group had approximately 680 employees as at 30 June 2014. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014 – Unaudited

	Note	**Six months ended 30 June** **2014** **HK$ Million**	2013 HK$ Million
Revenue	2	**2,715**	2,620
Direct costs and operating expenses		**(1,944)**	(1,712)
Selling and marketing expenses		**(53)**	(77)
Administrative and corporate expenses		**(30)**	(31)
Operating profit before depreciation, interest and tax		**688**	800
Depreciation		**(28)**	(26)
Operating profit	3	**660**	774
Increase in fair value of investment properties		**25**	211
Other net (loss)/income	4	**(22)**	169
		663	1,154
Finance costs	5	**(16)**	(33)
Share of results after tax of:			
Joint ventures		**77**	146
Associates		**(1)**	–
Profit before taxation		**723**	1,267
Income tax	6(a)	**(209)**	(235)
Profit for the period		**514**	1,032
Profit attributable to:			
Equity shareholders		**485**	1,009
Non-controlling interests		**29**	23
		514	1,032
Earnings per share	7		
Basic		**HK$0.68**	HK$1.42
Diluted		**HK$0.68**	HK$1.42

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – Unaudited

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Profit for the period	**514**	1,032
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of the operations of:	**(164)**	218
– subsidiaries	**(143)**	180
– joint ventures	**(21)**	38
Fair value changes on available-for-sale investments:	**163**	(96)
– surplus/(deficit) on revaluation	**163**	(62)
– transferred to consolidated income statement on disposal	**–**	(34)
Other comprehensive income for the period	**(1)**	122
Total comprehensive income for the period	**513**	1,154
Total comprehensive income attributable to:		
Equity shareholders	**545**	1,114
Non-controlling interests	**(32)**	40
	513	1,154

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014 – Unaudited

	Note	**30 June 2014 HK$ Million**	31 December 2013 HK$ Million
Non-current assets			
Investment properties		**6,568**	6,435
Fixed assets		**4,966**	4,764
Interest in associates		**1,905**	1,925
Interest in joint ventures		**2,121**	2,162
Available-for-sale investments		**1,503**	1,340
Deferred tax assets		**19**	1
Other non-current assets		**20**	20
		17,102	16,647
Current assets			
Properties for sale		**5,675**	7,376
Inventories		**3**	2
Trade and other receivables	9	**877**	1,066
Prepaid tax		**115**	108
Derivative financial assets		**2**	52
Bank deposits and cash		**5,805**	5,825
		12,477	14,429
Current liabilities			
Trade and other payables	10	**(2,097)**	(3,116)
Pre-sale deposits and proceeds		**(3,973)**	(4,998)
Derivative financial liabilities		**(13)**	–
Taxation payable		**(176)**	(215)
Bank loans		**(1,204)**	(500)
		(7,463)	(8,829)
Net current assets		**5,014**	5,600
Total assets less current liabilities		**22,116**	22,247
Non-current liabilities			
Derivative financial liabilities		**(3)**	(4)
Deferred tax liabilities		**(60)**	(58)
Bank loans		**(5,433)**	(5,738)
		(5,496)	(5,800)
NET ASSETS		**16,620**	16,447
Capital and reserves			
Share capital: nominal value		**–**	354
Other statutory capital reserve		**–**	3,287
Share capital and other statutory capital reserve	11	**3,641**	3,641
Other reserves		**11,945**	11,740
Shareholders' equity		**15,586**	15,381
Non-controlling interests		**1,034**	1,066
TOTAL EQUITY		**16,620**	16,447

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 – Unaudited

	Shareholders' equity							
	Share capital HK$ Million	Share premium HK$ Million	Investments revaluation reserve HK$ Million	Exchange reserve HK$ Million	Revenue reserve HK$ Million	Total shareholders' equity HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2014	**354**	**3,287**	**707**	**1,296**	**9,737**	**15,381**	**1,066**	**16,447**
Changes in equity for the period:								
Profit	**–**	**–**	**–**	**–**	**485**	**485**	**29**	**514**
Other comprehensive income	**–**	**–**	**163**	**(103)**	**–**	**60**	**(61)**	**(1)**
Total comprehensive income	**–**	**–**	**163**	**(103)**	**485**	**545**	**(32)**	**513**
Transition to no-par value regime	**3,287**	**(3,287)**	**–**	**–**	**–**	**–**	**–**	**–**
Second interim dividends paid for 2013 (Note 8)	**–**	**–**	**–**	**–**	**(340)**	**(340)**	**–**	**(340)**
At 30 June 2014	**3,641**	**–**	**870**	**1,193**	**9,882**	**15,586**	**1,034**	**16,620**
At 1 January 2013	354	3,287	993	951	9,006	14,591	972	15,563
Changes in equity for the period:								
Profit	–	–	–	–	1,009	1,009	23	1,032
Other comprehensive income	–	–	(96)	201	–	105	17	122
Total comprehensive income	–	–	(96)	201	1,009	1,114	40	1,154
Second interim dividends paid for 2012	–	–	–	–	(340)	(340)	–	(340)
At 30 June 2013	354	3,287	897	1,152	9,675	15,365	1,012	16,377

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014 – Unaudited

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Operating cash inflow	**602**	716
Change in working capital/others	**(254)**	294
Tax paid	**(269)**	(476)
Net cash generated from operating activities	**79**	534
Investing activities		
Payment to investment properties and fixed assets	**(352)**	(122)
Other cash flows generated from/(used in) investing activities	**299**	(617)
Net cash used in investing activities	**(53)**	(739)
Financial activities		
Dividends paid to equity shareholders	**(340)**	(340)
Other cash flows generated from financing activities	**348**	650
Net cash generated from financing activities	**8**	310
Increase in cash and cash equivalents	**34**	105
Cash and cash equivalents at 1 January	**5,825**	7,731
Effect on exchange rate changes	**(54)**	121
Cash and cash equivalents at 30 June (Note)	**5,805**	7,957

Note:

Cash and cash equivalents		
Banks deposits and cash in the consolidated statement of financial position	**5,805**	7,957

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies and Basis of Preparation

These 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 the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on 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 2013 except for the changes mentioned below.

With effect from 1 January 2014, the Group has adopted the below amendments which are relevant to the Group's financial statements:

Amendments to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amounts disclosure for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuance of hedge accounting

Amendments to HKAS 32 clarified some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not have a significant impact on the Group's financial statements.

Amendments to HKAS 36 modified certain disclosure requirement for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset on cash generating units whose recoverable amount is based on fair value less costs of disposal. The amendments have no significant impact on the Group's financial statements.

Amendments to HKAS 39 provided relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have no significant impact on the Group's financial statements.

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

2. Segment Information

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined three reportable operating segments for measuring performance and allocating resources. The segments are development property, investment property and hotel. No operating segment has been aggregated to form reportable segments.

Development property ("DP") segment encompasses activities relating to the acquisition, development, design, marketing and sale of trading properties primarily in Mainland China.

Investment property ("IP") segment primarily represents the property leasing of the Group's investment properties in Hong Kong. Some of the Group's development projects in Mainland China include properties which are intended to be held for investment purposes on completion.

Hotel segment represents the operations of Marco Polo Hongkong Hotel ("MPHK Hotel"). It also includes Murray Building and Marco Polo Changzhou, both under construction.

Management evaluates performance based on operating profit as well as the equity share of results of associates and joint ventures of each segment.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, available-for-sale investments, derivative financial instruments and deferred tax assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

2. Segment Information (continued)

Analysis of segment revenue and results

Six months ended	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of investment properties HK$ Million	Other net (loss)/income HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit before taxation HK$ Million
30 June 2014								
Development property	**2,145**	**336**	**–**	**7**	**–**	**77**	**(1)**	**419**
Investment property	**170**	**154**	**25**	**–**	**–**	**–**	**–**	**179**
Hotel	**314**	**91**	**–**	**–**	**(7)**	**–**	**–**	**84**
Segment total	**2,629**	**581**	**25**	**7**	**(7)**	**77**	**(1)**	**682**
Investment and others	**86**	**86**	**–**	**(29)**	**(9)**	**–**	**–**	**48**
Corporate expenses	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**	**(7)**
Group total	**2,715**	**660**	**25**	**(22)**	**(16)**	**77**	**(1)**	**723**
30 June 2013								
Development property	2,088	476	–	(6)	–	146	–	616
Investment property	146	131	211	–	–	–	–	342
Hotel	302	94	–	–	(9)	–	–	85
Segment total	2,536	701	211	(6)	(9)	146	–	1,043
Investment and others	84	84	–	175	(24)	–	–	235
Corporate expenses	–	(11)	–	–	–	–	–	(11)
Group total	2,620	774	211	169	(33)	146	–	1,267

(i) Substantially all depreciation was attributable to the Hotel Segment.
(ii) No inter-segment revenue has been recorded during the current and prior periods.

3. Operating Profit

Operating profit is arrived at :

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
After charging/(crediting) :		
Depreciation	**28**	26
Staff costs (Note i)	**101**	108
Auditors' remuneration	**1**	1
Cost of trading properties sold during the period	**1,757**	1,532
Rental charges under operating leases	**7**	10
Rental income less direct outgoings of HK$9 million (2013: HK$10 million) (Note ii)	**(160)**	(135)
Interest income	**(62)**	(62)
Dividend income from listed investments	**(25)**	(22)

Notes:

(i) Staff costs included defined contribution pension schemes costs HK$4 million (2013: HK$4 million).

(ii) Rental income included contingent rentals of HK$70 million (2013: HK$50 million).

4. Other Net (Loss)/Income

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK$Nil (2013: HK$35 million) transferred from the investments revaluation reserve	**–**	39
Net exchange (loss)/gain, including the impact of forward foreign exchange contracts	**(22)**	130
	(22)	169

5. Finance Costs

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Interest on bank borrowing wholly repayable within five years	**57**	32
Other finance costs	**13**	12
	70	44
Less: Amount capitalised	**(54)**	(2)
	16	42
Fair value changes on cross currency interest rate swaps	**–**	(9)
	16	33

6. Income Tax

(a) Taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Current income tax		
Hong Kong		
– provision for the period	**41**	37
Mainland China		
– provision for the period	**136**	98
	177	135
Land appreciation tax (“LAT”) (Note (d))	**47**	85
Deferred tax		
Origination and reversal of temporary differences	**(18)**	5
Withholding tax on undistributed retained profits of Mainland China subsidiaries (Note (e))	**3**	10
	(15)	15
Total	**209**	235

6. Income Tax (continued)

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2013: 16.5%) of the estimated assessable profits for the period.

(c) Income tax on profit assessable in Mainland China are China enterprise income tax calculated at a rate of 25% and China withholding income tax at a rate of up to 10%.

(d) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all development property expenditures.

(e) The China tax law also imposes a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China.

(f) Tax attributable to joint ventures for the six months ended 30 June 2014 of HK$61 million (2013: HK$141 million) is included in the share of results of joint ventures.

7. Earnings Per Share

The calculation of earnings per share is based on the profit for the period attributable to equity shareholders of HK$485 million (2013: HK$1,009 million) and the weighted average of 709 million (2013: 709 million) ordinary shares.

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2014 and 2013.

8. Dividends Attributable to Equity Shareholders

	Six months ended 30 June	
	2014	2013
	HK$ Million	HK$ Million
Dividends declared after the end of the reporting period:		
First interim dividend of 12 cents (2013: 12 cents) per share	**85**	85
Special interim dividend of nil cents (2013: 18 cents) per share	**–**	128
	85	213

(a) The first interim dividend declared after the end of the reporting period has not been recognised as liabilities at the end of the reporting period.

(b) The second interim dividend of HK$340 million for 2013 was approved and paid in 2014.

9. Trade and Other Receivables

Included in this item are trade receivables (net of allowance for doubtful debts) with an ageing analysis based on invoice date as at 30 June 2014 as follows:

	30 June	31 December
	2014	2013
	HK$ Million	HK$ Million
Trade receivables		
0 – 30 days	**86**	157
31 – 60 days	**1**	2
	87	159
Prepayments	**361**	413
Other receivables	**409**	480
Amounts due from fellow subsidiaries	**20**	14
	877	1,066

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the receivables are expected to be virtually recoverable within one year.

10. Trade and Other Payables

Included in this item are trade payables with an ageing analysis as at 30 June 2014 as follows:

	30 June 2014 HK$ Million	31 December 2013 HK$ Million
Trade payables		
0 – 30 days	**13**	16
31 – 60 days	**–**	1
Over 90 days	**–**	1
	13	18
Other payables and provisions	**204**	271
Construction costs payable	**827**	2,053
Amounts due to fellow subsidiaries	**38**	40
Amounts due to associates	**1**	1
Amounts due to joint ventures	**1,014**	733
	2,097	3,116

11. Share Capital and Share Premium

(a) Share capital

	30 June 2014 No. of shares Million	31 December 2013 No. of shares Million	**30 June 2014 HK$ Million**	31 December 2013 HK$ Million
Issued and fully paid				
Ordinary shares				
At 1 January	**709**	709	**354**	354
Transition to no-par value regime	**–**	–	**3,287**	–
At 30 June/ 31 December	**709**	709	**3,641**	354

11. Share Capital and Share Premium (continued)

(a) Share capital (continued)

As at 31 December 2013, 1,200 million ordinary shares, with par value of HK$0.5 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount of the Company's issued and fully paid capital of HK$354 million, and the amount of HK$3,287 million standing to the credit of the share premium account on 3 March 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

(b) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital (see note (a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

12. Fair Value Measurement of Financial Instruments

(a) Assets and liabilities carried at fair value

The following table presents 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 as defined in HKFRS 13, Fair Value Measurement ("HKFRS 13"). 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. The levels are defined as follows:

- Level 1 valuation: 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 valuation: 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 valuation: Fair value measured using significant unobservable inputs.

12. Fair Value Measurement of Financial Instruments (continued)

(a) Assets and liabilities carried at fair value (continued)

	Group		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Total HK$ Million**
At 30 June 2014			
Assets			
Available-for-sale investments:			
– Listed investments	**1,503**	**–**	**1,503**
Derivative financial instruments:			
– Warrants	**2**	**–**	**2**
	1,505	**–**	**1,505**
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	**–**	**16**	**16**
At 31 December 2013			
Assets			
Available-for-sale investments:			
– Listed investments	1,340	–	1,340
Derivative financial instruments:			
– Forward foreign exchange contracts	–	52	52
	1,340	52	1,392
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	4	4

During the six months ended 30 June 2014, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

(b) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates.

13. Material Related Party Transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Material transactions between the Group and other related parties during the period ended 30 June 2014 are set out below:

(a) During the financial period, there were in existence agreements with a subsidiary of the parent company for the management, marketing, project management and technical services of the Group's hotel operations. Total fees payable under this arrangement during the current period amounted to HK$24 million (2013: HK$25 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. The project management fee is calculated based on a percentage of costs and expenses actually incurred. The technical services fee is calculated based on relevant fee per hotel room. Such transaction constitutes a connected transaction as defined under the Listing Rules.

(b) During the financial period, there were in existence agreements with subsidiaries of the parent company for the project management services and property sales & marketing services in respect of the Group's property development projects being developed by subsidiaries. Total fees payable under this arrangement during the current period amounted to HK$57 million (2013: HK$19 million). The project management fees and sales & marketing fee are calculated based on the relevant percentage of total construction cost and sale values of property units respectively. Such transaction constitutes a connected transaction as defined under the Listing Rules.

(c) During the financial period, the Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of MPHK Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's parent company is the settlor. The rental earned by the Group from such shops during the current period, including contingent rental income, amounted to HK$125 million (2013: HK$112 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

14. Contingent Liabilities

As at 30 June 2014, 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$1,236 million (31/12/2013: HK$836 million).

As at 30 June 2014, there were guarantees of HK$3,097 million (31/12/2013: HK$2,410 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties.

14. **Contingent Liabilities** (continued)

Except for the above, the Group and the Company do not provide any other guarantee. The Group and the Company have not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (31/12/2013: HK$Nil).

As at the end of the reporting period, the directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

15. **Commitments**

The Group's outstanding commitments as at 30 June 2014 are detailed as below:

	30 June 2014			31 December 2013		
	Authorised and contracted for HK$ Million	**Authorised but not contracted for HK$ Million**	**Total HK$ Million**	Authorised and contracted for HK$ Million	Authorised but not contracted for HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	**2**	**–**	**2**	2	–	2
Mainland China	**2,137**	**2,124**	**4,261**	2,076	2,321	4,397
	2,139	**2,124**	**4,263**	2,078	2,321	4,399
Hotel						
Hong Kong	**145**	**1,954**	**2,099**	73	2,062	2,135
Mainland China	**130**	**386**	**516**	203	523	726
	275	**2,340**	**2,615**	276	2,585	2,861
Development Property						
Hong Kong	**–**	**–**	**–**	–	–	–
Mainland China	**2,053**	**4,458**	**6,511**	2,746	4,922	7,668
	2,053	**4,458**	**6,511**	2,746	4,922	7,668
Total						
Hong Kong	**147**	**1,954**	**2,101**	75	2,062	2,137
Mainland China	**4,320**	**6,968**	**11,288**	5,025	7,766	12,791
	4,467	**8,922**	**13,389**	5,100	9,828	14,928

16. **Review of Unaudited Interim Financial Statements**

The unaudited interim financial statements for the six months ended 30 June 2014 have been reviewed with no disagreement by the Audit Committee of the Company.

CODE ON CORPORATE GOVERNANCE

During the financial period under review, all the code provisions in the Corporate Governance Code as set out 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, with one exception as regards Code Provision A.2.1 providing for the roles of chairman and chief executive to be performed by different individuals. Such 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. 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 more than half of them being Independent Non-executive Directors.

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 of the Company who were in office during the period under review. All of them have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding directors' securities transactions during the period under review.

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2014, Directors of the Company had the following beneficial interests, all being long positions, in the securities of the Company, The Wharf (Holdings) Limited ("Wharf") (which is the Company's parent company), Wheelock and Company Limited ("Wheelock") (which is Wharf's parent company), i-CABLE Communications Limited ("i-CABLE") and Wharf Finance Limited (both being fellow subsidiaries of the Company), and the percentages (where applicable) which the relevant securities represented to the total numbers of shares in issue of the five companies respectively are also set out below:

	Quantity Held (percentage based on number of shares in issue or US$, where applicable)	**Nature of Interest**
The Company – Ordinary Shares		
Michael T P Sze	37,500 (0.0053%)	Family interest
Wheelock – Ordinary Shares		
Stephen T H Ng	300,000 (0.0148%)	Personal interest
Paul Y C Tsui *(Note 1)*	1,500,000 (0.0738%)	Personal interest in options for shares
Frankie C M Yick	7,000 (0.0003%)	Personal interest
Wharf – Ordinary Shares		
Stephen T H Ng *(Note 2)*	4,304,445 (0.1421%)	Personal interest in shares and options for shares
Kevin K P Chan *(Note 3)*	1,250,000 (0.0413%)	Personal interest in options for shares
Andrew K Y Leung	6,629 (0.0002%)	Personal interest
Michael T P Sze	50,099 (0.0017%)	Family interest
Paul Y C Tsui *(Note 4)*	2,200,000 (0.0726%)	Personal interest in options for shares
Frankie C M Yick	20,000 (0.0007%)	Personal interest
i-CABLE – Ordinary Shares		
Stephen T H Ng	1,265,005 (0.0629%)	Personal interest
Andrew K Y Leung	9,535 (0.0005%)	Personal interest
Wharf Finance Limited – USD Fixed Rate Notes due 2017		
Brian S K Tang	US$400,000	Personal interest

Notes:

(1) The 1,500,000 Wheelock share options represent the outstanding options granted to, and yet to be exercised by Mr Paul Y C Tsui under Wheelock's share option scheme in June 2013.

(2) Personal interest in 804,445 shares and 3,500,000 Wharf share options, of which, 1,500,000 options and 2,000,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Stephen T H Ng under Wharf's share option scheme in July 2011 and June 2013 respectively.

(3) Of the 1,250,000 Wharf share options, 500,000 options and 750,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Kevin K P Chan under Wharf's share option scheme in July 2011 and June 2013 respectively.

(4) Of the 2,200,000 Wharf share options, 1,200,000 options and 1,000,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Paul Y C Tsui under Wharf's share option scheme in July 2011 and June 2013 respectively.

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 as at 30 June 2014 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 rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held by any of them at any time during the financial period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of any class of share capital of the Company as at 30 June 2014, 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 total number of shares in issue of the Company:

	Names	**No. of Ordinary Shares** (percentage of number of shares in issue)
(i)	The Wharf (Holdings) Limited	505,210,196 (71.28%)
(ii)	Wheelock and Company Limited	505,210,196 (71.28%)
(iii)	HSBC Trustee (Guernsey) Limited	505,210,196 (71.28%)
(iv)	Harson Investment Limited	57,054,375 (8.05%)

Notes:

(1) *The total number of shares of the Company in issue as at 30 June 2014 was 708,750,000.*

(2) *For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.*

(3) *Wheelock's deemed shareholding interests stated above were held through, inter alia, its two wholly-owned subsidiaries, namely, Wheelock Investments Limited and WF Investment Partners Limited.*

(4) *Wharf's deemed shareholding interests stated above were held through its two wholly-owned subsidiaries, namely, Wharf Estates Limited and Upfront International Limited.*

All the interests stated above represented long positions and as at 30 June 2014, there were no short position interests recorded in the Register.

CHANGES OF INFORMATION OF DIRECTORS

Given below is the latest information regarding the directorship(s) held at present and/or former directorship(s) (if any) held within the past three years in other listed public company(ies) in respect of any and all the Director(s) of the Company for whom there has/have been change(s) in the relevant information since the publication of the last annual report of the Company:

Director(s)	Present/*(Former)* directorship(s) in other listed public company(ies)
Stephen T H Ng	Wheelock; Wharf; i-CABLE; Wheelock Properties (Singapore) Limited (publicly listed in Singapore); Joyce Boutique Holdings Limited; Greentown China Holdings Limited; Hotel Properties Limited (publicly listed in Singapore) (appointed in July 2014)

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 Monday, 15 September 2014 to Wednesday, 17 September 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 12 September 2014.

By Order of the Board
H O Hung
Company Secretary

Hong Kong, 7 August 2014

As at the date of this interim report, the Board of Directors of the Company comprises Mr Stephen T H Ng, Mr Kevin K P Chan, Mr Paul Y C Tsui and Hon Frankie C M Yick, together with five Independent Non-executive Directors, namely, Dr Joseph M K Chow, Mr H M V de Lacy Staunton, Hon Andrew K Y Leung, Mr Michael T P Sze and Mr Brian S K Tang.

Notwithstanding any choice of language or means for the receipt of corporate communications (viz. annual report, interim report, etc.) previously made by Shareholder(s) and communicated to the Company, Shareholder(s) is/are given the option (which may be exercised at any time by giving reasonable prior notice to the Company) of changing his/her/their choice of printed language version(s) to English only, Chinese only or both English and Chinese for receiving future corporate communications, or changing the choice of receiving future corporate communications to using electronic means instead of in printed version (or vice versa). Such notice of change of choice should contain the full name(s) in English, address and contact telephone number of the relevant Shareholder(s), together with the relevant words regarding the request for the change of choice, and should be sent to the Company, c/o the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by post or by hand delivery, or via email to harbourcentre-ecom@hk.tricorglobal.com.