

Interim Report 2015

Stock Code: 51



Harbour Centre Development Limited

HIGHLIGHTS

- Phased completion of Suzhou Times City in the Mainland lifted Group profit with an above-average margin.
- Contributions from Hotel and Investment Properties in Hong Kong declined amid challenging operating environment for the hospitality and retail sectors.
- Marco Polo Hongkong Hotel will continue to come under pressure in the coming months.
- The Main Contract for Murray Building was awarded in May. Hotel opening is targeted for the second half of 2017.
- Marco Polo Changzhou is operating in a weak market. Pre-stabilisation operating losses will affect the Hotel segment's results.
- The Group's attributable interest in contracted sales increased amid a benign property environment.

GROUP RESULTS

Underlying core profit for the period increased by 24% to HK\$572 million (2014: HK\$460 million).

Group profit attributable to equity shareholders, including investment property revaluation surplus, amounted to HK\$596 million (2014: HK\$485 million) for a 23% increase from 2014. Basic earnings per share were HK\$0.84 (2014: HK\$0.68).

INTERIM DIVIDEND

An interim dividend of 14 HK cents (2014: 12 HK cents) per share will be paid on 17 September 2015 to Shareholders on record as at 2 September 2015. This will absorb a total amount of HK\$99 million (2014: HK\$85 million).

Cover photo: Murray Building guards the intersection of traffic arteries in Central that run east-west and north-south, commands open green views over Hong Kong Park and to Victoria Peak. It is well connected to other parts of Central and to the Mass Transit Railway.

BUSINESS REVIEW

Phased completion of the good-margin Suzhou Times City in the Mainland distorted the Group's performance during the period. Contributions from the core segments, Hotel and Investment Properties in Hong Kong, actually declined as the tourism and retail sectors faced intense operating pressure.

Hong Kong Portfolio

Investment Properties ("IP")

A revamp underway at various areas of Star House and a weakened retail consumption overshadowed the Group's IP segment, resulting in a 10% drop in revenue and a 13% decrease in operating profit. Independently valued as at 30 June 2015, the Group's IP portfolio resulted in a net revaluation surplus of HK\$24 million during the period.

Hotel

The weakened hotel room demand adversely affected Marco Polo Hongkong Hotel ("MPHK Hotel"). While average occupancy decreased to 78%, average room rate dropped by 7.1%. Pricing pressure is expected to continue in the coming months.

Murray Building, a prominent 50-year-old iconic landmark with majestic arches, is being converted into a unique urban chic hotel in Central (total investment: over HK\$7 billion) by the Group. It will feature 336 luxury guestrooms overlooking the heart of Central. The Main Contract was awarded in May and hotel opening is targeted for the second half of 2017.

China Portfolio

Development Properties ("DP")

The phased completion of Suzhou Times City sparked a surge in DP contribution, with a 6% increase in total DP turnover and a 104% increase in operating profit. However, a similarly good margin is not expected for the other projects still under development, for which phased completions will continue to be uneven. Lower recognition of The U World in Chongqing decreased contribution from the joint venture to post a loss of HK\$1 million (2014: profit HK\$77 million). China DP's share of Group core profit increased to 59% (2014: 48%).

As at 30 June 2015, the Group had an attributable land bank of 1.2 million square metres at a book value of HK\$11.2 billion (including cumulative development cost of HK\$3.9 billion).

Sales

Amid a benign property environment, the Group's attributable interest in contracted sales (including the joint venture project) increased by 80% to RMB2.3 billion (2014: RMB1.3 billion). 1,038 residences and retail units (total GFA: 149,000 square metres) across five projects were sold/pre-sold. The net order book as at 30 June 2015 was RMB4.3 billion for 2,728 residences and retail units (total GFA: 351,000 square metres).

Development Progress

Changzhou Times Palace (total GFA: 635,000 square metres), is scheduled for full completion in 2016.

The U World in Chongqing, a 55%-owned joint venture development (attributable GFA: 232,000 square metres), is making good progress. Additional phases were completed during the period. Full completion is scheduled for 2016.

Suzhou Times City, an 80%-owned joint venture development with a local government unit (total GFA: 907,000 square metres), is making good headway. Additional phases were completed during the period. Full completion is scheduled for 2017.

Shanghai South Station project, a 27%-owned joint venture development (attributable GFA: 133,000 square metres) in Xuhui District led by China Vanke Company Limited (51% interest), is located next to Shanghai South Railway Station and is well connected to the existing Metro Line 1 & 3 and future Line 15 stations. Construction is underway, with full completion scheduled for 2020.

Investment Properties

The Group's 80%-owned Suzhou International Finance Square ("IFS"), designed by Kohn Pedersen Fox, is a 450-metre commercial landmark (comparable to the tallest building in Hong Kong). It is in the new CBD overlooking Jinji Lake and is adjacent to Xinghu Street MTR station (Line 1). The development (total GFA: 278,000 square metres) comprises Grade A offices, luxurious apartments and a premium boutique hotel. Construction is underway, with completion scheduled for 2017. Bundled with a larger and profitable DP project, Suzhou IFS (total investment: RMB5.4 billion) will be held as IP for recurrent income. Its competitive advantages lie in its favourable location and premium quality.

Hotel

Marco Polo Changzhou, a 302-room five-star hotel featuring a large garden for sophisticated events and weddings that opened in the second half of 2014, is operating in a weak market. Pre-stabilisation operating losses will weigh on the Hotel segment's results in the near term.

In Suzhou, construction of a 147-room premium boutique hotel with full scenery of the city at the Suzhou IFS is underway. First revenue contribution is set to begin in 2017 or beyond.

FINANCIAL REVIEW

(I) Review of 2015 Interim Results

The Group recorded a core profit of HK\$572 million (2014: HK\$460 million), representing a year-on-year 24% increase that mainly resulting from the large increase in China DP net profit to HK\$338 million, accounting for 59% of the Group's core profit, on more phases completed for Suzhou Times City.

Revenue and Operating Profit

Group revenue rose by 3% to HK\$2,809 million (2014: HK\$2,715 million) and operating profit by 46% to HK\$962 million (2014: HK\$660 million).

DP revenue achieved an increase of 6% to HK\$2,277 million (2014: HK\$2,145 million) and operating profit 104% to HK\$687 million (2014: HK\$336 million). Suzhou Times City contributed over 90% of both revenue and operating profit. Despite the reduction in profit contribution from joint venture and associate, aggregate underlying profit reached HK\$338 million (2014: HK\$221 million), which represented an increase of 53% from the corresponding period last year.

IP revenue declined by 10% to HK\$153 million (2014: HK\$170 million) and operating profit by 13% to HK\$134 million (2014: HK\$154 million), mainly due to the decrease in turnover rent from retail areas in MPMK Hotel and the loss of rental from the revamping of Star House units.

Hotel revenue decreased by 7% to HK\$291 million (2014: HK\$314 million) mainly due to a drop in both average room rate and occupancy rate of MPMK Hotel. Operating profit fell by 36% to HK\$58 million (2014: HK\$91 million) as a result of decline at MPMK Hotel and the operating loss incurred by Marco Polo Changzhou, still in the process of building up business since its soft opening in August 2014.

Operating profit from Investment and Other Income, consisting of interest and dividend from the Group's surplus cash and investments, increased by 2% to HK\$88 million (2014: HK\$86 million).

Contracted DP Sales

Inclusive of joint venture on an attributable basis, the Group achieved contracted property sales totalling RMB2,250 million (2014: RMB1,250 million). The net order book was increased to RMB4,342 million (December 2014: RMB4,064 million) that is available for recognition in stages of completion of various DP projects.

Other Net Income

Other net income HK\$9 million (2014: loss HK\$22 million) was mainly derived from profit on disposal of investments.

Finance Costs

Net finance costs amounted to HK\$19 million (2014: HK\$16 million) after netting off capitalisation of HK\$22 million (2014: HK\$54 million) for the Group's projects (mainly China DP projects).

Share of Results after Tax of Joint Ventures

Joint venture reported a loss of HK\$1 million (2014: profit HK\$77 million) with lower profit contribution from The U World in Chongqing which was unable to cover its operating costs during the period.

Income Tax

Taxation charge for the period increased by 29% to HK\$269 million (2014: HK\$209 million) due to increase in taxable profits.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the period ended amounted to HK\$596 million (2014: HK\$485 million), representing an increase of 23%.

Earnings per share ("EPS") was reported at HK\$0.84 (2014: HK\$0.68) based on 708.8 million issued shares. Excluding IP revaluation surplus, EPS was HK\$0.81 (2014: HK\$0.65).

(II) Liquidity, Financial Resources and Commitments**Shareholders' and Total Equity**

As at 30 June 2015, the Group's shareholders' equity increased by 3% to HK\$16,744 million (31/12/2014: HK\$16,205 million), equivalent to HK\$23.62 per share (31/12/2014: HK\$22.86 per share). Including non-controlling interests, the Group's total equity stood at HK\$17,893 million (31/12/2014: HK\$17,246 million).

MPHK Hotel and Marco Polo Changzhou are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards. Restating these hotel properties based on independent valuation as at 30 June 2015 would give rise to an additional revaluation surplus totalling HK\$4,329 million and increase the Group's shareholders' equity as at 30 June 2015 to HK\$21,073 million, equivalent to HK\$29.73 per share.

Assets

The Group's total assets decreased by 4% to HK\$28,385 million (31/12/2014: HK\$29,542 million). Total business assets, excluding bank deposits and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, decreased by 5% to HK\$21,507 million (31/12/2014: HK\$22,704 million).

The Group's IP as at 30 June 2015 amounted to HK\$7,491 million, representing 35% of the Group's total business assets. Hong Kong IP amounted to HK\$5,401 million (31/12/2014: HK\$5,377 million), comprising MPHK Hotel's podium and Star House units, maintained at HK\$4,820 million and HK\$581 million, respectively. The book value of Mainland IP, mainly Suzhou IFS under development, was stated at HK\$2,090 million (31/12/2014: HK\$1,876 million).

The Group's China DP for sale decreased by 32% to HK\$3,386 million (31/12/2014: HK\$4,979 million). In addition, DP investments undertaken through associates and joint ventures amounted to HK\$4,209 million (31/12/2014: HK\$4,186 million). Other major business assets mainly included hotel properties at MPHK Hotel, Murray Building, Marco Polo Changzhou and other fixed assets totalling HK\$5,461 million.

Geographically, the Group's business assets in the Mainland decreased by 10% to HK\$11,172 million (31/12/2014: HK\$12,350 million), representing 52% of the Group's total business assets.

Net Cash and Gearing

The Group's net cash as at 30 June 2015 amounted to HK\$702 million, consisting of HK\$4,988 million in cash and HK\$4,286 million in bank borrowings in various currencies, slightly decreased from HK\$767 million as at 31 December 2014.

Finance and Availability of Facilities and Funds

As at 30 June 2015, the Group's available loan facilities amounted to HK\$5,506 million, of which HK\$4,286 million were utilised. HK\$500 million is repayable within one year while the balance due between two and five years.

The Group's debts were denominated in HKD and USD. All the Group's borrowing 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 2015, 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\$1,835 million (31/12/2014: HK\$1,550 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\$564 million (2014: HK\$79 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\$291 million (2014: HK\$53 million), primarily for the Group's hotel development projects and Suzhou IFS.

Commitments

As at 30 June 2015, the Group's total authorised and contracted for commitments amounted to HK\$5.6 billion, of which HK\$2.2 billion and HK\$3.4 billion respectively will be spent on converting Murray Building into a hotel and on Mainland development projects. In addition, the Group intends to spend HK\$5.9 billion mainly for existing DP in the Mainland, which will be incurred by stages in the forthcoming years.

The above commitments and planned expenditures are for years to be executed and will be funded by the Group's internal financial resources including cash of HK\$5.0 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 800 employees as at 30 June 2015. 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 2015 – Unaudited

	Note	Six months ended 30 June	
		2015 HK\$ Million	2014 HK\$ Million
Revenue	2	2,809	2,715
Direct costs and operating expenses		(1,721)	(1,944)
Selling and marketing expenses		(63)	(53)
Administrative and corporate expenses		(32)	(30)
Operating profit before depreciation, interest and tax		993	688
Depreciation		(31)	(28)
Operating profit	3	962	660
Increase in fair value of investment properties		24	25
Other net income/(loss)	4	9	(22)
Finance costs	5	(19)	(16)
Share of results after tax of:			
Joint ventures		(1)	77
Associates		(2)	(1)
Profit before taxation		973	723
Income tax	6(a)	(269)	(209)
Profit for the period		704	514
Profit attributable to:			
Equity shareholders		596	485
Non-controlling interests		108	29
		704	514
Earnings per share	7		
Basic		HK\$0.84	HK\$0.68
Diluted		HK\$0.84	HK\$0.68

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Six Months Ended 30 June 2015 – Unaudited

	Six months ended 30 June	
	2015	2014
	HK\$ Million	HK\$ Million
Profit for the period	704	514
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation the operations of:	5	(164)
– subsidiaries	4	(143)
– joint ventures	1	(21)
Fair value changes on available-for-sale investments:	278	163
– surplus on revaluation	283	163
– transferred to consolidated income statement on disposal	(5)	–
Other comprehensive income for the period	283	(1)
Total comprehensive income for the period	987	513
Total comprehensive income attributable to:		
Equity shareholders	879	545
Non-controlling interests	108	(32)
	987	513

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2015 – Unaudited

	Note	30 June 2015 HK\$ Million	31 December 2014 HK\$ Million
Non-current assets			
Investment properties		7,491	7,253
Fixed assets		5,461	5,429
Interest in associates		2,082	2,059
Interest in joint ventures		2,127	2,127
Available-for-sale investments		1,835	1,550
Deferred tax assets		49	19
Derivative financial assets		–	4
Other non-current assets		17	17
		19,062	18,458
Current assets			
Properties for sale		3,386	4,979
Inventories		4	5
Trade and other receivables	9	839	716
Derivative financial assets		6	80
Prepaid tax		100	119
Bank deposits and cash		4,988	5,185
		9,323	11,084
Total assets		28,385	29,542
Non-current liabilities			
Derivative financial liabilities		(2)	(3)
Deferred tax liabilities		(51)	(35)
Bank loans		(3,786)	(4,168)
		(3,839)	(4,206)
Current liabilities			
Trade and other payables	10	(2,218)	(3,303)
Pre-sale deposits and proceeds		(3,782)	(4,373)
Derivative financial liabilities		–	(45)
Taxation payable		(153)	(119)
Bank loans		(500)	(250)
		(6,653)	(8,090)
Total liabilities		(10,492)	(12,296)
NET ASSETS		17,893	17,246
Capital and reserves			
Share capital	11	3,641	3,641
Reserves		13,103	12,564
Shareholders' equity		16,744	16,205
Non-controlling interests		1,149	1,041
TOTAL EQUITY		17,893	17,246

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2015 – Unaudited

	Shareholders' equity							Total equity HK\$ Million
	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	
At 1 January 2015	3,641	–	917	1,256	10,391	16,205	1,041	17,246
Changes in equity for the period:								
Profit	–	–	–	–	596	596	108	704
Other comprehensive income	–	–	278	5	–	283	–	283
Total comprehensive income	–	–	278	5	596	879	108	987
2014 second interim dividend paid	–	–	–	–	(340)	(340)	–	(340)
At 30 June 2015	3,641	–	1,195	1,261	10,647	16,744	1,149	17,893
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 on 3 March 2014	3,287	(3,287)	–	–	–	–	–	–
2013 second interim dividend paid	–	–	–	–	(340)	(340)	–	(340)
At 30 June 2014	3,641	–	870	1,193	9,882	15,586	1,034	16,620

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2015 – Unaudited

	Six months ended 30 June	
	2015 HK\$ Million	2014 HK\$ Million
Operating cash inflow	905	602
Change in working capital/others	(112)	(254)
Tax paid	(229)	(269)
Net cash generated from operating activities	564	79
Investing activities		
Additions to investment properties and fixed assets	(267)	(352)
Other cash (used in)/generated from investing activities	(24)	299
Net cash used in investing activities	(291)	(53)
Financial activities		
Other cash (used in)/generated from financing activities	(472)	8
Net cash (used in)/generated from financing activities	(472)	8
(Decrease)/increase in cash and cash equivalents	(199)	34
Cash and cash equivalents at 1 January	5,185	5,825
Effect on exchange rate changes	2	(54)
Cash and cash equivalents at 30 June (Note)	4,988	5,805
Note:		
Cash and cash equivalents		
Banks deposits and cash in the consolidated statement of financial position	4,988	5,805

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies and Basis of Preparation

This unaudited interim financial information has 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 (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the unaudited interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting 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 unaudited interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2014 except for the changes mentioned below.

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) which are first effective for the current accounting period of the Group. The amendments do not have a significant impact on the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

The unaudited interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2014. The unaudited interim financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2014 that is included in the unaudited interim financial information as comparative information does not constitute the Company’s statutory annual financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

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 segment encompasses activities relating to the acquisition, development, design, sale and marketing of trading properties primarily in Mainland China.

Investment property 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 and Marco Polo Changzhou. It also includes Murray Building which is 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.

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 income/(loss) HK\$ Million	Finance costs HK\$ Million	Joint ventures HK\$ Million	Associates HK\$ Million	Profit before taxation HK\$ Million
30 June 2015								
Development property	2,277	687	–	(2)	(6)	(1)	(2)	676
Investment property	153	134	24	–	(10)	–	–	148
Hotel	291	58	–	–	(2)	–	–	56
Segment total	2,721	879	24	(2)	(18)	(1)	(2)	880
Investment and others	88	88	–	11	(1)	–	–	98
Corporate expenses	–	(5)	–	–	–	–	–	(5)
Group total	2,809	962	24	9	(19)	(1)	(2)	973
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

- (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	
	2015	2014
	HK\$ Million	HK\$ Million
After charging/(crediting):		
Depreciation	31	28
Staff costs (Note i)	103	101
Cost of trading properties sold during the period	1,541	1,757
Rental charges under operating leases	8	7
Gross rental revenue from investment property (Note ii)	(153)	(170)
Direct operating expenses of investment property	12	9
Interest income	(62)	(62)
Dividend income from listed investments	(26)	(25)

Notes:

- (i) Staff costs included defined contribution pension schemes costs HK\$4 million (2014: HK\$4 million).
- (ii) Rental income included contingent rentals of HK\$56 million (2014: HK\$70 million).

4. Other Net Income/(Loss)

	Six months ended 30 June	
	2015	2014
	HK\$ Million	HK\$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK\$5 million (2014: HK\$Nil) transferred from the investments revaluation reserve	7	–
Net exchange gain/(loss), including the impact of forward foreign exchange contracts	2	(22)
	9	(22)

5. Finance Costs

	Six months ended 30 June	
	2015	2014
	HK\$ Million	HK\$ Million
Interest on bank borrowings	27	57
Other finance costs	14	13
	41	70
Less: Amount capitalised	(22)	(54)
	19	16

6. Income Tax

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

	Six months ended 30 June	
	2015	2014
	HK\$ Million	HK\$ Million
Current income tax		
Hong Kong		
– provision for the period	35	41
Mainland China		
– provision for the period	189	136
	224	177
Land appreciation tax (“LAT”) (Note (d))	59	47
Deferred tax		
Origination and reversal of temporary differences	(32)	(18)
Withholding tax on undistributed retained profits of Mainland China subsidiaries (Note (e))	18	3
	(14)	(15)
Total	269	209

- (b) The provision for Hong Kong profits tax is at the rate of 16.5% (2014: 16.5%) of the estimated assessable profits for the period.
- (c) Income tax on profit assessable in Mainland China are China corporate 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 2015 of HK\$12 million (2014: HK\$61 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\$596 million (2014: HK\$485 million) and the weighted average of 709 million (2014: 709 million) ordinary shares.

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2015 and 2014.

8. Dividends Attributable to Equity Shareholders

	Six months ended 30 June			
	2015	2015	2014	2014
	HK\$ Per share	HK\$ Million	HK\$ Per share	HK\$ Million
First interim dividend proposed after the end of the reporting period	0.14	99	0.12	85

- (a) The proposed first interim dividend based on 709 million issued ordinary shares (2014: 709 million shares) has not been recognised as a liability at the end of the reporting period.
- (b) The second interim dividend of HK\$340 million for 2014 was approved and paid in 2015.

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 2015 as follows:

	30 June	31 December
	2015	2014
	HK\$ Million	HK\$ Million
Trade receivables		
0 – 30 days	71	187
Over 60 days	1	1
	72	188
Prepayments	323	348
Other receivables	423	165
Amounts due from fellow subsidiaries	21	15
	839	716

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 trade and other 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 2015 as follows:

	30 June 2015 HK\$ Million	31 December 2014 HK\$ Million
Trade payables		
0 – 30 days	10	15
31 – 60 days	–	6
Over 90 days	1	–
	11	21
Other payables and provisions	233	268
Construction costs payable	940	1,919
Amounts due to fellow subsidiaries	22	58
Amounts due to associates	1	1
Amounts due to joint ventures	1,011	1,036
	2,218	3,303

11. Share Capital

	30 June 2015	31 December 2014	30 June 2015	31 December 2014
	No. of shares Million	No. of shares Million	HK\$ Million	HK\$ Million
Issued and fully paid ordinary shares				
At 1 January	709	709	3,641	354
Transition to no-par value regime on 3 March 2014	–	–	–	3,287
At 30 June/31 December	709	709	3,641	3,641

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

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

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

	Group		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
At 30 June 2015			
Assets			
Available-for-sale investments:			
– Listed investments	1,835	–	1,835
Derivative financial instruments:			
– Other derivatives	6	–	6
	1,841	–	1,841
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	2	2
At 31 December 2014			
Assets			
Available-for-sale investments:			
– Listed investments	1,550	–	1,550
Derivative financial instruments:			
– Forward foreign exchange contracts	–	80	80
– Other derivatives	4	–	4
	1,554	80	1,634
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	48	48

During the six months ended 30 June 2015, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (31/12/2014: Nil).

(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 2015 are set out below:

- (a) 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\$20 million (2014: HK\$24 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.
- (b) There were in existence agreements with subsidiaries of the parent company for the property services in respect of the Group's property projects of subsidiaries. Total fees payable under this arrangement during the current period amounted to HK\$37 million (2014: HK\$57 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.
- (c) The Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of Marco Polo Hongkong Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which a close family member of the chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current period, including contingent rental income, amounted to HK\$118 million (2014: HK\$125 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

14. Contingent Liabilities

As at 30 June 2015, 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\$2,786 million (31/12/2014: HK\$2,192 million).

As at 30 June 2015, there were guarantees of HK\$3,347 million (31/12/2014: HK\$3,529 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.

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 (31/12/2014: 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 2015 are detailed as below:

	30 June 2015			31 December 2014		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Investment Property						
Hong Kong	4	–	4	3	–	3
Mainland China	1,675	2,403	4,078	2,073	1,746	3,819
	1,679	2,403	4,082	2,076	1,746	3,822
Hotel						
Hong Kong	2,228	8	2,236	163	1,881	2,044
Mainland China	–	153	153	–	158	158
	2,228	161	2,389	163	2,039	2,202
Development Property						
Hong Kong	–	–	–	–	–	–
Mainland China	1,770	3,298	5,068	1,935	3,246	5,181
	1,770	3,298	5,068	1,935	3,246	5,181
Total						
Hong Kong	2,232	8	2,240	166	1,881	2,047
Mainland China	3,445	5,854	9,299	4,008	5,150	9,158
	5,677	5,862	11,539	4,174	7,031	11,205

16. Review of Unaudited Interim Financial Information

The unaudited interim financial information for the six months ended 30 June 2015 have been reviewed with no disagreement by the Audit Committee of the Company.

CORPORATE GOVERNANCE CODE

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 and all of them 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

(i) Interests in Shares and Debt Securities

At 30 June 2015, present Directors of the Company had the following beneficial interests, all being long positions, in the shares and debt 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). The percentages (where applicable) which the relevant securities represented to the number of shares in issue of the five companies respectively are also set out below:

	Quantity held (percentage, 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
Frankie C M Yick	7,000 (0.0003%)	Personal interest
Wharf – Ordinary Shares		
Stephen T H Ng	804,445 (0.0265%)	Personal interest
Andrew K Y Leung	6,629 (0.0002%)	Personal interest
Michael T P Sze	50,099 (0.0017%)	Family interest
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:

The interests in shares disclosed above do not include interests in share options of the Company’s associated corporation(s) held by Directors of the Company as at 30 June 2015. Details of such interests in share options are separately set out below under the sub-section headed “(ii) Interests in Share Options of Wharf”.

(ii) **Interests in Share Options of Wharf**

Set out below are particulars of all interests (all being personal interests) in options held during the six months ended 30 June 2015 by present Director(s) of the Company to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Total no. as at 30 June 2015 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Wharf's shares under option		Subscription Price per Share (HK\$)	Vesting/Exercise period (Day/Month/Year)
			As at 1 January 2015	As at 30 June 2015		
Stephen T H Ng	3,500,000 (0.12%)	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011 – 04/07/2016 ⁽¹⁾
		05/06/2013	2,000,000	2,000,000	70.20	06/06/2013 – 05/06/2018 ⁽²⁾

Notes:

- (1) *The share options of Wharf granted on 4 July 2011 outstanding as at both 1 January 2015 and 30 June 2015 were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 5th of July in the years 2011, 2012, 2013, 2014 and 2015 respectively.*
- (2) *The share options of Wharf granted on 5 June 2013 outstanding as at both 1 January 2015 and 30 June 2015, were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 6th of June in the years 2013, 2014, 2015, 2016 and 2017 respectively.*

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 by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code, there were no interests, whether long or short positions, held as at 30 June 2015 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 voting shares of the Company as at 30 June 2015, 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 number of shares in issue of the Company:

Names	No. of Ordinary Shares (percentage based on no. of shares in issue)	
(i) The Wharf (Holdings) Limited	506,298,196	(71.44%)
(ii) Wheelock and Company Limited	506,298,196	(71.44%)
(iii) HSBC Trustee (C.I.) Limited	506,298,196	(71.44%)
(iv) Harson Investment Limited	57,054,375	(8.05%)

Notes:

- (1) *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.*
- (2) *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, which in turn have interests in more than one-third of the number of shares in issue of Wharf.*
- (3) *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 2015, 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 all the present Director(s) of the Company for whom there have been changes in the relevant information since the publication of the last annual report of the Company:

Director(s)	Present/ <i>(Former)</i> directorship(s) in other listed public company(ies)
Stephen T H Ng	Wheelock and Company Limited; The Wharf (Holdings) Limited (re-designated as Chairman and Managing Director in May 2015); i-CABLE Communications Limited; Wheelock Properties (Singapore) Limited; Joyce Boutique Holdings Limited; Hotel Properties Limited; <i>(Former Directorship: Greentown China Holdings Limited – resigned in March 2015)</i>
Michael T P Sze	Greentown China Holdings Limited; Walker Group Holdings Limited; <i>(Former Directorship: GOME Electrical Appliances Holding Limited – retired in June 2015)</i>

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

BOOK CLOSURE

The Register of Members will be closed from Wednesday, 2 September 2015 to Friday, 4 September 2015, 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 Tuesday, 1 September 2015.

By Order of the Board

Kevin C Y Hui

Director and Company Secretary

Hong Kong, 12 August 2015

As at the date of this interim report, the Board of Directors of the Company comprises Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Kevin C Y Hui, 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.