HARBOUR CENTRE DEVELOPMENT LIMITED

INTERIM REPORT 2016

Stock Code : 51

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.

* The photo has been edited and processed with computerized imaging techniques.

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GROUP RESULTS

Soft markets affected all segments. Core profit decreased by 13% to HK$496 million (2015: HK$572 million).

A deficit of HK$70 million was reported on revaluation of investment properties (2015: surplus of HK$24 million).

Group profit attributable to equity shareholders amounted to HK$426 million (2015: HK$596 million) for a 29% decrease from 2015. Basic earnings per share were HK$0.60 (2015: HK$0.84).

INTERIM DIVIDEND

An interim dividend of HK$0.14 (2015: HK$0.14) per share will be paid on 8 September 2016 to Shareholders on record as at 24 August 2016. This will absorb a total amount of HK$99 million (2015: HK$99 million).

BUSINESS REVIEW

Hong Kong Portfolio

Soft markets significantly affected the Group's performance during the period.

Investment Properties
Occupancy and rental income for the Group's portfolio remained relatively resilient.

Hotel
At Marco Polo Hongkong Hotel on Canton Road, Tsimshatsui, weakened demand reduced average occupancy and average room rate. Revenue and operating profit decreased by 7% and 13% respectively.

Conversion of the iconic Murray Building on Murray Lane, Central, into an urban chic hotel is progressing to plan. Terms of appointment are being concluded with Marco Polo Hotels Management Limited as the hotel's manager. Opening is targeted for late 2017.

China Portfolio

Project completion impacted the year-on-year comparison.

Development Properties
Contribution from subsidiaries retreated as a result of lower sales recognition, principally from Suzhou Times City. However, contribution from joint venture/associate projects increased with phased completion of The U World in Chongqing.

Favourable market conditions supported the Group's contracted sales during the period. All three projects launched (in Changzhou, Chongqing and Suzhou) met with good demand and reported noticeable year-on-year growth. Over 800 residential and retail units (total GFA: 117,000 square metres) were sold/pre-sold for proceeds of RMB2.2 billion on an attributable basis.

The net order book as at 30 June 2016 was maintained at RMB5.0 billion for 2,120 residential and retail units (total GFA: 284,000 square metres). On the other hand, the Group's attributable land bank (net of recognised sales) reduced to 800,000 square metres.

Within that land bank, The U World in Chongqing and Changzhou Times Palace are scheduled for full completion in 2016, and Suzhou Times City in 2017. The 27%-owned Shanghai South Station project in Xuhui District is scheduled for full completion in 2020.

Investment Properties
The iconic Suzhou International Finance Square ("IFS"), a 450-metre landmark strategically located in the new CBD overlooking Jinji Lake and adjacent to Xinghu Street MTR station (Line 1), and comparable to the tallest building in Hong Kong, is scheduled for completion in 2018. It will comprise 293,000 square metres of Grade A offices, a premium boutique hotel, sky residences and luxury apartments. Its prominent location and exquisite quality will make the development stand above the competition.

Hotel
Trading conditions for Marco Polo Changzhou remained challenging and continued to affect profitability. The hotel has been building its business through strategic expansion of its client base.

In Suzhou, construction of a 133-room luxury sky hotel at Suzhou IFS with a stunning city view is progressing satisfactorily. The hotel will see its first revenue contribution in 2018 at the earliest.

FINANCIAL REVIEW

(I) Review of 2016 Interim Results

Group core profit decreased year-on-year by 13% to HK$496 million (2015: HK$572 million), mainly resulting from lower profit contribution from China Development Properties ("DP"), Hotel and Investment Segments.

Revenue and Operating Profit

Investment Properties ("IP") revenue declined slightly by 1% to HK$152 million (2015: HK$153 million) with operating profit kept at par of HK$134 million (2015: HK$134 million). Fall in retail turnover rent from Marco Polo Hongkong Hotel ("MP Hong Kong") amid the weak retail market was partially compensated by increase in rental from Star House units, which were under revamp in the second quarter last year.

Hotel revenue and operating profit fell by 3% to HK$281 million (2015: HK$291 million) and 16% to HK$49 million (2015: HK$58 million), respectively. Decline in both room rate and occupancy for MP Hong Kong and pre-stabilisation operating loss from Marco Polo Changzhou ("MP Changzhou") were reported.

DP revenue decreased by 26% to HK$1,686 million (2015: HK$2,277 million) with revenue recognition mainly from Suzhou Times City and Changzhou Times Palace. Operating profit shrank by 38% to HK$429 million (2015: HK$687 million) with overall operating margin reported at 25% (2015: 30%). Together with profit contributions from joint ventures, DP core profit dropped by 8% to HK$312 million (2015: HK$338 million).

Operating profit from Investment and Others segment, consisting of interest and dividend from the Group's surplus cash and investments, decreased by 3% to HK$85 million (2015: HK$88 million), primarily due to descended interest income.

Group revenue decreased by 22% to HK$2,204 million (2015: HK$2,809 million) and operating profit fell by 28% to HK$692 million (2015: HK$962 million).

Contracted DP Sales

Inclusive of joint ventures and associates on an attributable basis, the Group contracted property sales totalling RMB2,187 million (2015: RMB2,250 million). The net order book stood at RMB5,009 million (December 2015: RMB5,056 million) that is available for recognition in stages on completion of various DP projects.

Changes in Fair Value of IP

The Group's completed IP were stated at fair value based on independent valuation as at 30 June 2016, resulting in a revaluation deficit of HK$70 million, equivalent to 1% of portfolio value (2015: surplus HK$24 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.

Finance Costs
Net finance costs amounted to HK$29 million (2015: HK$19 million) after interest capitalisation of HK$10 million (2015: HK$22 million) for the Group's projects.

Share of Results after Tax of Joint Ventures and Associates
Joint venture profit increased to HK$141 million (2015: loss of HK$1 million) from phased completion of The U World in Chongqing.

Associates recorded attributable loss HK$9 million from Shanghai South Station project (2015: loss of HK$2 million) with no sales recognition.

Income Tax
Taxation charge for the period decreased by 13% to HK$234 million (2015: HK$269 million) due to decrease in taxable profits.

Profit Attributable to Equity Shareholders
Group profit attributable to equity shareholders for the period amounted to HK$426 million (2015: HK$596 million), representing a decline of 29%. Core profit, excluding IP revaluation differences, decreased by 13% to HK$496 million (2015: HK$572 million).

Earnings per share ("EPS") was reported at HK$0.60 (2015: HK$0.84) based on 708.8 million issued shares. Excluding IP revaluation differences, EPS was HK$0.70 (2015: HK$0.81).

Early adoption of HKFRS 9 "Financial Instruments"
The Group has early adopted the complete version of HKFRS 9 "Financial Instruments" in its consolidated financial statements with effect from 1 January 2016. As a result, the investments in equity securities of HK$2,226 million that were previously classified as available-for-sale investments under HKAS 39 have been re-designated as equity investments measured at fair value through other comprehensive income. Accordingly, HK$48 million of gain on disposal of equity securities in the period was recognised through other comprehensive income instead of the income statement as previously accounted for (2015: HK$7 million profit through the income statement).

(II) Review of Financial Position, Liquidity, Resources and Commitments

Shareholders' and Total Equity
As at 30 June 2016, shareholders' equity stood at HK$15,852 million (2015: HK$16,185 million), equivalent to HK$22.37 per share (2015: HK$22.84 per share), which has been adversely impacted by attributable investment revaluation deficit of HK$225 million and exchange deficit of HK$137 million on translation of Renminbi ("RMB") net asset in the mainland. Including the non-controlling interests, the Group's total equity stood at HK$16,825 million (2015: HK$17,330 million).

MP Hong Kong and MP Changzhou hotel properties are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards ("HKFRSs"). Restating these hotel properties based on independent valuation as at 30 June 2016 would give rise to an additional revaluation surplus totalling HK$3,967 million and increase the Group's shareholders' equity as at 30 June 2016 to HK$19,819 million, equivalent to HK$27.96 per share.

Assets

Group total assets amounted to HK$27,720 million (2015: HK$29,651 million). Total business assets, excluding bank deposits and cash, equity investments, deferred tax assets and other derivative financial assets, decreased by 1% to HK$20,579 million (2015: HK$20,707 million) mainly due to decrease in DP for sales recognition compensated by increase in IP under development.

IP as at 30 June 2016 increased by 5% to HK$8,255 million (2015: HK$7,876 million), representing 40% (2015: 38%) of the Group's total business assets. Hong Kong IP amounted to HK$5,344 million (2015: HK$5,414 million), comprising MP Hong Kong's podium and Star House units valued at HK$4,760 million and HK$584 million, respectively. Mainland IP under development, mainly Suzhou IFS, was stated at book cost of HK$2,911 million (2015: HK$2,462 million).

Mainland DP decreased by 28% to HK$1,935 million (2015: HK$2,699 million) reflecting the selling down of residential and retail units at Suzhou Times City and Changzhou Times Palace. In addition, DP undertaken through associates and joint ventures amounted to HK$3,433 million (2015: HK$3,647 million).

Other major business assets mainly included hotel properties at MP Hong Kong, Murray Building, MP Changzhou and other fixed assets with book cost totalling HK$5,923 million.

Geographically, the Group's business assets in the Mainland decreased by 2% to HK$9,810 million (2015: HK$10,002 million), representing 48% (2015: 48%) of the Group's total business assets.

Liabilities

Pre-sale deposits and proceeds grew by 4% to HK$4,869 million (2015: HK$4,691 million), reflecting the increase in contracted sales that could be recognised as revenue by stages in future.

Net Cash and Gearing

Group net cash as at 30 June 2016 amounted to HK$1,537 million, consisting of HK$4,887 million in cash and HK$3,350 million in bank borrowings in various currencies, compared to HK$1,647 million as at 31 December 2015.

Finance and Availability of Facilities and Funds

As at 30 June 2016, the Group's available loan facilities amounted to HK$6,050 million, of which HK$3,350 million were utilised and are due between two and five years.

The Group's debts were entirely denominated in Hong Kong dollar ("HKD") and in 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 business and investment activities. As at 30 June 2016, the Group also maintained a portfolio of equity investments principally consisting of blue chip listed securities, with an aggregate market value of HK$2,226 million (2015: HK$2,450 million), which is available for liquidation to meet needs if they arise. The performance of the portfolio was largely in line with the general 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$1,178 million (2015: HK$564 million), mainly attributable to pre-sales proceeds net of construction cost payment for the Mainland development projects. For investing activities, the Group recorded a net cash outflow of HK$556 million (2015: HK$291 million), primarily for Murray Building and Suzhou IFS projects.

Commitments to Capital and Development Expenditure

As at 30 June 2016, major capital and development expenditure in the forthcoming years totalled HK$8.5 billion, of which HK$4.3 billion was committed, including HK$1.7 billion and HK$2.6 billion respectively for Murray Building and Mainland projects. Uncommitted expenditure of HK$4.2 billion is mainly for the existing Mainland DP to be incurred by stages in the forthcoming years.

The above commitments and planned expenditures will be funded by internal financial resources, including cash on hand and future property sales proceeds, as well as bank loans. Other available resources include equity investments that can be liquidated when in need.

(III) Human Resources

The Group had approximately 900 employees as at 30 June 2016. 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 2016 – Unaudited

	Note	Six months ended 30 June 2016 HK$ Million	2015 HK$ Million
Revenue	2	**2,204**	2,809
Direct costs and operating expenses		**(1,409)**	(1,721)
Selling and marketing expenses		**(51)**	(63)
Administrative and corporate expenses		**(26)**	(32)
Operating profit before depreciation, interest and tax		**718**	993
Depreciation		**(26)**	(31)
Operating profit	3	**692**	962
Change in fair value of investment properties		**(70)**	24
Other net (loss)/income	4	**(3)**	9
		619	995
Finance costs	5	**(29)**	(19)
Share of results after tax of:			
Joint ventures		**141**	(1)
Associates		**(9)**	(2)
Profit before taxation		**722**	973
Income tax	6(a)	**(234)**	(269)
Profit for the period		**488**	704
Profit attributable to :			
Equity shareholders		**426**	596
Non-controlling interests		**62**	108
		488	704
Earnings per share	7		
Basic		**HK$0.60**	HK$0.84
Diluted		**HK$0.60**	HK$0.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2016 – Unaudited

	Six months ended 30 June	
	2016	2015
	HK$ Million	HK$ Million
Profit for the period	**488**	704
Other comprehensive income for the period:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation the operations of:	**(162)**	5
– subsidiaries	**(149)**	4
– joint ventures	**(13)**	1
Fair value changes on available-for-sale investments:	**–**	278
– surplus on revaluation	**–**	283
– transferred to profit or loss on disposal	**–**	(5)
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	**(225)**	–
Other comprehensive income for the period	**(387)**	283
Total comprehensive income for the period	**101**	987
Total comprehensive income attributable to:		
Equity shareholders	**64**	879
Non-controlling interests	**37**	108
	101	987

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2016 – Unaudited

	Note	**30 June 2016 HK$ Million**	31 December 2015 HK$ Million
Non-current assets			
Investment properties		**8,255**	7,876
Hotel properties, plant and equipment		**5,923**	5,677
Interest in associates		**1,451**	1,608
Interest in joint ventures		**1,982**	2,039
Equity investments		**2,226**	–
Available-for-sale investments		**–**	2,450
Deferred tax assets		**28**	46
Other non-current assets		**16**	16
		19,881	19,712
Current assets			
Properties for sale		**1,935**	2,699
Inventories		**3**	3
Trade and other receivables	9	**867**	660
Derivative financial assets		**–**	1
Prepaid tax		**147**	129
Bank deposits and cash		**4,887**	6,447
		7,839	9,939
Total assets		**27,720**	29,651
Non-current liabilities			
Deferred tax liabilities		**(42)**	(69)
Bank loans		**(3,350)**	(4,400)
		(3,392)	(4,469)
Current liabilities			
Trade and other payables	10	**(2,437)**	(2,600)
Pre-sale deposits and proceeds		**(4,869)**	(4,691)
Derivative financial liabilities		**(1)**	(2)
Taxation payable		**(196)**	(159)
Bank loans		**–**	(400)
		(7,503)	(7,852)
Total liabilities		**(10,895)**	(12,321)
NET ASSETS		**16,825**	17,330
Capital and reserves			
Share capital		**3,641**	3,641
Reserves		**12,211**	12,544
Shareholders' equity		**15,852**	16,185
Non-controlling interests		**973**	1,145
TOTAL EQUITY		**16,825**	17,330

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Six Months Ended 30 June 2016 – Unaudited

	Shareholders' equity						
	Share capital 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 2016	**3,641**	**662**	**699**	**11,183**	**16,185**	**1,145**	**17,330**
Changes in equity for the period:							
Profit	**–**	**–**	**–**	**426**	**426**	**62**	**488**
Other comprehensive income	**–**	**(225)**	**(137)**	**–**	**(362)**	**(25)**	**(387)**
Total comprehensive income	**–**	**(225)**	**(137)**	**426**	**64**	**37**	**101**
Transfer to revenue reserves upon de-recognition of equity investments	**–**	**(48)**	**–**	**48**	**–**	**–**	**–**
2015 second interim dividend paid	**–**	**–**	**–**	**(397)**	**(397)**	**–**	**(397)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(209)**	**(209)**
At 30 June 2016	**3,641**	**389**	**562**	**11,260**	**15,852**	**973**	**16,825**
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2016 – Unaudited

	Six months ended 30 June	
	2016	2015
	HK$ Million	HK$ Million
Operating cash inflow	**634**	905
Change in working capital/others	**770**	(112)
Tax paid	**(226)**	(229)
Net cash generated from operating activities	**1,178**	564
Investing activities		
Additions to investment properties and hotel properties, plant and equipment	**(782)**	(267)
Other cash generated from/(used in) investing activities	**226**	(24)
Net cash used in investing activities	**(556)**	(291)
Financing activities		
Other cash used in financing activities	**(2,056)**	(472)
Net cash used in financing activities	**(2,056)**	(472)
Decrease in cash and cash equivalents	**(1,434)**	(199)
Cash and cash equivalents at 1 January	**6,447**	5,185
Effect on exchange rate changes	**(126)**	2
Cash and cash equivalents at 30 June (Note)	**4,887**	4,988
Note:		
Cash and cash equivalents		
Bank deposits and cash in the consolidated statement of financial position	**4,887**	4,988

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

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 2015 except for the changes mentioned below.

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 2015. 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 Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2015 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 Companies Ordinance (Cap. 622 of the laws of Hong Kong) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 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.

The Group has early adopted the complete version of HKFRS 9, "Financial Instruments" in the consolidated financial statements. Except for the foregoing, the Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 introduces new classification and measurement requirements for financial assets on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, a new expected credit loss model that replaces the incurred loss impairment model used in HKAS 39, "Financial Instruments: Recognition and Measurement" with the result that a loss event will no longer need to occur before an impairment allowance is recognised, and a new hedge accounting model where the hedged ratio is required to be the same as the one used by an entity's management for risk management purposes.

As at 1 January 2016, the Directors of the Group have reviewed and reassessed the Group's financial assets on that date and the results for the period. The initial application of HKFRS 9 has had impacts on the following financial assets and results of the Group:

(i) investments in listed equity securities (not held for trading) of HK$2,226 million that were previously classified as available-for-sale investments and measured at fair value at each reporting date under HKAS 39 have been designated as equity investments measured at fair value through other comprehensive income. Group profit for the period has been reduced by HK$48 million, representing the gain on disposal of equity securities recognised through other comprehensive income instead of the income statement as previously accounted for (2015: HK$7 million profit).

(ii) impairment based on expected credit loss model on the Group's rental, sales and trade receivables have no significant financial impacts.

The HKICPA has issued certain amendments to HKFRSs which are first effective for the current accounting period of the Group. The amendments do not have significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

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, construction, sales and marketing of the Group's 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, equity 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	Change 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 2016								
Development property	**1,686**	**429**	**–**	**9**	**(5)**	**141**	**(9)**	**565**
Investment property	**152**	**134**	**(70)**	**–**	**(5)**	**–**	**–**	**59**
Hotel	**281**	**49**	**–**	**–**	**(1)**	**–**	**–**	**48**
Segment total	**2,119**	**612**	**(70)**	**9**	**(11)**	**141**	**(9)**	**672**
Investment and others	**85**	**85**	**–**	**(12)**	**(18)**	**–**	**–**	**55**
Corporate expenses	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(5)**
Group total	**2,204**	**692**	**(70)**	**(3)**	**(29)**	**141**	**(9)**	**722**
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

(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	
	2016	2015
	HK$ Million	HK$ Million
After charging/(crediting):		
Depreciation	**26**	31
Staff costs (Note i)	**95**	103
Cost of trading properties for recognised sales	**1,234**	1,541
Rental charges under operating leases	**8**	8
Gross rental revenue from investment property (Note ii)	**(152)**	(153)
Direct operating expenses of investment property	**10**	12
Interest income	**(39)**	(62)
Dividend income from listed investments	**(46)**	(26)

Notes:

(i) Staff costs included defined contribution pension schemes costs HK$4 million (2015: HK$4 million).

(ii) Rental income included contingent rentals of HK$26 million (2015: HK$56 million).

4. Other Net (Loss)/Income

	Six months ended 30 June	
	2016	2015
	HK$ Million	HK$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK$Nil (2015: HK$5 million) transferred from the investments revaluation reserve	**–**	7
Net exchange (loss)/gain, including the impact of forward foreign exchange contracts	**(3)**	2
	(3)	9

5. Finance Costs

	Six months ended 30 June 2016 HK$ Million	2015 HK$ Million
Interest on bank borrowings	**26**	27
Other finance costs	**13**	14
	39	41
Less: Amount capitalised	**(10)**	(22)
	29	19

6. Income Tax

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

	Six months ended 30 June 2016 HK$ Million	2015 HK$ Million
Current income tax		
Hong Kong		
– provision for the period	**33**	35
Mainland China		
– provision for the period	**181**	189
	214	224
Land appreciation tax ("LAT") (Note (d))	**31**	59
Deferred tax		
Origination and reversal of temporary differences	**(11)**	(14)
Total	**234**	269

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2015: 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 and associates for the six months ended 30 June 2016 of HK$90 million (2015: HK$12 million) is included in the share of results of joint ventures and associates.

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to equity shareholders of HK$426 million (2015: HK$596 million) for the period and the weighted average of 709 million (2015: 709 million) ordinary shares in issue during the period.

There were no potential dilutive ordinary shares in existence during the periods ended 30 June 2016 and 2015.

8. Dividends Attributable to Equity Shareholders

	Six months ended 30 June			
	2016	**2016**	2015	2015
	HK$	**HK$**	HK$	HK$
	Per share	**Million**	Per share	Million
First interim dividend declared after the end of the reporting period	**0.14**	**99**	0.14	99

(a) The first interim dividend based on 709 million issued ordinary shares (2015: 709 million shares) declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) The second interim dividend of HK$397 million for 2015 was approved and paid in 2016.

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 2016 as follows:

	30 June 2016 HK$ Million	31 December 2015 HK$ Million
Trade receivables		
0–30 days	**23**	168
31–60 days	**–**	1
Over 60 days	**8**	4
	31	173
Prepayments	**401**	399
Other receivables	**391**	48
Amounts due from fellow subsidiaries	**44**	40
	867	660

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. All the trade and other receivables are expected to be recoverable within one year.

10. Trade and Other Payables

Included in this item are trade payables with an ageing analysis as at 30 June 2016 as follows:

	30 June 2016 HK$ Million	31 December 2015 HK$ Million
Trade payables		
0–30 days	**17**	34
31–60 days	**4**	1
Over 60 days	**1**	–
	22	35
Other payables and provisions	**246**	292
Construction costs payable	**837**	1,022
Amounts due to fellow subsidiaries	**30**	42
Amounts due to associates	**1**	1
Amounts due to joint ventures	**1,301**	1,208
	2,437	2,600

11. 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 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.

	Level 1 HK$ Million	Level 2 HK$ Million	Total HK$ Million
At 30 June 2016			
Assets			
Equity investments:			
– Listed investments	**2,226**	**–**	**2,226**
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	**–**	**1**	**1**
At 31 December 2015			
Assets			
Available-for-sale investments:			
– Listed investments	2,450	–	2,450
Derivative financial instruments:			
– Other derivatives	1	–	1
	2,451	–	2,451
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	2	2

During the six months ended 30 June 2016, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (31/12/2015: Nil).

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.

(b) Assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised costs are not materially different from their fair values as at 30 June 2016. Amounts due from/(to) fellow subsidiaries are unsecured, interest free and have no fixed repayment terms.

12. Material Related Party Transactions

Material transactions between the Group and other related parties during the six months ended 30 June 2016 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$19 million (2015: HK$20 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$45 million (2015: HK$37 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$113 million (2015: HK$118 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

13. Contingent Liabilities

As at 30 June 2016, 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$2,330 million (31/12/2015: HK$3,130 million).

As at 30 June 2016, there were guarantees of HK$1,578 million (31/12/2015: HK$3,108 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. There were also mortgage loan guarantees of HK$68 million (31/12/2015: HK$20 million) provided by joint ventures and associates of the Group to the banks in favour of their customers.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries, joint ventures and associates as their fair value cannot be reliably measured and their transaction price was HK$Nil (31/12/2015: HK$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.

14. Commitments

The Group's outstanding commitments as at 30 June 2016 are detailed as below:

	30 June 2016			31 December 2015		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	**5**	**100**	**105**	3	100	103
Mainland China	**1,482**	**2,056**	**3,538**	1,672	2,442	4,114
	1,487	**2,156**	**3,643**	1,675	2,542	4,217
Hotel						
Hong Kong	**1,737**	**15**	**1,752**	1,995	8	2,003
Mainland China	**–**	**128**	**128**	–	125	125
	1,737	**143**	**1,880**	1,995	133	2,128
Development Property						
Hong Kong	**–**	**–**	**–**	–	–	–
Mainland China	**1,101**	**1,905**	**3,006**	1,302	2,157	3,459
	1,101	**1,905**	**3,006**	1,302	2,157	3,459
Total						
Hong Kong	**1,742**	**115**	**1,857**	1,998	108	2,106
Mainland China	**2,583**	**4,089**	**6,672**	2,974	4,724	7,698
	4,325	**4,204**	**8,529**	4,972	4,832	9,804

15. Review of Unaudited Interim Financial Information

The unaudited interim financial information for the six months ended 30 June 2016 has 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 2016, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debt securities of the Company, The Wharf (Holdings) Limited ("Wharf") (the Company's parent company), Wheelock and Company Limited ("Wheelock") (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 respective numbers of shares in issue of the five companies are also set out below:

	Quantity/ Amount 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 2016. 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

As at 30 June 2016, Director(s) of the Company had the following interests, all being personal interests, in options during the six months ended 30 June 2016 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

		No. of Wharf's shares under option (percentage based on no. of shares in issue)			
Name of Director	**Date of grant**	**As at 1 January 2016**	**As at 30 June 2016**	**Subscription price per Share** (HK$)	**Vesting/Exercise period**
Stephen T H Ng	4 July 2011	1,500,000	1,500,000	55.15	5 July 2011 – 4 July 2016[1]
	5 June 2013	2,000,000	2,000,000	70.20	6 June 2013 – 5 June 2018[2]
		3,500,000 (0.12%)	3,500,000 (0.12%)		

Notes:

(1) *The share options of Wharf granted on 4 July 2011 outstanding as at both 1 January 2016 and 30 June 2016 were 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 5 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 2016 and 30 June 2016, 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 6 June in the years 2013, 2014, 2015, 2016 and 2017 respectively.*

(3) *Except as disclosed above, no Wharf's share option held by Directors of the Company and/or their respective associate(s) lapsed or was exercised or cancelled during the financial period and no Wharf's share option was granted to any Director of the Company and/or their respective associate(s) during the financial period.*

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 (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 30 June 2016 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 or deemed to be interested by any of them as at 30 June 2016.

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 2016, 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"):

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 represent long positions. As at 30 June 2016, there were no short position interests recorded in the Register.

CHANGES IN INFORMATION OF DIRECTORS

Given below are the changes in directorship(s) in other listed public company(ies)/other major appointment(s) of Director(s) of the Company since the publication of the last annual report of the Company:

	Effective Date
Stephen T H Ng	
• Hong Kong General Chamber of Commerce	
– re-designated as chairman (previously deputy chairman)	10 May 2016
• Hong Kong Trade Development Council	
– appointed as council member	10 May 2016
Andrew K Y Leung	
• The Hong Kong Mortgage Corporation Limited	
– retired as director	25 April 2016
Michael T P Sze	
• Walker Group Holdings Limited	
– resigned as independent non-executive director	1 April 2016
Frankie C M Yick	
• The Hong Kong Maritime and Port Board	
– appointed as member	1 April 2016

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, 24 August 2016 to Friday, 26 August 2016, 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, 23 August 2016.

By Order of the Board
Kevin C Y Hui
Director and Company Secretary

Hong Kong, 4 August 2016

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.