HARBOUR CENTRE DEVELOPMENT LIMITED

INTERIM REPORT 2017

Stock Code : 51

Cover photo*: The Murray 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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HIGHLIGHTS

- Total revenue increased by 21% to HK$2,674 million and operating profit by 101% to HK$1,392 million. Core profit increased by only 8% to HK$536 million, mainly due to taxation charges.

- Development Properties ("DP"), accounting for over 80% of Group revenue and operating profit, increased by 28% and 165% in revenue and operating profit respectively. Meanwhile, a large land appreciation tax pared its core profit growth to only 6%.

- The Murray in Hong Kong, a 336-room luxury hotel, is targeted to open in late 2017.

- The depletion of land bank is expected to substantially reduce DP contribution beyond 2017.

- Projects under development are expected to hamper Group cash flow and profits. Substantial net cash outflow is budgeted for 2017.

GROUP RESULTS

Core profit increased by 8% to HK$536 million (2016: HK$496 million). A surplus of HK$20 million was reported on revaluation of investment properties (2016: deficit of HK$70 million). Group profit attributable to equity shareholders amounted to HK$556 million (2016: HK$426 million) for a 31% increase from 2016. Basic earnings per share were HK$0.78 (2016: HK$0.60).

INTERIM DIVIDEND

An interim dividend of HK$0.14 (2016: HK$0.14) per share will be paid on 7 September 2017 to Shareholders on record as at 22 August 2017. This will absorb a total amount of HK$99 million (2016: HK$99 million).

BUSINESS REVIEW

Consolidated revenue increased by 21% to HK$2,674 million (2016: HK$2,204 million) and operating profit by 101% to HK$1,392 million (2016: HK$692 million). Excluding DP, revenue however decreased by 2% to HK$508 million (2016: HK$518 million) and operating profit by 2% to HK$257 million (2016: HK$263 million).

DP is benefiting this year from recognition of the Group's last major project (in Suzhou) with revenue increased by 28% and operating profit by 165% in the first half. However, a large land appreciation tax pared the segment's core profit growth to only 6%. Other segments reported comparable or better core profit improvements. As a result, consolidated core profit increased by 8% to HK$536 million (2016: HK$496 million).

Overall, DP accounted for over 80% of Group revenue and operating profit, and over 60% of core profit. Cumulatively, 94% of the Group's developable GFA has been sold or presold, and 87% recognised. DP contribution to Group revenue and profit beyond 2017 is expected to drop substantially.

Hong Kong Portfolio

Investment Properties
The segment reported modest increases of 3% in rental income, 7% in operating profit and 7% in core profit in a generally soft market. A net revaluation surplus of HK$20 million was registered.

Hotel
While the sector started to show signs of stabilisation, the market remained soft. In addition, major external concrete wall repair works reduced the room inventory at Marco Polo Hongkong Hotel in Tsimshatsui which reported flat revenue growth and modest increase of 2% in operating profit and 9% in core profit.

The Murray, under conversion from the iconic Murray Building into a luxury hotel in the heart of Central with a contemporary urban chic design, will feature 336 sophisticated guest rooms/suites and fly the flag of the fast emerging Niccolo brand. An array of culinary options, including Michelin-starred *Guo Fu Lou* (Cantonese), *Murray Lane* (Lobby Bar), *The Garden Lounge, The Tai Pan* (modern European) and *Murray On The Roof* (Bar & Restaurant), are poised to take their places amongst the most popular dining venues in Hong Kong. The hotel is targeted to open in late 2017. Depreciation of building and land costs over the life of the land lease may weigh on the segment's results in its early years.

China Portfolio

Development Properties

Revenue increased by 28% and operating profit by 165%, thanks to the phased completion of the good-margin Suzhou Times City, which was partially offset by the fading contribution from joint venture/associate projects.

Attributable land bank (net of recognised sales) dropped to about 0.6 million square metres. Full completion of Suzhou Times City is scheduled for 2017 and the 27%-owned Shanghai South Station project for 2022.

Given a depleting land bank, attributable contracted sales fell to RMB0.7 billion (2016: RMB2.2 billion). The net order book as at 30 June 2017 was maintained at RMB3.6 billion for 1,060 residential and retail units (total GFA: 138,900 square metres).

Investment Properties

Suzhou International Finance Square ("IFS"), which comprises 299,000 square metres of Grade A offices, a premium boutique hotel, sky residences and luxury apartments, is on track for completion starting in 2018 or 2019.

Hotel

Marco Polo Changzhou continued to build its business through strategic expansion of its client base. Its performance continued to witness notable improvement although much more is to be done.

Niccolo Suzhou, a luxury sky hotel at Suzhou IFS, will see its first revenue contribution in 2019 at the earliest.

Outlook

Looking ahead, the depletion of land bank will substantially reduce DP contribution beyond 2017. Cash flow and profits will also be hampered by the projects under development in their initial years. Substantial net cash outflow is budgeted for 2017.

FINANCIAL REVIEW

(I) Review of 2017 Interim Financial Results

Group core profit increased year-on-year by 8% to HK$536 million (2016: HK$496 million) with modest growth reported by all segments.

Revenue and Operating Profit

Group revenue increased by 21% to HK$2,674 million (2016: HK$2,204 million) and operating profit by 101% to HK$1,392 million (2016: HK$692 million).

DP revenue increased by 28% to HK$2,166 million (2016: HK$1,686 million) and operating profit by 165% to HK$1,135 million (2016: HK$429 million), attributable to the phased completion of Suzhou Times City project but was curtailed by increase in land appreciation tax for this project with relatively high profit margin. Together with share of results from joint venture and associates, DP core profit rose by 6% to HK$330 million (2016: HK$312 million).

Investment Properties ("IP") revenue increased by 3% to HK$156 million (2016: HK$152 million) with operating profit rising by 7% to HK$144 million (2016: HK$134 million), mainly benefitting from growth in base rent from retail areas at Marco Polo Hongkong Hotel ("MP Hong Kong").

Hotel revenue kept unchanged at HK$281 million (2016: HK$281 million) and operating profit improved to HK$59 million (2016: HK$49 million), mainly due to reduction in operating loss of Marco Polo Changzhou ("MP Changzhou") from HK$23 million to HK$14 million.

Operating profit from Investment and Others, comprising mainly interest and dividend income, fell by 16% to HK$71 million (2016: HK$85 million) as decrease in bank deposits resulted in a decline in interest income.

Contracted DP Sales

Inclusive of joint venture and associates on an attributable basis, the Group contracted property sales shrank to RMB680 million (2016: RMB2,187 million). The net order book stood at RMB3,594 million (December 2016: RMB4,977 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 2017, resulting in a revaluation surplus of HK$20 million (2016: deficit HK$70 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$21 million (2016: HK$29 million) after interest capitalisation of HK$2 million (2016: HK$10 million) for the Group's DP projects, in line with the decrease in bank borrowings.

Share of Results (after Tax) of Joint Venture and Associates

Attributable loss amounted to HK$40 million (2016: profit HK$141 million) from joint venture The U World in Chongqing.

Associates recorded attributable profit HK$4 million, which was mainly from Shanghai South Station project (2016: loss HK$9 million).

Income Tax

Taxation charge for the period increased significantly by HK$476 million to HK$710 million (2016: HK$234 million) mainly due to increase in land appreciation tax payable for Suzhou Times City resulting from higher margin achieved for the phases completed in the later stages.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the period amounted to HK$556 million (2016: HK$426 million), representing an increase of 31%. Core profit, excluding IP revaluation differences, ascended by 8% to HK$536 million (2016: HK$496 million).

Earnings per share ("EPS") was reported at HK$0.78 (2016: HK$0.60) based on 708.8 million issued shares. Excluding IP revaluation differences, EPS was HK$0.76 (2016: HK$0.70).

(II) Liquidity, Financial Resources and Commitments

Shareholders' and Total Equity

As at 30 June 2017, shareholders' equity stood at HK$16,675 million (2016: HK$15,829 million), equivalent to HK$23.53 per share (2016: HK$22.33 per share), mainly contributed by an attributable investment revaluation surplus of HK$414 million for the period. Including the non-controlling interests, the Group's total equity amounted to HK$17,097 million (2016: HK$16,546 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 2017 would give rise to an additional revaluation surplus totalling HK$3,895 million and increase the Group's shareholders' equity as at 30 June 2017 to HK$20,570 million, equivalent to HK$29.02 per share.

Assets and Liabilities

Group total assets reported at HK$25,698 million (2016: HK$28,114 million). Total business assets, excluding bank deposits and cash, equity investments and deferred tax assets, maintained at HK$20,631 million (2016: HK$20,659 million) mainly due to increase in hotel and IP under development offset by DP from sales recognition.

Geographically, the Group's business assets in the Mainland decreased by 7% to HK$8,575 million (2016: HK$9,245 million), representing 42% (2016: 45%) of the Group's total business assets.

Investment Properties

IP increased by 4% to HK$8,618 million (2016: HK$8,277 million), representing 42% (2016: 40%) of the Group's total business assets. Hong Kong IP amounted to HK$5,364 million (2016: HK$5,344 million), comprising mainly MP Hong Kong's podium valued at HK$4,780 million. Mainland IP, mainly Suzhou IFS under development, was stated at book cost of HK$3,254 million (2016: HK$2,933 million).

Properties for Sale/Interests in Associates and Joint Ventures

Mainland DP fell to HK$930 million (2016: HK$1,957 million) reflecting further sales recognition at Suzhou Times City and Changzhou Times Palace. In addition, DP undertaken through associates and joint ventures amounted to HK$3,243 million (2016: HK$3,225 million).

Other Business Assets

Other major business assets included hotel properties at MP Hong Kong, MP Changzhou, The Murray and other property and equipment with book cost totalling HK$7,163 million (2016: HK$6,529 million) with increase mainly reflecting the construction cost incurred for The Murray.

Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds reduced by 27% to HK$3,664 million (2016: HK$5,030 million), reflecting contracted sales that could be recognised as revenue by stages in future.

Net Cash and Gearing

Net cash as at 30 June 2017 decreased to HK$374 million (2016: HK$1,904 million), consisting of HK$2,124 million in cash and HK$1,750 million in bank borrowings, mainly resulting from substantial capital expenditure payments for Suzhou IFS and The Murray.

Finance and Availability of Facilities and Funds
As at 30 June 2017, the Group's available loan facilities amounted to HK$4,150 million, of which HK$1,750 million were utilised.

The Group's debts were principally 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 managing and hedging 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 2017, the Group also maintained a portfolio of equity investments mainly consisting of blue chip listed securities with an aggregate market value of HK$2,943 million (2016: HK$2,301 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$99 million (2016: HK$1,178 million), mainly attributable to decrease in sales for the Mainland development projects to cover construction cost payments. For investing activities, the Group recorded a net cash outflow of HK$1,121 million (2016: HK$556 million), primarily for The Murray and Suzhou IFS projects.

Commitments to Capital and Development Expenditure
As at 30 June 2017, major capital and development expenditure in the forthcoming years totalled HK$7.0 billion. HK$2.6 billion of that was committed (HK$0.9 billion for The Murray and HK$1.7 billion for Mainland projects). Uncommitted expenditure of HK$4.4 billion is mainly for the existing Mainland IP and DP to be incurred by stages in the coming years.

The above expenditures will be funded by internal financial resources, including cash currently on hand 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 2017. 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 2017 – Unaudited

	Note	Six months ended 30 June 2017 HK$ Million	2016 HK$ Million
Revenue	2	**2,674**	2,204
Direct costs and operating expenses		**(1,167)**	(1,409)
Selling and marketing expenses		**(53)**	(51)
Administrative and corporate expenses		**(41)**	(26)
Operating profit before depreciation, interest and tax		**1,413**	718
Depreciation		**(21)**	(26)
Operating profit	2&3	**1,392**	692
Change in fair value of investment properties		**20**	(70)
Other net income/(loss)	4	**6**	(3)
		1,418	619
Finance costs	5	**(21)**	(29)
Share of results after tax of:			
Joint ventures		**(40)**	141
Associates		**4**	(9)
Profit before taxation		**1,361**	722
Income tax	6(a)	**(710)**	(234)
Profit for the period		**651**	488
Profit attributable to:			
Equity shareholders		**556**	426
Non-controlling interests		**95**	62
		651	488
Earnings per share	7		
Basic		**HK$0.78**	HK$0.60
Diluted		**HK$0.78**	HK$0.60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2017 – Unaudited

	Six months ended 30 June	
	2017	2016
	HK$ Million	HK$ Million
Profit for the period	**651**	488
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of the operations of:	**148**	(162)
– subsidiaries	**116**	(149)
– joint ventures/associates	**32**	(13)
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	**414**	(225)
Other comprehensive income for the period	**562**	(387)
Total comprehensive income for the period	**1,213**	101
Total comprehensive income attributable to:		
Equity shareholders	**1,101**	64
Non-controlling interests	**112**	37
	1,213	101

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – Unaudited

	Note	**30 June 2017 HK$ Million**	31 December 2016 HK$ Million
Non-current assets			
Investment properties		**8,618**	8,277
Hotel properties, plant and equipment		**7,163**	6,529
Interest in associates		**1,463**	1,417
Interest in joint ventures		**1,780**	1,808
Equity investments		**2,943**	2,301
Other non-current assets		**20**	20
		21,987	20,352
Current assets			
Properties for sale		**930**	1,957
Inventories		**2**	3
Trade and other receivables	9	**637**	484
Prepaid tax		**18**	164
Bank deposits and cash		**2,124**	5,154
		3,711	7,762
Total assets		**25,698**	28,114
Non-current liabilities			
Deferred tax liabilities		**(51)**	(44)
Bank loans		**(1,500)**	(2,450)
		(1,551)	(2,494)
Current liabilities			
Trade and other payables	10	**(2,604)**	(3,165)
Pre-sale deposits and proceeds		**(3,664)**	(5,030)
Taxation payable		**(532)**	(79)
Bank loans		**(250)**	(800)
		(7,050)	(9,074)
Total liabilities		**(8,601)**	(11,568)
NET ASSETS		**17,097**	16,546
Capital and reserves			
Share capital		**3,641**	3,641
Reserves		**13,034**	12,188
Shareholders' equity		**16,675**	15,829
Non-controlling interests		**422**	717
TOTAL EQUITY		**17,097**	16,546

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2017 – 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 2017	**3,641**	**463**	**294**	**11,431**	**15,829**	**717**	**16,546**
Changes in equity for the period:							
Profit	**–**	**–**	**–**	**556**	**556**	**95**	**651**
Other comprehensive income	**–**	**414**	**131**	**–**	**545**	**17**	**562**
Total comprehensive income	**–**	**414**	**131**	**556**	**1,101**	**112**	**1,213**
2016 second interim dividend paid	**–**	**–**	**–**	**(255)**	**(255)**	**–**	**(255)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(68)**	**(68)**
Capital repatriation to non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**(339)**	**(339)**
At 30 June 2017	**3,641**	**877**	**425**	**11,732**	**16,675**	**422**	**17,097**
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)
Dividends paid to non-controlling interests	–	–	–	–	–	(209)	(209)
At 30 June 2016	3,641	389	562	11,260	15,852	973	16,825

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2017 – Unaudited

	Six months ended 30 June	
	2017	2016
	HK$ Million	HK$ Million
Operating cash inflow	**1,342**	634
Change in working capital/others	**(1,142)**	770
Tax paid	**(101)**	(226)
Net cash generated from operating activities	**99**	1,178
Investing activities		
Additions to investment properties and hotel properties, plant and equipment	**(869)**	(782)
Other cash (used in)/generated from investing activities	**(252)**	226
Net cash used in investing activities	**(1,121)**	(556)
Financing activities		
Dividends paid to equity shareholders	**(255)**	(397)
Other cash used in financing activities	**(1,907)**	(1,659)
Net cash used in financing activities	**(2,162)**	(2,056)
Decrease in cash and cash equivalents	**(3,184)**	(1,434)
Cash and cash equivalents at 1 January	**5,154**	6,447
Effect on exchange rate changes	**154**	(126)
Cash and cash equivalents at 30 June (Note)	**2,124**	4,887

Note:

Cash and cash equivalents

Bank deposits and cash in the consolidated statement of financial position	**2,124**	4,887

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 2016 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 significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

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 2016. 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 2016 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 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.

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 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 The Murray 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 and deferred tax assets.

Revenue and expenses are allocated with reference to income 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 income/(loss) HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit before taxation HK$ Million
30 June 2017								
Development property	**2,166**	**1,135**	**–**	**–**	**(2)**	**(40)**	**4**	**1,097**
Investment property	**156**	**144**	**20**	**–**	**(5)**	**–**	**–**	**159**
Hotel	**281**	**59**	**–**	**–**	**(1)**	**–**	**–**	**58**
Segment total	**2,603**	**1,338**	**20**	**–**	**(8)**	**(40)**	**4**	**1,314**
Investment and others	**71**	**71**	**–**	**6**	**(13)**	**–**	**–**	**64**
Corporate expenses	**–**	**(17)**	**–**	**–**	**–**	**–**	**–**	**(17)**
Group total	**2,674**	**1,392**	**20**	**6**	**(21)**	**(40)**	**4**	**1,361**
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

(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	
	2017	2016
	HK$ Million	HK$ Million
After charging/(crediting):		
Depreciation	**21**	26
Staff costs (Note i)	**102**	95
Cost of trading properties for recognised sales	**999**	1,234
Rental charges under operating leases	**11**	8
Gross rental revenue from investment properties (Note ii)	**(156)**	(152)
Direct operating expenses of investment properties	**8**	10
Interest income	**(27)**	(39)
Dividend income from listed investments	**(44)**	(46)

Notes:

(i) Staff costs included defined contribution pension schemes costs HK$4 million (2016: HK$4 million).

(ii) Rental income included contingent rentals of HK$22 million (2016: HK$26 million).

4. Other Net Income/(Loss)

	Six months ended 30 June	
	2017	2016
	HK$ Million	HK$ Million
Net exchange gain/(loss), including the impact of forward foreign exchange contracts	**6**	(3)

5. Finance Costs

	Six months ended 30 June	
	2017	2016
	HK$ Million	HK$ Million
Interest on bank borrowings	**16**	26
Other finance costs	**7**	13
	23	39
Less: Amount capitalised	**(2)**	(10)
	21	29

6. Income Tax

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

	Six months ended 30 June	
	2017	2016
	HK$ Million	HK$ Million
Current income tax		
Hong Kong		
– provision for the period	**35**	33
Mainland China		
– provision for the period	**237**	181
	272	214
Land appreciation tax (“LAT”) (Note (d))	**433**	31
Deferred tax		
Origination and reversal of temporary differences	**5**	(11)
Total	**710**	234

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2016: 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% (2016: 25%) and China withholding 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 property development 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 credit attributable to joint ventures and associates for the six months ended 30 June 2017 of HK$9 million (2016: tax charge HK$90 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 ordinary equity shareholders for the period of HK$556 million (2016: HK$426 million) and the weighted average of 709 million ordinary shares (2016: 709 million ordinary shares) in issue during the period.

8. Dividends Attributable to Equity Shareholders

	Six months ended 30 June			
	2017	**2017**	2016	2016
	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 (2016: 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$255 million for 2016 was approved and paid in 2017.

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 2017 as follows:

	30 June 2017 HK$ Million	31 December 2016 HK$ Million
Trade receivables		
0 – 30 days	**19**	44
31 – 60 days	**1**	2
Over 60 days	**8**	8
	28	54
Prepayments	**239**	351
Other receivables	**322**	39
Amounts due from fellow subsidiaries	**48**	40
	637	484

The Group has established 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 virtually recoverable within one year.

10. Trade and Other Payables

Included in this item are trade payables with an ageing analysis based on invoice date as at 30 June 2017 as follows:

	30 June 2017 HK$ Million	31 December 2016 HK$ Million
Trade payables		
0 – 30 days	**11**	17
31 – 60 days	**–**	5
Over 60 days	**1**	–
	12	22
Other payables and provisions	**449**	474
Construction costs payable	**668**	1,216
Amounts due to fellow subsidiaries	**26**	30
Amounts due to associates	**–**	1
Amounts due to joint ventures	**1,449**	1,422
	2,604	3,165

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.

Financial instruments carried at fair value

The fair value measurement information for financial instruments in accordance with HKFRS 13 is given below:

	Level 1 Total HK$ Million
At 30 June 2017	
Assets	
Equity investments:	
– Listed investments	**2,943**
At 31 December 2016	
Assets	
Equity investments:	
– Listed investments	2,301

During the six months ended 30 June 2017, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (31/12/2016: Nil).

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of reporting period in which they occur.

(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 2017 and 31 December 2016. Amounts due from/(to) fellow subsidiaries and related parties 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 2017 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$17 million (2016: HK$19 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$41 million (2016: HK$45 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$115 million (2016: HK$113 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

13. Contingent Liabilities

As at 30 June 2017, 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$4,130 million (31/12/2016: HK$3,280 million).

As at 30 June 2017, there were guarantees of HK$3,068 million (31/12/2016: HK$3,194 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$12 million (31/12/2016: HK$49 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$Nil (31/12/2016: HK$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 2017 are detailed as below:

	30 June 2017			31 December 2016		
	Committed HK$ Million	**Uncommitted HK$ Million**	**Total HK$ Million**	Committed HK$ Million	Uncommitted HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	**15**	**–**	**15**	5	288	293
Mainland China	**1,278**	**2,100**	**3,378**	1,447	2,054	3,501
	1,293	**2,100**	**3,393**	1,452	2,342	3,794
Hotel						
Hong Kong	**883**	**8**	**891**	1,373	14	1,387
Mainland China	**–**	**116**	**116**	–	109	109
	883	**124**	**1,007**	1,373	123	1,496
Development Property						
Mainland China	**425**	**2,125**	**2,550**	488	2,043	2,531
	425	**2,125**	**2,550**	488	2,043	2,531
Total						
Hong Kong	**898**	**8**	**906**	1,378	302	1,680
Mainland China	**1,703**	**4,341**	**6,044**	1,935	4,206	6,141
	2,601	**4,349**	**6,950**	3,313	4,508	7,821

15. Review of Unaudited Interim Financial Information

The unaudited interim financial information for the six months ended 30 June 2017 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 set out in the Corporate Governance Code 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 the exception of Code Provision A.2.1 providing for the roles of chairman and chief executive to be performed by different individuals.

It 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.

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing Directors' securities transactions with terms thereof being 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 during the period under review.

DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debentures

At 30 June 2017, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, The Wharf (Holdings) Limited ("Wharf") (the Company's parent company), Wheelock and Company Limited ("Wheelock") (Wharf's parent company) and i-CABLE Communications Limited ("i-CABLE") (fellow subsidiary of the Company). The percentages (where applicable) which the relevant securities represented to the numbers of shares in issue of the four companies are also set out below respectively:

	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	176,000 (0.0086%)	Personal Interest
Frankie C M Yick	7,000 (0.0003%)	Personal Interest
Wharf – Ordinary Shares		
Stephen T H Ng	9,445 (0.0003%)	Personal Interest
Andrew K Y Leung	6,629 (0.0002%)	Family 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	1,265,006 (0.0629%)	Personal Interest
Andrew K Y Leung	9,535 (0.0005%)	Family Interest

Note:

The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors as at 30 June 2017. 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 by Director(s) of the Company during the six months ended 30 June 2017 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

			No. of Wharf's shares under option				
Name of Director	**Total no. as at 30 June 2017** (percentage based on no. of shares in issue)	**Date of grant** (Day/Month/Year)	**As at 1 January 2017**	**Exercised during the period**	**As at 30 June 2017**	**Subscription price per Share** (HK$)	**Vesting/Exercise Period** (Day/Month/Year)
Stephen T H Ng	6,000,000	05/06/2013	400,000	–	400,000	70.20	06/06/2013 – 05/06/2018
	(0.20%)		400,000	–	400,000		06/06/2014 – 05/06/2018
			400,000	–	400,000		06/06/2015 – 05/06/2018
			400,000	–	400,000		06/06/2016 – 05/06/2018
			400,000	–	400,000		06/06/2017 – 05/06/2018
		Sub-total	2,000,000	–	2,000,000		
		07/07/2016	1,000,000	(1,000,000) [(1)]	–	46.90	08/07/2016 – 07/07/2021
			1,000,000	–	1,000,000		08/07/2017 – 07/07/2021
			1,000,000	–	1,000,000		08/07/2018 – 07/07/2021
			1,000,000	–	1,000,000		08/07/2019 – 07/07/2021
			1,000,000	–	1,000,000		08/07/2020 – 07/07/2021
		Sub-total	5,000,000	(1,000,000) [(1)]	4,000,000		

Notes:

(1) The weighted average closing price of the shares of Wharf immediately before the dates of exercises of Wharf's share options by Mr. Stephen T. H. Ng during the financial period was HK$67.07 per share.

(2) Except as disclosed above, no share option of Wharf held by Directors of the Company (and/or their associate(s)) lapsed or was exercised or cancelled during the financial period, and no share option of Wharf was granted to any Director of the Company and/or their 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 2017 by any of 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 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties, other than person(s) who is/are Director(s), who/which were, directly or indirectly, interested in 5% or more of any class of voting shares of the Company as at 30 June 2017, 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 total 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 2017, there were no short position interests recorded in the Register.

CHANGES IN INFORMATION OF DIRECTORS

Given below are changes in information of the Director(s) of the Company since the publication of the last annual report of the Company:

	Effective Date
Andrew K Y Leung	
• Sun Hing Knitting Factory Limited – retired as chairman	28 February 2017
Frankie C M Yick	
• The Government of the Hong Kong Special Administrative Region – awarded the Honour of Silver Bauhinia Star	30 June 2017

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 of the Company will be closed from Tuesday, 22 August 2017 to Wednesday, 23 August 2017, 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 Monday, 21 August 2017.

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

Hong Kong, 4 August 2017

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 four Independent Non-executive Directors, namely, Dr. Joseph M. K. Chow, 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.